



鄭州銀行股份有限公司

BANK OF ZHENGZHOU CO., LTD.

(於中華人民共和國註冊成立的股份有限公司)
(A joint stock company incorporated in the People's Republic of China with limited liability)

股份代號 Stock Code: 6196
優先股股份代號 Preference Shares Stock Code: 4613

ANNUAL 年度
REPORT 報告
2018





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* This annual report was prepared in both English and Chinese languages. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

IMPORTANT NOTICE



The Board of Directors, Board of Supervisors and Directors, Supervisors and senior management of the Bank hereby warrant the truthfulness, accuracy and completeness of the contents of this annual report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume liability for the information in this report.

The full text and the summary of the 2018 annual report (the “**Annual Report**” or “**Report**”) were approved at the Bank’s fourth meeting of the sixth session of the Board on 28 March 2019. 12 Directors were eligible to attend the meeting and 12 of them attended in person, with several Supervisors of the Bank being in attendance.

Unless otherwise specified, the financial information set out in this Annual Report represents data from the consolidated financial statements of the Bank and its subsidiaries, namely Henan Jiuding Financial Leasing Co., Ltd., Fugou Zhengyin County Bank Co., Ltd., Xinmi Zhengyin County Bank Co., Ltd., Xunxian Zhengyin County Bank Co., Ltd. and Queshan Zhengyin County Bank Co., Ltd.

The Bank prepared the 2018 annual financial report in accordance with the PRC GAAP and International Financial Reporting Standards, which was audited by KPMG Huazhen LLP and KPMG under the PRC and Hong Kong standards on auditing, respectively. The two firms issued an audit report and an independent auditor’s report respectively, which were both standard and unqualified.

Mr. WANG Tianyu, the legal representative and chairman, Mr. SHEN Xueqing, the president, Ms. MAO Yuezhen, the person-in-charge of accounting, and Mr. ZHANG Zhiyong, the head of accounting department of the Bank hereby declare and warrant the truthfulness, accuracy and completeness of the financial statements in this Annual Report.

The Board of the Bank recommended the distribution of cash dividends of RMB1.50 per 10 Shares (tax inclusive) to all ordinary shareholders for the year 2018. The profit distribution plan will be proposed at the 2018 annual general meeting for approval. There is no proposal on bonus shares or proposal on conversion of capital reserve into share capital for the year.

Forward-looking statements such as future plans mentioned in this Annual Report do not constitute actual commitments of the Bank to investors. Investors and parties concerned should be fully aware of the risks, and understand the differences among plans, estimates and commitments.

During the Reporting Period, the Bank was not aware of any material risk that would adversely affect its future development strategies and business targets. The major risks to which the Bank was exposed in its operations and management and the corresponding measures adopted by the Bank are detailed in this Annual Report. For further information, please refer to the relevant information in the sections headed “Risk Management” and “Future Prospects” in the chapter headed “Management Discussion and Analysis” of this Annual Report.

DEFINITIONS

DEFINITIONS

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

“2017 AGM”	the annual general meeting of the Bank convened on 15 June 2018
“Articles of Association”	the articles of association of the Bank, as amended from time to time
“A Share(s)”	ordinary shares with a nominal value of RMB1.00 each in the share capital of the Bank, which are listed and traded on the Small and Medium Enterprise (SME) Board of the SZSE (stock code: 002936)
“A Share Offering”	the Bank's initial public offering of 600,000,000 A Shares, which were listed on the SME Board of the SZSE on 19 September 2018
“Bank”, “Bank of Zhengzhou”, or “We”	Bank of Zhengzhou Co., Ltd*. (鄭州銀行股份有限公司), a joint stock company incorporated in the PRC with limited liability on 16 November 1996 in accordance with the 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, which was officially opened for operation on 8 April 2018 and formed by consolidating the Former CBRC and the former China Insurance Regulatory Commission
“CBIRC Henan Office”	China Banking and Insurance Regulatory Commission Henan Office, which was officially opened for operation on 17 December 2018
“Company Law”	Company Law of the People's Republic of China
“Corporate Governance Code”	Corporate Governance Code set out in Appendix 14 to the Stock Exchange Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Bank
“Former CBRC”	the former China Banking Regulatory Commission
“Former CBRC Henan Office”	the former China Banking Regulatory Commission Henan Office
“Group”	the Bank and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“H Share(s)”	overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed and traded on the Main Board of the Hong Kong Stock Exchange (stock code: 6196)
“Jiuding Financial Leasing Company”	Henan Jiuding Financial Leasing Co., Ltd. (河南九鼎金融租賃股份有限公司)
“Latest Practicable Date”	25 March 2019, being the latest practicable date prior to the printing of this Annual Report for the purpose of ascertaining certain information contained in this Annual Report
“Law on Commercial Banks”	Law of the People’s Republic of China on Commercial Banks
“Macao”	the Macao Special Administrative Region of the PRC
“MOF”	the Ministry of Finance of the People’s Republic of China
“Offshore Preference Shares”	59,550,000 shares of non-cumulative perpetual offshore preference shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange (stock code: 4613)
“PBoC” or “Central Bank”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China, and for the purpose of this Annual Report only, excluding Hong Kong, Macao and Taiwan regions
“Reporting Period”	the period from 1 January 2018 to 31 December 2018
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities Law”	Securities Law of the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)” or “Ordinary Share(s)”	the A Shares and the H Shares
“Stock Exchange Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Bank
“SZSE”	Shenzhen Stock Exchange
“SZSE Listing Rules”	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange

* The Bank is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), and not subject to the supervision of the Hong Kong Monetary Authority, nor being authorized to carry out banking and/or deposit-taking business in Hong Kong.

CHAIRMAN'S STATEMENT

In 2018, the China's domestic economy was running within a reasonable range as a whole, but the real economic growth was still under pressure. The external economic and trade environment became increasingly challenging, as witnessed by stringent regulatory policies for the banking industry, accelerated interest rate liberation, intense competition in the industry and accelerated emergence of credit risks. Under these circumstances where profound changes were taking place in the internal and external environment, the Board of the Bank set the overall tone of steady development, watched for chances to modify the development strategy, focused on enhancing quality and efficiency, and led the Bank to enter a critical period of reform and transformation.

Forging ahead with determination and reaping harvest during the year. Amid crisis and opportunities in 2018, all staff across the Bank strove ahead, overcame various obstacles and carried out operation of the Bank steadily and in compliance with the law. As at the end of 2018, the Bank's scale of assets amounted to RMB466,142 million, an increase of 6.96% compared with the beginning of the year. Operating income amounted to RMB11,134 million, an increase of 9.01% from the same period of the previous year. Profit before provision was RMB7,970 million, an increase of 6.21% from the same period of the previous year. The Bank has met all regulatory requirements in respect of major indicators. The Bank ranked 245th among the Top 1,000 World Banks 2018 published by the UK magazine The Banker in terms of tier-one capital, earning a place among the top 300 banks for the first time. It was rated by the Financial Times as one of the Top Ten City Commercial Banks of the Year on the gold medal list of 2018, suggesting that the Bank's social reputation and brand impact were on the rise.

Dreaming on and awaiting transcendent transformation. The Bank's A Shares were successfully listed in the historic year 2018 following adversities and hardships for 20 years as well as utmost efforts of its staff for several generations, making it the first "A+H" dual-listed bank in the capital market among other Chinese domestic city commercial banks, and suggesting that its capital strength is continuously enhancing and its market competitiveness is significantly improving. Backed by the Belt and Road initiative, the Bank launched the China Business Logistics Bank Alliance and built cross-industry cooperation in "finance + logistics + e-commerce", taking a major step under the "going out" strategy. It secured various business qualifications such as Class B independent lead underwriter, key dealer of credit risk mitigation tools, issuing institution of credit risk mitigation warrants and issuing institution of credit-linked notes, and launched the first non-deliverable forwards in the inter-bank foreign exchange market, diversifying its business qualifications and types.

Streamlining operations and carrying out solid work as a top priority. In 2018, we placed more emphasis on consolidating our foundation and strengthening our capacity, carried out solid work and executed our strategy to "recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support". To refocus on finance, we empowered business finance, micro and small enterprises finance as well as public finance with the continuous launch of new mechanisms, new products and new models. To recontrol risks, we stepped up the prevention and control of credit, market and operational risks with a three-pronged approach by establishing mechanisms, strengthening management and reducing risks. To reinforce capacity, we formed ten capacity reinforcement teams, implemented six key projects and transformed management methods, so that business and innovation capabilities were ever improving. We also launched a talent hunting scheme, introduced a new core system and refined the appraisal system for better talent, technology and system support. It is not possible to execute a strong strategy without tough work. On the way forward, we will continue to emphasize on self-reflection, vigorously carry out the build-up of work style, conduct regular party committee's inspections, change and carry out the right work style to make sure various strategies are forcefully executed.

CHAIRMAN'S STATEMENT



Working and thriving together as one. We were given more care and support in 2018. The guidance given by party committees and regulatory authorities at all levels prevented us from taking a winding road or a wrong course while we reformed to switch from a broad-brush to a refined approach. The trust given by shareholders and customers encouraged us to continuously scale new heights. The efforts of our staff enabled us to reap fruitful results for another year. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all friends from various sectors for their concern and care for the growth of the Bank.

Striving to do our best to succeed amid intense competition. In 2019, China's domestic economy will enter a new stage where new drivers will replace the old ones, and the structural reform on the supply side is proceeding continuously, steadily and deeply. The Bank is about to embark on a new journey to improve quality and efficiency, defend itself against risks, and reform and innovate. Standing on the new starting point of the deepening reform and open-up policy, we will remain as confident as a steadfast rock and seize the day with granite perseverance. Empowered by the strategy to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support”, the Bank remains committed to our initial aspiration of serving entities, builds the bottom lines for preventing and controlling risks, changes the style of work, forges ahead and continues to write a new chapter for the development of the Bank.

WANG Tianyu
Chairman

PRESIDENT'S STATEMENT

In 2018, the strained Sino-US relationship heightened and put slowdown pressure on the domestic Chinese economy and sank market confidence, and strict financial regulations were further implemented, posting numerous challenges to the operation and development of the banking industry. Adhering closely to the strategic planning of the Board, the Bank undertook the tasks and made progress, tackled the difficulties and marched forward, satisfactorily achieving all work objectives.

2018 is an extraordinarily glorious year for us. Firstly, the Bank became the first “A+H” listed city commercial bank in China with its listing on the SZSE completed on 19 September. Secondly, the Bank initiated the establishment of the first commerce and logistics bank alliance in the country and convened two alliance summits in 2018, preliminarily establishing its brand as a “commerce and logistics bank” nationwide. Thirdly, the Bank was among the first to obtain a series of business qualifications such as Class B independent lead underwriter, key dealer of credit risk mitigation tools, issuing institution of credit risk mitigation warrants and issuing institution of credit-linked notes, etc. in the province.

We made progress in 2018 while maintaining stability. As at the end of 2018, the Bank's scale of assets increased by RMB30,314 million or 6.96% to RMB466,142 million from the beginning of the year; total deposits (excluding accrued interest and interbank deposits) increased by RMB8,724 million or 3.42% to RMB264,131 million from the beginning of the year; gross loans and advances to customers rose by RMB31,116 million or 24.22% to RMB159,573 million from the beginning of the year; operating income increased by 9.01% year-on-year to RMB11,134 million; transaction fees and commission income increased by 2.71% year-on-year to RMB1,988 million. The non-performing loan (“NPL”) ratio was 2.47%, the allowance to NPL ratio was 154.84% and the capital adequacy ratio was 13.15%, all in compliance with the requirements of major regulatory indicators.

We consolidated our foundation and strengthened our capacity in 2018. Firstly, we adhered to the principle of promoting technology innovation, launching a new generation of information system and constructing a brand-new customer-centric systems architecture. We carried out the task of managing information of the whole bank, establishing big data systems for smart marketing and risk control. We also perfected our agile development mechanism, entering the development and research age of “dual IT” combining the agile development and the traditional waterfall approach. Secondly, we adhered to the principle of developing a talent force, inducting 332 talents in large scale and conducting training of different levels and types with attendance exceeding 24,800 and average training duration reaching 52 hours. Thirdly, we adhered to the principle of maintaining uniqueness, focusing on our “three featured business positioning” and simultaneously promoting the transformation of corporate and retail projects. Centring around the platform construction of “five clouds”, we continued to strengthen our corporate product and service innovation, improved service system, enhanced financial service quality, and optimized retail customers' experience.

PRESIDENT'S STATEMENT



For the past year, the Bank ranked 15th among national commercial banks in terms of economic profit according to the Top 40 Value-Creating Banks in China (2018) by McKinsey & Company; in the list of the Top 1,000 World Banks 2018 published by The Banker, a UK magazine, the Bank ranked 245th on tier-one capital, becoming a member of the top 300 for the first time; the Bank was awarded the title of Annual Top 10 City Commercial Banks in the gold medal list of 2018 by the Financial Times, which boosted brand influence and social reputation. The above accomplishments would not have been possible without the hard work and efforts of the staff as well as the care and support of the customers, investors and people from all walks of life. On behalf of the Bank, I would like to express our sincere gratitude to all those who have been supporting the development of the Bank of Zhengzhou.

The banking industry will face a more complicated operating environment, more challenges and greater pressure in 2019. Based on the new starting point of being an “A+H” listed city commercial bank, the Bank will follow the firm leadership of the Board, continuing to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support” while satisfying the overarching requirements of the Bank. With capacity building as the main emphasis, we will focus on three featured business, step up risk prevention and control measures, formulate profit-centric policy guidelines and carry out the tasks of increasing revenue, lowering cost, improving efficiency and strengthening management. We will stay true to our original mission, tackle difficulties while marching forward, and promote quality development to achieve greater progress, rewarding our shareholders and the whole society with better performance.

SHEN Xueqing
President

CHAPTER I CORPORATE INFORMATION

1 BASIC INFORMATION

Legal name in Chinese:	鄭州銀行股份有限公司 (Abbreviation: 鄭州銀行)
Legal name in English:	Bank of Zhengzhou Co., Ltd. (Abbreviation: ZHENGZHOU BANK)
Legal representative:	Mr. WANG Tianyu
Authorised representatives:	Mr. WANG Tianyu, Mr. FU Chunqiao
Board secretary and contact details:	Mr. FU Chunqiao Contact address: 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China Tel: +86-371-6700 9199 Fax: +86-371-6700 9898 E-mail: ir@zzbank.cn
Joint company secretaries:	Mr. FU Chunqiao, Ms. LEUNG Wing Han Sharon
Securities affairs representative and contact details:	Mr. CHEN Guang Contact address: 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China Tel: +86-371-6700 9199 Fax: +86-371-6700 9898 E-mail: ir@zzbank.cn
Places of listing, stock short names and codes:	A Shares: SZSE BANK OF ZHENGZHOU 002936 H Shares: Hong Kong Stock Exchange BANK OF ZHENGZHOU 6196 Offshore Preference Shares: Hong Kong Stock Exchange ZZBNK 17USDPREF 4613
Unified Social Credit Code:	914100001699995779
Financial licence number:	B1036H241010001
Registered address and office address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Postal code of the registered address and office address:	450046

CHAPTER I CORPORATE INFORMATION



Principal place of business in Hong Kong:	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
Contact address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Tel:	+86-371-6700 9199
Fax:	+86-371-6700 9898
E-mail:	ir@zzbank.cn
Website:	www.zzbank.cn
Newspapers for information disclosure:	Securities Times, China Securities Journal, Shanghai Securities News, Securities Daily
Websites for information disclosure:	Website designated by the CSRC for publishing the annual report for A Shares: www.cninfo.com.cn Website designated by the Hong Kong Stock Exchange for publishing the annual report for H Shares: www.hkexnews.hk
Place where the annual report can be obtained:	The General Office of the Board and principal place of business of the Bank
Domestic auditor:	KPMG Huazhen LLP
Address of domestic auditor:	8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
Undersigned accountants:	HE Qi, HUANG Menglin
International auditor:	KPMG
Address of international auditor:	8th Floor, Prince's Building 10 Chater Road, Central, Hong Kong
Sponsor for continuous supervision:	China Merchants Securities Co., Ltd.
Address of sponsor for continuous supervision:	38-45F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Sponsor representatives:	WU Yuhui and LV Yingxia
Continuous supervision period:	From 19 September 2018 to 31 December 2020
PRC legal advisor:	King & Wood Mallesons (Beijing)
Hong Kong legal advisor:	King & Wood Mallesons
Registrar for A Shares:	China Securities Depository and Clearing Corporation Limited, Shenzhen Branch
Registrar for H Shares:	Computershare Hong Kong Investor Services Limited

CHAPTER I CORPORATE INFORMATION

2 COMPANY PROFILE

Bank of Zhengzhou is a regional joint stock commercial bank incorporated in November 1996 upon the approval by the PBoC, based on 48 city credit cooperatives in Zhengzhou City. The Bank was renamed as Zhengzhou Commercial Bank Co., Ltd. in December 2000 and Bank of Zhengzhou Co., Ltd. in October 2009. The Bank was listed on the main board of the Hong Kong Stock Exchange in December 2015, becoming the first listed city commercial bank in Henan Province and the tenth in China. Following its successful listing on SZSE in September 2018, the Bank became the first domestic city commercial bank with both its A and H Shares listed.

As at the end of the Reporting Period, the Bank had 4,460 employees and 168 institutional operation sites in the province including 1 operation division of the headquarters, 12 provincial branches and 1 finance service centre for small enterprises. The Bank established Jiuding Financial Leasing Company, and managed 7 county banks at Zhongmu, Xinmi, Yanling, Fugou, Xinzheng, Xunxian and Queshan and its comprehensive business operation proceeded steadily. The Bank's scale of assets increased by RMB30,314 million or 6.96% to RMB466,142 million from the beginning of the year; total deposits (excluding accrued interest and interbank deposits) increased by RMB8,724 million or 3.42% to RMB264,131 million from the beginning of the year; gross loans and advances to customers rose by RMB31,116 million or 24.22% to RMB159,573 million from the beginning of the year; net profit was RMB3,101 million. The capital adequacy ratio was 13.15%, the NPL ratio was 2.47% and the allowance to NPL ratio was 154.84%. All of the major indicators complied with regulatory requirements.

The Bank's principal business mainly includes corporate banking, retail banking and treasury business. The Bank provides corporate banking customers with a wide range of financial products and services, including corporate loans (including trade financing), international business and services, corporate deposits, as well as products and services involving transaction fees and commissions. The Bank provides retail banking customers with a wide variety of products and services, including loans, deposits, bank cards, as well as products and services involving transaction fees and commissions. The Bank's treasury business meets its liquidity needs while seeking maximum returns from non-loan business funds. The Bank's treasury business mainly includes money market transactions, investment in securities and other financial assets, bond underwriting and distribution, inter-bank discounts and rediscounts of bills and treasury business conducted on behalf of customers.

Bank of Zhengzhou has always adhered to the goal of characteristic and differentiated development, focusing on the three distinctive business positioning features of "commerce and logistics bank, financing expert for SMEs, and boutique bank for residents", promoting the transformation of the Company's business and retail business and starting to bear fruit. The Bank's operating and management ability continues to improve, receiving wide recognition from various sectors of the community. In the list of the Top 1,000 World Banks 2018 published by the UK magazine The Banker, the Bank ranked 245th on tier-one capital, becoming a member of the top 300; the Bank was rated by the Financial Times as one of the Top Ten City Commercial Banks of the Year on the 2018 Gold Medal List of Chinese Financial Institutions – Gold Dragon Award.

CHAPTER I CORPORATE INFORMATION

3 ANALYSIS OF CORE COMPETITIVENESS

Favourable geographical location and enormous development potential. Riding on the favourable geographical location and economic development achievements of Henan Province and Zhengzhou City, the Bank has enormous development potential and subsequent development momentum. Henan is a province with the largest population in China, where there are abundant and stable manpower and a vast consumer market. It is in a stage of accelerating industrial and urban development, and a leader in agriculture as it is a key major agricultural and grain-producing province in China. It has a favourable geographical location for it is a major transportation and communication hub as well as a distribution centre of materials and goods in China, assuming an essential strategic position in the overall reform and development programmes of China. As the provincial capital of Henan Province, Zhengzhou lies in the geographical centre of China. It is the core city of the Central Plains economic zone, an important node city of the Belt and Road initiative and a major hub city for railways, aviation, highways, electric power, postal services and telecommunications in China.

Building the Bank into a distinctive “commerce and logistics bank” by leveraging its regional advantages. As a local bank with a strong presence in Henan, the Bank makes full use of its geographical advantages by positioning itself as a “commerce and logistics bank” for its distinctive development. As a result, two core customer chains covering trade finance chain and logistics as well as an online and offline customer acquisition model have been built, and a supply chain financial product mechanism and a featured trade logistics product mechanism comprising six major industries and 29 sub-products have been established. The Bank has built a “five clouds” online business financial platform covering cloud trading, cloud financing, cloud logistics, cloud business and cloud service, and initiated the establishment of the country’s first commerce logistics bank alliance, aiming to pool together a wide range of financial resources and to make use of big data and new technologies such as blockchain to build a “smart platform” that focuses on solving the difficult problems of member companies such as capital flow, information flow, logistics, etc., and on stimulating the formation of a new commercial pattern for laying a solid foundation for building the Bank into a commerce and logistics bank on an ongoing basis.

Richly cultivating the local economy to become a “financing expert for small and medium enterprises (“SME(s)”)”. With its primary base in the local market, the Bank continues to serve the real economy and focuses on delivering diverse, one-stop financing services to quality SMEs. With a professional and exclusive management approach, it delivers diverse products and services to meet the financing needs of different customers, and effectively solves the financing problem of micro and small enterprises, striving to become a “financing expert for SMEs” which is primarily based in Zhengzhou and expands to the Central Plains.

Offering inclusive finance to build the Bank into a “boutique bank for residents”. As a regional commercial bank, the Bank has been committed to serving the local economy, SMEs and urban residents as its fundamental policy by looking for more services to satisfy the necessities of residents, such as clothing, food, housing and transportation. Being a “boutique bank for residents” is one of the three distinct positioning features of the Bank attained by subdividing the functions of its retail outlets, re-positioning community sub-branches, offering innovative convenience products and expanding scenarios for the application of bank cards.

CHAPTER I CORPORATE INFORMATION

Managing risks prudently to safeguard excellent and stable assets. The Bank is always committed to the “prudent, rational and stable” risk management philosophy to create a good culture of compliance and risk control, striking a balance between risks and returns as well as control and efficiency by establishing a comprehensive risk management system that covers all types of risks, and by making continuous improvements to it. Based on the characteristics of different risks, the Bank has risk management tools and sound corresponding risk management process and system up and running to make sure various business lines are growing healthily and continuously.

Excellent corporate culture and good brand image. Excellent corporate culture and good brand image are the Bank’s major “soft powers”. The Bank strives to build the corporate culture of “Featured Zhengzhou Bank” by constantly improving the corporate culture system. In terms of style build-up, it has proposed “10 Initiatives and 10 Oppositions”; and in the aspect of learning and innovation, it has proposed “4 Remarks and 4 Stresses”. As for capacity reinforcement, the Bank has proposed the strategy to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support” with the launch of strong head office build-up activities to actually incorporate corporate culture into practical work and business activities, so as to effectively expand the role of corporate culture in boosting and promoting business operations.

4 MAJOR AWARDS IN 2018

In May 2018, the Bank was awarded the title of Enterprise with Outstanding Contribution to Industrial Development of Zhengzhou in 2017 (2017年度鄭州市產業發展突出貢獻企業) by Zhengzhou Municipal Committee of the CPC and the People’s Government of Zhengzhou.

In June 2018, in the Financial Innovation Award in China 2018 awards event hosted by The Chinese Banker, the Bank received the comprehensive award in Best Financial Innovation. It also received three awards, namely the Top Ten Financial Innovation Award (corporate business), Top Ten Financial Innovation Award (retail business) and Top Ten FinTech Product Innovation Award for its three product innovation cases, namely Cloud Financing (雲融資), Labour Union Card Wealth Management for Charity (慈善家工會卡理財) and Intelligent Online Robots (在線智能機器人).

In June 2018, in the China Internet in the Past 20 Years and Top 1,000 Brands of the Great Power (中國互聯網20年暨大國品牌1000強) awards event hosted by China Internet Weekly of the Chinese Academy of Sciences and the CIS of the Chinese Academy of Social Sciences, the Bank’s Ding Rong Yi (鼎融易) was named Brand of the Great Power for China Internet in the Past 20 Years (中國互聯網20年大國品牌獎).

In September 2018, in the Chinese Bankers Forum 2018 and Evaluation Release Conference on the Competitiveness of Chinese Commercial Banks 2018 hosted by The Chinese Banker, the Bank received the award of Best Product Innovation City Commercial Bank 2017 (2017年度最佳產品創新城商行).

In September 2018, in the Fourth Logistics Finance Innovation Summit Forum of China hosted by 10000link.com, the Bank ranked among the Top 50 Logistics Finance Enterprises of China (中國物流金融50佳企業).

In December 2018, in the New Era Financial Development Summit and Chinese Financial Institutions Gold List Awards Ceremony 2018 hosted by the Financial Times, the Bank was rated one of the Top Ten City Commercial Banks of the Year in the 2018 Gold Medal List of Chinese Financial Institutions (2018中國金融機構金牌榜-年度十佳城市商業銀行).

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

1 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

The financial data and indicators set forth in this Annual Report is prepared on a consolidated basis in accordance with the International Financial Reporting Standards. Unless otherwise specified, such information represents the data of the Group stated in RMB.

Unit: RMB'000

Major accounting data	2018	2017	Year-on-year increase/decrease (%)	2016	2015	2014
Operating results						
Operating income ⁽¹⁾	11,133,655	10,212,985	9.01	9,980,486	7,861,251	5,504,399
Total profit	3,809,906	5,547,260	(31.32)	5,257,033	4,361,742	3,202,935
Net profit attributable to shareholders of the Bank	3,058,831	4,280,024	(28.53)	3,998,768	3,356,371	2,463,083
Net cash flows (used in)/generated from operating activities	(25,819,469)	(1,981,394)	1,203.10	54,036,394	7,720,162	29,447,228
Calculated on a per share basis (RMB/share)						
Basic earnings per share ⁽²⁾	0.47	0.80	(41.25)	0.75	0.85	0.62
Diluted earnings per share	0.47	0.80	(41.25)	0.75	0.85	0.62
Net assets per share attributable to ordinary shareholders of the Bank ⁽³⁾	4.87	4.58	6.33	4.00	3.46	2.89
Scale indicators	As at the end of 2018	As at the end of 2017	Year-on-year increase/decrease (%)	As at the end of 2016	As at the end of 2015	As at the end of 2014
Total assets	466,142,418	435,828,887	6.96	366,147,972	265,623,089	204,289,209
Gross loans and advances to customers (excluding accrued interest)	159,572,792	128,456,478	24.22	107,633,407	91,604,436	76,226,190
Provision for impairment losses on loans and advances to customers ⁽⁴⁾	6,097,376	4,000,536	52.41	3,458,832	2,689,290	1,759,924
Total liabilities	428,278,919	402,389,522	6.43	344,286,597	247,799,070	192,883,631
Total deposits from customers (excluding accrued interest)	267,758,206	255,407,398	4.84	21,861,375	17,824,019	11,405,578
Share capital	5,921,932	5,321,932	11.27	5,321,932	5,141,932	3,941,932
Shareholders' Equity	37,863,499	33,439,365	13.23	21,861,375	17,824,019	11,405,578
Including: equity attributable to shareholders of the Bank	36,649,739	32,205,887	13.80	21,296,378	17,794,840	11,405,578
Net capital ⁽⁵⁾	45,958,462	41,614,453	10.44	28,463,881	21,182,983	14,368,239
Including: net tier-one capital ⁽⁵⁾	36,618,138	32,262,545	13.50	21,312,985	17,533,808	11,191,731
Net risk-weighted assets ⁽⁵⁾	349,504,822	307,474,718	13.67	242,109,283	173,696,609	129,223,332

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

Major financial indicators	2018	2017	Year-on-year change	2016	2015	2014
Capital adequacy ratio (%)						
Core tier-one capital adequacy ratio ⁽⁵⁾	8.22	7.93	0.29	8.79	10.09	8.66
Tier-one capital adequacy ratio ⁽⁵⁾	10.48	10.49	(0.01)	8.80	10.09	8.66
Capital adequacy ratio ⁽⁵⁾	13.15	13.53	(0.38)	11.76	12.20	11.12
Asset quality indicators (%)						
Non-performing loan ratio ⁽⁶⁾	2.47	1.50	0.97	1.31	1.10	0.75
Allowance to non-performing loans ⁽⁶⁾	154.84	207.75	(52.91)	237.38	258.55	301.66
Allowance to total loans ⁽⁶⁾	3.82	3.11	0.71	3.11	2.85	2.26
Ratio of loans with principal or interest overdue for more than 90 days to non-performing loans	95.36	171.13	(75.77)	129.38	110.10	106.00
Profitability Indicators (%)						
Weighted average return on net assets ⁽²⁾	10.03	18.82	(8.79)	20.21	26.22	23.52
Return on total assets ⁽⁷⁾	0.69	1.08	(0.39)	1.28	1.43	1.39
Cost-to-income ratio ⁽⁸⁾	28.06	26.18	1.88	22.26	23.27	27.72
Net interest spread ⁽⁹⁾	1.77	1.94	(0.17)	2.52	2.95	3.07
Net interest margin ⁽¹⁰⁾	1.70	2.08	(0.38)	2.69	3.12	3.31
Other financial indicators (%)						
Leverage ratio ⁽¹¹⁾	6.79	6.49	0.30	5.15	5.69	4.96
Liquidity ratio ⁽¹¹⁾	56.39	61.72	(5.33)	40.61	44.75	42.06
Liquidity coverage ratios ⁽¹¹⁾	304.42	225.20	79.22	256.91	390.40	163.32
Loan-to-deposit ratio ⁽¹¹⁾	66.06	50.29	15.77	51.34	55.73	58.83
Percentage of loans to the single largest customer ⁽¹¹⁾	4.13	3.12	1.01	3.51	3.75	4.18
Percentage of loans to the top ten single customers ⁽¹¹⁾	21.46	22.01	(0.55)	24.83	26.97	32.90
Percentage of credit granted to the single largest group customer ⁽¹¹⁾	6.02	4.66	1.36	5.58	4.75	5.38
Normal loan migration ratio ⁽¹¹⁾	8.81	10.35	(1.54)	9.12	7.15	8.63
Special mention loan migration ratio ⁽¹¹⁾	55.14	58.55	(3.41)	44.10	34.74	52.36
Substandard loan migration ratio ⁽¹¹⁾	76.71	29.46	47.25	98.00	9.36	94.82
Doubtful loan migration ratio ⁽¹¹⁾	0.14	0.07	0.07	0.25	-	-

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS



Notes:

1. Operating income includes net interest income, net fee and commission income, net trading gains/(losses), net gains arising from investments and other operating income.
2. Basic earnings per Share and weighted average return on net assets were calculated according to Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision). In 2018, the Bank distributed the dividends on the Offshore Preference Shares. In calculating basic earnings per Share and weighted average return on net assets, the distributed dividends of the Offshore Preference Shares for the period have been deducted from the “net profit attributable to Shareholders of the Bank”, and the distributed dividends of the Offshore Preference Shares and other equity instruments for the period have been deducted from the “weighted average net assets”.
3. Representing the equity attributable to ordinary shareholders of the Bank after deducting other equity instruments divided by the number of Ordinary Shares at the end of the period.
4. Including the provision for impairment losses on the loans and advances to customers measured at amortised costs and the loans and advances to customers at fair value through other comprehensive income.
5. Calculated based on the “Administrative Measures for the Capital of Commercial Banks” published by the former CBRC on 7 June 2012.
6. Non-performing loan ratio was calculated by dividing total non-performing loan principal (excluding accrued interests) by gross loan and advance principal to customers (excluding accrued interest); the allowance to non-performing loans was calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loan principal (excluding accrued interest); and the allowance to total loans was calculated by dividing allowance for impairment losses on loans and advances to customers by gross loan and advance principal to customers (excluding accrued interest).
7. Calculated by dividing net profit for the Reporting Period by average balance of total assets at the beginning and the end of the period.
8. Calculated by dividing total operating expenses (excluding tax and surcharges) by operating income.
9. Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
10. Calculated by dividing net interest income by the daily average balance of total interest-earning assets. The Bank has implemented the New Standards for Financial Instruments since 1 January 2018, the net interest margin for the Reporting Period shall be 2.19% when calculated in accordance with Financial Instruments: Recognition and Measurement (IAS 39).
11. Percentage of loans to the single largest customer and percentage of loans to the top ten single customers were recalculated in accordance with regulatory criteria based on audited data, other indicators represented data reported to regulatory authorities. Loan migration ratio was based on the criteria of the parent of the Bank.

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

2 DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS

There is no difference between the Bank's net assets as at the end of the Reporting Period calculated in accordance with the PRC GAAP and International Financial Reporting Standards and the net profit during the Reporting Period.

3 MAJOR FINANCIAL INDICATORS BY QUARTER

Unit: RMB'000

Item	Fourth quarter of 2018	Third quarter of 2018	Second quarter of 2018	First quarter of 2018
Operating income	3,126,422	2,870,855	2,587,478	2,548,900
Net profit attributable to shareholders of the Bank	(376,960)	1,069,238	1,211,348	1,155,205
Net cash flows (used in)/generated from operating activities	(3,319,945)	(19,456,802)	2,037,249	(5,079,971)

Note: There is no substantial difference between the aforesaid financial indicators or their sum and those disclosed in the quarterly report and interim report of the Bank.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

1 REVIEW OF THE ECONOMY AND MACRO-ENVIRONMENT

In 2018, faced with the complex international and domestic environment, China's economy was functioning well with steady progress, with the main goals of economic and social development being well achieved. Firstly, the economy performed within a reasonable range. Gross domestic product ("GDP") exceeded RMB90 trillion, up by 6.6% from the previous year. It contributed nearly 30% of the world's economic growth and represented the second largest economic output in the world. In 2018, the residential consumer price index ("CPI") rose by 2.1% from the previous year, lower than the expected increase of about 3%. The balance of payments was basically balanced. The total import and export value for the year surpassed RMB30 trillion for the first time, while the RMB exchange rate remained stable overall. Secondly, the "three major battles" got off to a good start. The macro leverage was on a stable trend. In 2018, Money Supply definition 2 ("M2") growth was lower than nominal GDP growth, and the ratio of M2 to GDP was 202.9%, down by 3 percentage points from the previous year. The poverty alleviation battle achieved notable results. In 2018, the number of rural poor people in the country was reduced by more than 10 million, with approximately 280 poverty-stricken counties being lifted out of poverty. Positive progress was also made in energy conservation, emission reduction and pollution control. In 2018, the energy consumption per RMB10,000 GDP decreased by 3.1% over the previous year. Thirdly, the economic structure was adjusted and enhanced on a continuous basis. In 2018, the contribution of final consumption to economic growth was 76.2%, an increase of 18.6 percentage points over the previous year and 43.8 percentage points higher than gross capital formation. With ongoing upgrade of the industrial structure, the proportion of tertiary industry in GDP reached 52.2%, and the tertiary industry grew faster than the secondary industry in added value by 1.8 percentage points. In 2018, the added value of high-tech manufacturing increased by 11.7% over the previous year, accounting for 13.9% of industries above a designated size. Strategic emerging manufacturing and service industries maintained rapid growth. The production of new energy vehicles, optical fibres and smart TVs increased substantially, with online retail sales increased by more than 20%. Fourthly, residents' income and consumption grew rapidly. In 2018, the per capita disposable income of residents in China increased by 6.5% in real terms, and the middle-income population exceeded 400 million. In 2018, the per capita consumption expenditure of residents in China increased by 6.2% in real terms, and the Engel's coefficient for residents was 28.4%, down by 0.9 percentage point from the previous year. Meanwhile, China's economy was running steadily with changes and concerns against the backdrop of the complex external environment, downside pressure on the economy, falling economic indicators, weak consumption, decelerating industrial production momentum, investment stagnation, and shrinking foreign trade figures.

At the end of December 2018, the balance of RMB loans in China was RMB136.3 trillion, representing a year-on-year increase of 13.5% (up by 0.4 and 0.8 percentage point from the end of the previous month and the same period of the previous year respectively), and the balance of RMB deposits was RMB177.52 trillion, representing a year-on-year increase of 8.2% (up by 0.6 percentage point from the end of the previous month and down by 0.8 percentage point from the same period of the previous year). As at the end of 2018, the total social financing was RMB200.75 trillion, up by 9.8% year-on-year. The balance of RMB loans issued to the real economy was RMB134.69 trillion, up by 13.2% year-on-year. The scale of the banking industry continued to grow. According to preliminary statistics, at the end of December 2018, the total assets in the banking industry reached RMB261.4 trillion, up by 6.4% year-on-year, including loans of RMB140.6 trillion (up by 12.6% year-on-year) and bond investments of RMB45.2 trillion (up by 14.1% year-on-year). The proportion of loans and bond investments in the total assets rose by 3 and 1.2 percentage points respectively from the end of the previous year. In the first 11 months of 2018, RMB loans accounted for 83.4% of the increase in total social financing. The total liabilities of

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

the banking industry in China reached RMB239.9 trillion (up by 6% year-on-year), including deposits of RMB164.2 trillion (up by 6.7% year-on-year). The credit quality was generally stable. The balance of non-performing loans of commercial banks was RMB2 trillion, with a non-performing loan ratio of 1.83%. The ratio of loans overdue for more than 90 days to non-performing loans stood at 92.8%, down by 6.9 percentage points from the end of the previous year. The level of provision was relatively high. The balance of loan loss reserves of commercial banks was RMB3.7 trillion, with the provision coverage ratio and loan provision ratio standing at 186.1% and 3.4% respectively, up by 4.7 percentage points and 0.25 percentage point respectively from the end of the previous year, indicating enhanced risk resilience.

In 2018, the economy of Henan Province, where the Bank is located, maintained overall stable growth. The province's GDP for 2018 was RMB4,805,586 million, a year-on-year increase of 7.6%, and 1.0 percentage point higher than the national average and ranking 11th in the country. The added value of industries above a designated size increased by 7.2% over the previous year, 1.0 percentage point higher than the national average. In the year, the province's investment in fixed assets (excluding farmers) increased by 8.1% over the previous year, 2.2 percentage points higher than the national average, and the total retail sales of consumer goods was RMB2,059,474 million, up by 10.3% over the previous year, and 1.3 percentage points higher than the national average. In the year, the province's CPI rose by 2.3% over the previous year, a year-on-year increase of 0.9 percentage point, and the producer price index rose by 3.6% over the previous year, a year-on-year decrease of 3.2 percentage points. In 2018, the added value of tertiary industry in the province accounted for 45.2% of the GDP, up by 1.9 percentage points year-on-year. The tertiary industry contributed 50.0% of the GDP growth, up by 0.4 percentage point year-on-year and 4.4 percentage points higher than that of the secondary industry. Meanwhile, there are still some problems and difficulties in the current economic development of Henan Province. Firstly, economic growth is "slowing from previous highs". Since 2013, Henan Province has entered a downshifting period in economic growth together with the rest of the country, with economic growth slowing from 10.1% year by year to 7.6% in 2018. Indicators such as industrial production, fixed investment and total retail sales of consumer goods are also slowing down. Secondly, it is imperative to adjust the economic structure quickly. For a long time, there have been problems in the industrial structure of the province, such as low level of modern agriculture, irrational industrial structure, and lagging development of modern service industries. The cultivation of new industries and the transition from old to new drivers are also progressing slowly. In 2018, the added value of tertiary industry in the province accounted for 45.2% of the GDP, 7 percentage points lower than the national average, and the contribution of the tertiary industry to GDP growth was 50.0%, 9.7 percentage points lower than the national average. In particular, strategic emerging manufacturing and service industries developed slowly and did not contribute much to the economy. Thirdly, the operating conditions of enterprises have deteriorated. Private SMEs account for more than 95% of the total number of enterprises in Henan Province, and are mostly concentrated in traditional industries in the middle and lower end of the industrial chain. They have high operating costs, low efficiency and weak risk resilience, and thus are susceptible to downside economic pressure which has squeezed their profitability and weakened their operating performance. The pressure on economic growth and the decline in operating profits of enterprises have taken a toll on the banking industry, resulting in a decline in profitability and an increase in credit risk in the industry.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS



2 BUSINESS OVERVIEW

In 2018, the Sino-US trade war triggered unexpected uncertainties. Both the financial and economic cycles of China experienced a downward trend and the real economy is unlikely to recover in the short term. “Strict regulation” and “strict accountability” will be the key themes for the regulation of the banking industry in the coming years. In the short run, the external development environment of the banking industry will be clouded with uncertainties and complexities. Faced with new situations and new challenges, the Bank will adhere to the strategic planning of the Board of Directors, implement the strategy to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support” and march ahead against difficulties while pursuing progress amid stability.

Major business indicators progressed with stability. During the Reporting Period, the Bank adjusted the business development strategy proactively and promoted the shift from rapid development to quality development vigorously. As at the end of the Reporting Period, the Bank’s total assets amounted to RMB466,142 million, increasing by 6.96% from the beginning of the year; total loans and advances to customers amounted to RMB159,573 million, increasing by 24.22% from the beginning of the year; gross deposits (excluding accrued interest and interbank deposits) amounted to RMB264,131 million, increasing by 3.42% from the beginning of the year; operating income was RMB11,134 million, increasing by 9.01% from the previous year; ROA (return on total assets) was 0.69% and weighted average ROE (return on net assets) was 10.03%, both higher than the average level of city and commercial banks in the province. During the Reporting Period, affected by the downward regional economic environment and the regulatory policy of “classifying loans overdue for more than 90 days as NPLs”, the Bank increased allocation for provisions and accelerated the disposal of non-performing loans. The Bank’s net profit declined but its indicators such as net profit and NPL ratio performed relatively well compared with other city commercial banks in the province. As at the end of the Reporting Period, the Bank’s capital adequacy ratio was 13.15%, allowance to NPL ratio was 154.84% and NPL ratio was 2.47%, all in compliance with regulatory requirements.

Prevention and control measures for credit risk are in place. The Bank consistently regards credit risk control as the foundation of the establishment and sustainability of the Bank and keeps credit risk under control by keeping abreast of relevant developments. On one hand, the Bank comprehensively strengthened credit risk management in relation to approval, post-loan services, system and other aspects. The ratio of loans overdue for more than 90 days to NPLs decreased to 95.36% as at the end of the Reporting Period, down by 75.77 percentage points from the end of the previous year. On the other hand, the Bank enhanced the assessment, inspection and management mechanisms for reminding about, clearing and collecting risk assets. The Bank wrote off RMB1.78 billion, scaling down the risk assets effectively.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

The effect of combining commerce and finance begins to emerge. The Bank continued to strengthen the mechanism reform of public business, perfected comprehensive institutional customers management system, established product pricing centers and vigorously promoted the marketing to upstream and downstream customers and institutional customers utilizing inspection mechanism. For the whole year, we signed 47 strategic customers, 243 intutional customers and 2,200 upstream and downstream customers, of which, upstream and downstream customers opened accounts and deposited approximately RMB3.8 billion and institutional customers newly deposited RMB1.54 billion. The Bank consistently promoted the digital transformation of commerce and finance, establishing professional research and development team and developing the “five clouds” online platform for commerce and logistics. As at the end of the Reporting Period, the balance of public loan for “cloud financing” business was RMB460 million. In April 2018, the Bank initiated the establishment of “National Commerce and Logistics Bank Alliance” in Beijing. In November, the Bank organized the second Alliance Summit Forum in Zhengzhou, developing 31 leading enterprises in finance, e-commerce and logistics into membership units and initially earning a reputation for its commerce and finance features nationwide.

3 FINANCIAL STATEMENT ANALYSIS

3.1 Income Statement Analysis

During the Reporting Period, under the leadership of the Board of Directors, the Bank actively responded to the market. Adhering to the “three distinctive business positioning features” of providing financial services to the “commerce and logistics sector”, “residents” and “micro and small enterprises”, the Bank pursued a distinctive and differentiated development path to serve the real economy. In 2018, the Bank recorded operating income and net profit of RMB11,134 million and RMB3,101 million, representing a year-on-year increase of 9.01% and a year-on-year decrease of 28.43%, respectively. Major items of and changes in the Bank’s income statement are set out as follows:

Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Net interest income	6,642,683	8,106,042	(1,463,359)	(18.05)
Non-interest income	4,490,972	2,106,943	2,384,029	113.15
Operating income	11,133,655	10,212,985	920,670	9.01
Less: Operating expenses	3,215,750	2,753,108	462,642	16.80
Less: Impairment losses on assets	4,160,169	1,956,950	2,203,219	112.58
Operating profit	3,757,736	5,502,927	(1,745,191)	(31.71)
Share of profits of associates	52,170	44,333	7,837	17.68
Profit before taxation	3,809,906	5,547,260	(1,737,354)	(31.32)
Less: Income tax expenses	708,450	1,213,723	(505,273)	(41.63)
Net profit	3,101,456	4,333,537	(1,232,081)	(28.43)
Of which: Shareholders of the Bank	3,058,831	4,280,024	(1,221,193)	(28.53)
Non-controlling interests	42,625	53,513	(10,888)	(20.35)

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

3.1.1 Net Interest Income, Net Interest Spread and Net Interest Margin

During the Reporting Period, the Bank recorded net interest income of RMB6,643 million, representing a year-on-year decrease of RMB1,463 million or 18.05% and accounting for 59.66% of the operating income. Specifically, business scale adjustments resulted in a decrease of RMB319 million in net interest income and changes in yield or cost rate resulted in a decrease of RMB1,144 million in net interest income.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expenses from these assets and liabilities, average yield of these interest-earning assets and average cost rate of these interest-bearing liabilities during the Reporting Period:

Unit: RMB'000

Item	For the year ended 31 December					
	2018		Average	2017		Average
	Average	Interest	yield/	Average	Interest	yield/
	balance ⁽⁶⁾	income/	interest rate	balance ⁽⁶⁾	income/	interest rate
		expenses	(%)		expenses	(%)
Interest-earning assets						
Loans and advances to customers	141,445,455	8,174,115	5.78	122,039,757	6,767,971	5.55
Investment securities ⁽¹⁾	183,144,430	9,003,837	4.92	194,934,703	9,807,639	5.03
Deposits with central bank	34,627,024	522,573	1.51	33,284,497	495,022	1.49
Amounts due from banks and other financial institutions ⁽²⁾	18,349,729	549,942	3.00	31,215,475	885,633	2.84
Finance lease receivables	12,900,882	742,503	5.76	8,404,231	510,486	6.07
Total interest-earning assets	390,467,520	18,992,970	4.86	389,878,663	18,466,751	4.74
Interest-bearing liabilities						
Deposits from customers	254,378,414	6,012,153	2.36	229,257,093	4,639,739	2.02
Amounts due to banks and other financial institutions ⁽³⁾	64,936,890	2,781,157	4.28	75,754,780	2,930,530	3.87
Debt securities issued	77,971,589	3,469,399	4.45	64,311,945	2,760,789	4.29
Amounts due to central bank	2,667,869	87,578	3.28	946,501	29,651	3.13
Total interest-bearing liabilities	399,954,762	12,350,287	3.09	370,270,319	10,360,709	2.80
Net interest income		6,642,683			8,106,042	
Net interest spread ⁽⁴⁾			1.77			1.94
Net interest margin ⁽⁵⁾			1.70			2.08

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. The Bank adopted the New Standards for Financial Instruments on 1 January 2018. In 2018, such interest-earning assets consisted of financial investments at amortised cost and bonds at fair value through other comprehensive income. In 2017, such interest-earning assets consisted of available-for-sale financial assets, held-to-maturity investments, and financial investments classified as receivables.
2. Consisting of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
3. Consisting of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.
4. Calculated as the difference between the average yield on total interest-earning assets and the average cost rate of total interest-bearing liabilities based on the average daily interest-earning assets and interest-bearing liabilities.
5. Calculated by dividing net interest income by the average balance of total interest-earning assets based on the average daily interest-earning assets.
6. Calculated as the average daily balance of the Bank.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, changes in the volume and interest rate of the Bank led to changes in interest income and interest expenses. Changes in volume are measured by changes in the average balance of the interest-earning assets and interest-bearing liabilities while changes in rate are measured by changes in the average rate of the interest-earning assets and interest-bearing liabilities. Combined effects of changes in volume and rate were included in changes in interest.

Unit: RMB'000

Item	For the year ended 31 December		
	2018 vs. 2017		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) due to Volume ⁽¹⁾	Rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	1,076,184	329,960	1,406,144
Investments in securities and other financial assets	(593,197)	(210,605)	(803,802)
Deposits with central bank	19,967	7,584	27,551
Amounts due from banks and other financial institutions	(365,022)	29,331	(335,691)
Finance lease receivables	273,134	(41,117)	232,017
Changes in interest income	411,066	115,153	526,219
Interest-bearing liabilities			
Deposits from customers	508,409	864,005	1,372,414
Amounts due to banks and other financial institutions	(418,484)	269,111	(149,373)
Debt securities issued	586,382	122,228	708,610
Amounts due to central bank	53,925	4,002	57,927
Change in interest expenses	730,232	1,259,346	1,989,578

Notes:

1. Represents the average balance for the Reporting Period minus the average balance for the previous period, multiplied by the average yield/cost rate for the previous period.
2. Represents the average revenue/(expenses) for the Reporting Period minus the average revenue/(expenses) for the previous period, multiplied by the average balance for the Reporting Period.
3. Represents interest income/(expenses) for the Reporting Period minus interest income/(expenses) for the previous period.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

Net interest spread and net interest margin

During the Reporting Period, the Bank's net interest spread fell from 1.94% for the previous year to 1.77% for the current year, while the Bank's net interest margin decreased from 2.08% for the previous year to 1.70% for the current year. The main reasons for the decline in net interest spread and net interest margin are: (i) continuous financial deleveraging led to an increase in the average cost of interest-bearing liabilities such as amounts due to banks and other financial institutions and debt securities issued; (ii) implementation of the New Standards for Financial Instruments (IFRS 9 Financial Instruments (IFRS 9)) by the Bank from 1 January 2018, in which some financial investments originally measured at amortised cost under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) are measured at fair value under the new standard and are no longer regarded as interest-bearing assets. The income from these instruments during the holding period is included in the investment income. During the Reporting Period, the average balance of such assets was RMB47,384 million. If calculated under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), the net interest margin for the Reporting Period should be 2.19%, a year-on-year increase of 0.11 percentage point.

3.1.2 Interest Income

During the Reporting Period, the Bank achieved interest income of RMB18,993 million, a year-on-year increase of RMB526 million or 2.85%, mainly due to the expansion of interest-earning assets and the enhancement of asset structure.

Interest income from loans and advances to customers

During the Reporting Period, faced with the accelerating interest rate liberation and the trend of narrowing bank deposit and loan spreads, the Bank steadily promoted credit granting while keeping risks under control. The average balance of loans and advances to customers issued by the Bank increased by RMB19,406 million year-on-year. During the Reporting Period, interest income from loans and advances to customers of the Bank amounted to RMB8,174 million, a year-on-year increase of RMB1,406 million or 20.78%.

Set out below are the average balance, interest income and average yield for each component of the Bank's loans and advances to customers for the Reporting Period:

Unit: RMB'000

Item	For the year ended 31 December			2017		
	Average balance	2018 Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	96,597,304	5,571,888	5.77	89,185,122	5,006,845	5.61
Personal loans	38,729,847	2,324,463	6.00	29,412,402	1,681,426	5.72
Discounted bills	6,118,304	277,764	4.54	3,442,233	79,700	2.32
Gross loans and advances to customers	141,445,455	8,174,115	5.78	122,039,757	6,767,971	5.55

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Interest income from investment in securities

During the Reporting Period, interest income from investment in securities of the Bank decreased by RMB804 million or 8.20% to RMB9,004 million year-on-year, which was principally attributable to the decrease of RMB11.79 billion in the average balance of investment in securities. The Bank started implementing the New Standards for Financial Instruments (IFRS 9 Financial Instruments (IFRS 9)) on 1 January 2018. Since then, some financial investments originally measured at amortised cost under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) have been measured at fair value under the new standard and are no longer regarded as interest-bearing assets. The income from these instruments during the holding period is included in the investment income. The average balance of such assets during the Reporting Period was approximately RMB47,384 million.

Interest income from finance lease receivables

During the Reporting Period, interest income from finance lease receivables increased by RMB232 million or 45.45% to RMB743 million year-on-year, which was primarily attributable to the increase of RMB4,497 million in the average balance of finance lease receivables of Jiuding Financial Leasing Company, a subsidiary of the Bank.

Interest income from amounts due from banks and other financial institutions

During the Reporting Period, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB336 million to RMB550 million year-on-year, which was primarily attributable to the decrease in the size of such assets.

3.1.3 Interest Expenses

During the Reporting Period, the Bank's interest expense increased by RMB1,990 million or 19.20% to RMB12,350 million year-on-year, which was primarily attributable to the increase in interest-bearing liabilities and the average cost thereof.

Interest expenses on deposits from customers

During the Reporting Period, the Bank's interest expense on deposits from customers increased year-on-year by RMB1,372 million or 29.58% to RMB6,012 million, accounting for 48.68% of all interest expenses. The increase was mainly due to the continuous growth of the Bank's deposit business as a result of the Bank's strengthened customer development and expansion of its network of branches and sub-branches. The increase in the average cost of deposits from customers was mainly due to fluctuations in market interest rates and a decrease in the percentage of demand deposits.

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Unit: RMB'000

Item	2018			2017		
	Average balance	Interest expenses	Average cost rate (%)	Average balance	Interest expenses	Average cost rate (%)
For the year ended 31 December						
Corporate deposits						
Demand	84,329,030	445,505	0.53	78,997,677	412,215	0.52
Time	82,008,133	3,579,821	4.37	67,516,811	2,544,538	3.77
Subtotal	166,337,163	4,025,326	2.42	146,514,488	2,956,753	2.02
Personal deposits						
Demand	17,355,055	96,641	0.56	15,320,449	73,574	0.48
Time	51,854,875	1,630,015	3.14	48,132,856	1,287,731	2.68
Subtotal	69,209,930	1,726,656	2.49	63,453,305	1,361,305	2.15
Others	18,831,321	260,171	1.38	19,289,300	321,681	1.67
Total deposits from customers	254,378,414	6,012,153	2.36	229,257,093	4,639,739	2.02

Interest expenses on debt securities issued

During the Reporting Period, the Bank's interest expense on debt securities issued increased by RMB709 million or 25.67% to RMB3,469 million year-on-year, which was primarily attributable to the increase in interbank deposits during the Reporting Period.

Interest expense on amounts due to banks and other financial institutions

During the Reporting Period, the Bank's interest expense on amounts due to banks and other financial institutions decreased by RMB149 million to RMB2,781 million year-on-year, which was primarily attributable to the decrease in such liabilities.

Interest expense arising from amounts due to central bank

During the Reporting Period, interest expense arising from amounts due to central bank was RMB88 million, increasing by RMB58 million over that of the previous year, mainly due to an increase in loan facilities in the Reporting Period over that of the previous year.

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3.1.4 Non-interest Income

During the Reporting Period, the Bank achieved non-interest income of RMB4,491 million, representing a year-on-year increase of RMB2,384 million or 113.15% and accounting for 40.34% of the operating income. Such income includes net fee and commission income of RMB1,874 million, up by RMB9 million from the previous year, and other non-interest income of RMB2,617 million, up by RMB2,375 million from the previous year.

Net fee and commission income

Unit: RMB'000

Item	For the year ended 31 December			Rate of change (%)
	2018	2017	Change	
Fee and commission income				
Agency and custody services fees	1,262,758	1,282,361	(19,603)	(1.53)
Securities underwriting and advisory fees	410,439	409,320	1,119	0.27
Acceptance and guarantee services fees	191,991	156,455	35,536	22.71
Bank card services fees	96,777	76,942	19,835	25.78
Others	25,541	10,006	15,535	155.26
Subtotal	1,987,506	1,935,084	52,422	2.71
Fee and commission expenses	(113,187)	(69,951)	(43,236)	61.81
Net fee and commission income	1,874,319	1,865,133	9,186	0.49

During the Reporting Period, the Bank proactively adapted to the new regulations on asset management and market changes, and promoted the transformation and development of intermediary business. In 2018, the Bank's net fee and commission income increased by RMB9 million or 0.49% to RMB1,874 million year-on-year.

During the Reporting Period, the Bank's agency and custody services fees income reached RMB1,263 million, decreased by RMB20 million year-on-year, which was primarily attributable to the effect of the new regulations on asset management under which the Bank scaled down interbank wealth management products and thus caused a decline in the fee income from wealth management business.

During the Reporting Period, the Bank's underwriting and advisory fees income increased by RMB1 million or 0.27% year on year, which was generally in line with that in the previous year.

During the Reporting Period, the Bank's acceptance and guarantee fees income reached RMB192 million, increased by RMB36 million or 22.71% year-on-year, which was mainly due to the high growth in letter of credit, letter of guarantee and acceptance business resulting from the Bank's continued promotion of trade finance business.

During the Reporting Period, the Bank enriched its credit card product mix and intensified marketing of its credit card business, resulting in a 25.78% increase in bank card services fees income year-on-year.

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Other Non-interest Income

Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Net trading gains/(losses)	365,364	(474,716)	840,080	(176.96)
Net investment gains	2,190,324	546,473	1,643,851	300.81
Other operating income	60,965	170,053	(109,088)	(64.15)
Total	2,616,653	241,810	2,374,843	982.11

During the Reporting Period, the Bank's other non-interest income was RMB2,617 million, an increase of RMB2,375 million or 982.11% from the previous year, which was mainly due to the fact that the Bank started implementing the New Standards for Financial Instruments (IFRS 9 Financial Instruments (IFRS 9)) on 1 January 2018. Since then, some financial investments originally measured at amortised cost under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) have been measured at fair value under the new standard and are no longer regarded as interest-bearing assets, and the income from these instruments during the holding period is included in investment income.

3.1.5 Operating Expenses

During the Reporting Period, the Bank's operating expenses increased year-on-year by RMB463 million or 16.80% to RMB3,216 million, including staff costs of RMB1,732 million, a year-on-year increase of RMB324 million, depreciation and amortisation of RMB302 million, a year-on-year increase of RMB40 million, and lease and property management fees of RMB229 million, a year-on-year increase of RMB26 million.

The overall steady growth of operating expenses was mainly due to the Bank's strategic planning and business growth:

Firstly, we increased the allocation of resources to corporate and retail business lines, strengthened publicity and brand promotion for corporate business and the transformation of retail business, and increased the investment in corporate and retail business lines year-on-year. Secondly, we invested more heavily in the construction of branches and technology equipment, resulting in growing depreciation and amortisation. Thirdly, the Bank's business scale continued to grow, so did the number of new branches and new employees. To attract and retain talents, the Bank improved its salary structure to make employee compensation more competitive.

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Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Staff costs	1,731,744	1,407,772	323,972	23.01
Depreciation and amortisation	301,903	261,677	40,226	15.37
Rental and property management expenses	229,157	202,789	26,368	13.00
Office expenses	73,598	90,764	(17,166)	(18.91)
Tax and surcharges	91,522	79,186	12,336	15.58
Others	787,826	710,920	76,906	10.82
Total operating expenses	3,215,750	2,753,108	462,642	16.80

The following table sets forth the major components of staff costs of the Bank during the Reporting Period:

Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Salaries, bonuses and allowances	1,160,730	931,365	229,365	24.63
Social insurance and annuity	245,223	202,510	42,713	21.09
Staff welfare	189,085	167,610	21,475	12.81
Housing allowances	73,057	60,143	12,914	21.47
Supplementary retirement benefits	13,890	5,811	8,079	139.03
Others	49,759	40,333	9,426	23.37
Total	1,731,744	1,407,772	323,972	23.01

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3.1.6 Impairment Losses on Assets

During the Reporting Period, the Bank's impairment losses increased by RMB2,203 million or 112.58% to RMB4.16 billion year-on-year, which was mainly due to the Bank's additional provision of impairment for risks based on the prudence principle and its asset quality. The impairment losses include impairment losses of loans and advances to customers of RMB3.45 billion, an increase of RMB1,706 million or 97.79% year-on-year.

Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Impairment losses on loans and advances to customers	3,449,971	1,744,274	1,705,697	97.79
Impairment losses on financial investments classified as receivables	–	120,000	(120,000)	(100.00)
Impairment losses on financial investments at amortised cost	565,957	–	565,957	N/A
Impairment losses on financial investments at fair value through other comprehensive income	(207)	–	(207)	N/A
Impairment losses on finance lease receivables	165,373	85,028	80,345	94.49
Impairment losses on off-balance sheet credit commitments	(19,831)	–	(19,831)	N/A
Others ^(Note)	(1,094)	7,648	(8,742)	(114.30)
Total provision for asset impairment losses	4,160,169	1,956,950	2,203,219	112.58

Note: Others consist of impairment losses on items such as deposits with banks, financial assets held under resale agreements, placements with banks and other financial institutions and other assets.

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3.1.7 Income Tax Expenses

During the Reporting Period, the Bank's income tax expenses decreased year-on-year by RMB505 million or 41.63% to RMB708 million, which was primarily attributable to the year-on-year decrease in the Bank's net profit during the Reporting Period. During the Reporting Period, the Bank's effective tax rate was 18.59%, lower than the statutory tax rate of 25%, which was mainly due to the fact that the interest income from PRC government bonds and local government bonds held by the Bank is tax-exempt income according to the tax law.

Unit: RMB'000

Item	For the year ended 31 December			
	2018	2017	Change	Rate of change (%)
Current income tax	1,185,384	1,495,786	(310,402)	(20.75)
Deferred income tax	(420,987)	(292,139)	(128,848)	44.11
Adjustments to income tax for prior years	(55,947)	10,076	(66,023)	(655.25)
Total income tax expenses	708,450	1,213,723	(505,273)	(41.63)

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3.2 Balance Sheet Analysis

3.2.1 Assets

As at end of the Reporting Period, the Bank's total assets amounted to RMB466,142 million, an increase of RMB30,314 million or 6.96% from the end of the previous year. The increase of total assets was mainly due to the increase in loans and advances to customers and investments in financial assets. The balances (after provision) and breakdowns of the components of the Bank's total assets are as follows:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017		Change	
	Amount	% of total (%)	Amount	% of total (%)	Amount	% of total (%)
Assets						
Cash and deposits with central bank	46,224,453	9.92	45,635,132	10.47	589,321	(0.55)
Deposits with banks and other financial institutions	2,156,931	0.46	4,723,649	1.08	(2,566,718)	(0.62)
Placements with banks and other financial institutions	3,768,759	0.81	15,297,528	3.51	(11,528,769)	(2.70)
Derivative financial assets	231,551	0.05	-	0.00	231,551	0.05
Financial assets held under resale agreements	3,452,125	0.74	4,407,476	1.01	(955,351)	(0.27)
Loans and advances to customers	153,999,381	33.04	124,455,942	28.56	29,543,439	4.48
Financial investments						
- Financial investments at fair value through profit or loss	60,032,975	12.88	11,849,297	2.72	48,183,678	10.16
- Financial investments at fair value through other comprehensive income	8,175,758	1.75	-	-	8,175,758	1.75
- Financial investments at amortised cost	167,830,054	36.00	-	-	167,830,054	36.00
Available-for-sale financial assets	-	-	35,086,298	8.05	(35,086,298)	(8.05)
Held-to-maturity investments	-	-	59,267,821	13.60	(59,267,821)	(13.60)
Loans and receivables	-	-	116,470,830	26.72	(116,470,830)	(26.72)
Finance lease receivables	13,710,666	2.94	10,490,994	2.41	3,219,672	0.53
Interest in associates	321,081	0.07	280,191	0.06	40,890	0.01
Property and equipment	2,081,350	0.45	1,813,326	0.42	268,024	0.03
Deferred tax assets	1,947,787	0.42	1,270,416	0.29	677,371	0.13
Other assets	2,209,547	0.47	4,779,987	1.10	(2,570,440)	(0.63)
Total assets	466,142,418	100.00	435,828,887	100.00	30,313,531	

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Loans and advances to customers

As at the end of the Reporting Period, the Bank's total loans and advances to customers amounted to RMB159,573 million, representing an increase of RMB31,116 million or 24.22% as compared with the end of the previous year. The Bank's loans and advances to customers are mainly composed of corporate loans, personal loans and discounted bills. Set out below is a breakdown of the Bank's loans by business line:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans ⁽¹⁾	107,861,781	67.60	92,248,887	71.81
Personal loans	43,919,211	27.52	34,113,273	26.56
Discounted bills	7,791,800	4.88	2,094,318	1.63
Total loans and advances to customers	159,572,792	100.00	128,456,478	100.00
Add: Accrued interest	489,560		-	
Less: Provision for impairment losses ⁽²⁾	6,062,971		4,000,536	
Book value of loans and advances to customers	153,999,381		124,455,942	

Notes:

1. Forfeiting is included in the corporate loans.
2. Excluding provision for impairment losses on forfeiting and discounted bills, which was included in other comprehensive income.

(1) Corporate loans

Corporate loan is the largest component of the Bank's loans and advances to customers. As at the end of the Reporting Period, the Bank's corporate loans reached RMB107,862 million, accounting for 67.60% of the Bank's total loans and advances to customers and representing an increase of RMB15,613 million or 16.92% from the end of the previous year. The increase was mainly due to the fact that in an active response to changing credit needs, the Bank continued to meet the capital needs of the rapidly-growing wholesale and retail industry and provided loan services to small and micro enterprises in the principle of prudent credit granting and based on the three distinctive business positioning features of "finance for commerce and logistics, finance for small and micro enterprises, and finance for residents", thereby achieving steady growth in corporate loans.

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The following table sets forth a breakdown of the Bank's corporate loans by collateral:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Unsecured loans	12,630,836	11.71	11,741,741	12.73
Guaranteed loans	46,328,650	42.95	32,550,694	35.28
Loans secured by mortgages	24,382,880	22.61	21,741,471	23.57
Loans secured by pledges	24,519,415	22.73	26,214,981	28.42
Total corporate loan principal	107,861,781	100.00	92,248,887	100.00

(2) Personal loans

As at the end of the Reporting Period, the Bank's personal loans amounted to RMB43,919 million, accounting for 27.52% of the Bank's total loans and advances to customers and representing an increase of RMB9,806 million or 28.75% from the end of the previous year. The increase was mainly due to the continuous growth of personal business loans, personal residential mortgage loans, auto loans and credit card business.

As at the end of the Reporting Period, the Bank's total personal business loans increased by RMB3,794 million or 29.52% from the end of the previous year, and its total personal residential mortgage loans increased by RMB6,025 million or 58.83% from the end of the previous year, which was mainly due to the fact that the Bank stepped up the expansion and marketing of personal business loans and residential mortgage loans as the continuous advancement of various planning and construction projects in Zhengzhou as a national central city drove the growth of personal housing and business demands. As at end of the Reporting Period, the Bank's credit card balance was RMB1,901 million, an increase of RMB773 million or 68.55% from the end of the previous year, which was mainly due to the fact that the Bank enriched its credit card product mix and stepped up the marketing of its credit card business.

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The following table sets forth a breakdown of the Bank's personal loans by product type:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Personal business loans	16,645,672	37.90	12,851,941	37.67
Personal residential mortgage loans	16,265,454	37.03	10,240,718	30.02
Personal consumption loans	7,114,105	16.20	8,827,773	25.88
Automotive loans	1,993,253	4.54	1,065,127	3.12
Credit card loans	1,900,727	4.33	1,127,711	3.31
Others	-	-	3	-
Total personal loan principal	43,919,211	100.00	34,113,273	100.00

(3) Discounted bills

As at end of the Reporting Period, the Bank's discounted bills amounted to RMB7,792 million, an increase of RMB5,697 million or 272.04% from the end of the previous year. During the Reporting Period, the Bank flexibly adjusted the scale of bill financing according to the needs of business development and the financing needs of customers.

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Investments in securities and other financial assets

As at the end of the Reporting Period, the Bank's total investments in securities and equity instruments amounted to RMB236,165 million, representing an increase of RMB12,851 million or 5.75% from the end of the previous year. Details are set out as follows:

Unit: RMB'000

Item	As at 31 December 2018		Item	As at 31 December 2017	
	Amount	% of total (%)		Amount	% of total (%)
Financial investments at amortised cost	168,129,541	71.19	Financial investments at fair value through profit or loss	11,849,297	5.31
Financial investments at fair value through other comprehensive income	8,002,724	3.39	Available-for-sale financial assets	35,086,298	15.71
Financial investments at fair value through profit or loss	60,032,975	25.42	Held-to-maturity investments	59,267,821	26.54
			Financial investments classified as receivables	117,110,843	52.44
Total investments in securities and other financial assets	236,165,240	100.00		223,314,259	100.00
Add: Accrued interest	1,600,167			-	
Less: Provision for impairment losses ^(Note)	1,726,620			640,013	
Book value of investments in securities and other financial assets	236,038,787			222,674,246	

Note: Excluding provision for impairment losses on financial investments at fair value through other comprehensive income.

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The Bank's investment securities are classified into debt instruments and equity instruments. Set out below is a breakdown of the Bank's investment securities by product:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Debt securities investments				
Government bonds	28,870,802	12.23	20,177,393	9.04
Debt securities issued by policy banks	36,828,489	15.59	30,253,171	13.55
Debt securities issued by banks and other financial institutions	2,837,932	1.20	6,283,256	2.81
Debt securities issued by corporate issuers	8,261,101	3.50	7,505,397	3.36
Subtotal	76,798,324	32.52	64,219,217	28.76
Investment products under trust schemes	76,963,156	32.59	73,867,638	33.08
Investment products managed by securities companies	57,733,785	24.45	58,448,290	26.17
Others ^(Note)	24,661,575	10.44	26,770,714	11.99
Total debt instruments	236,156,840	100.00	223,305,859	100.00
Equity instruments	8,400		8,400	
Total investments in securities and other financial assets	236,165,240		223,314,259	

Note: Others consist of debt financing schemes, commercial refactoring and other investments.

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The following table sets forth a breakdown of the top ten financial bonds held by the Bank as at the end of the Reporting Period:

Unit: RMB'000

No.	Type of bonds	Nominal value balance	Interest rate (%)	Maturity date	Impairment
1	2016 Financial Bond	3,250,000	3.33	2026-02-22	229.02
2	2016 Financial Bond	2,660,000	3.33	2026-01-06	218.16
3	2016 Financial Bond	2,200,000	3.24	2023-02-25	27.91
4	2018 Financial Bond	1,920,000	3.00	2019-09-17	18.66
5	2016 Financial Bond	1,900,000	3.32	2023-01-06	69.48
6	2015 Financial Bond	1,510,000	3.86	2022-02-05	70.68
7	2016 Financial Bond	1,150,000	3.18	2026-04-05	65.92
8	2018 Financial Bond	1,110,000	3.89	2019-05-18	-
9	2016 Interest-bearing Government Bond	1,030,000	2.75	2023-09-01	23.27
10	2016 Financial Bond	1,000,000	3.28	2023-02-26	46.52
11	2016 Financial Bond	1,000,000	3.37	2026-02-26	46.52

Derivative financial instruments

During the Reporting Period, amid the two-way fluctuations in the exchange rate between the US dollar and RMB and the overall decline in market interest rate, the Bank rationally used derivative financial instruments such as currency swaps, foreign exchange options and forward foreign exchanges to mitigate market risks with a sound trading style.

Unit: RMB'000

Derivative financial instrument	As at 31 December 2018			As at 31 December 2017		
	Contractual/ notional amount	Fair value of assets	Fair value of liabilities	Contractual/ notional amount	Fair value of assets	Fair value of liabilities
Currency swap contracts	3,019,808	164,337	-	653,420	-	(11,296)
Currency options contracts	3,431,600	-	(37,976)	3,201,758	-	(21,014)
Interest rate swap contracts	200,000	-	(525)	-	-	-
Forward foreign exchange contracts	10,294,800	67,214	-	-	-	-
Total	16,946,208	231,551	(38,501)	3,855,178	-	(32,310)

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3.2.2 Liabilities

As at end of the Reporting Period, the Bank's total liabilities amounted to RMB428,279 million, an increase of RMB25,889 million or 6.43% from the end of the previous year, which was mainly due to the increase in deposits from customers, debt securities issued and financial assets sold under repurchase agreements.

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017		Change	
	Amount	% of total (%)	Amount	% of total (%)	Amount	% of total (%)
Borrowings from central bank	4,196,194	0.98	1,599,550	0.40	2,596,644	0.58
Deposits from banks and other financial institutions	27,398,665	6.40	28,934,366	7.19	(1,535,701)	(0.79)
Placements from banks and other financial institutions	13,652,888	3.19	22,348,389	5.55	(8,695,501)	(2.36)
Derivative financial liabilities	38,501	0.01	32,310	0.01	6,191	-
Financial assets sold under repurchase agreements	18,956,133	4.43	14,085,500	3.50	4,870,633	0.93
Deposits from customers	267,758,206	62.52	255,407,398	63.47	12,350,808	(0.95)
Tax payable	428,752	0.10	666,138	0.17	(237,386)	(0.07)
Debt securities issued	93,649,019	21.87	73,170,060	18.18	20,478,959	3.69
Other liabilities ^(Note)	2,200,561	0.51	6,145,811	1.53	(3,945,250)	(1.02)
Total	428,278,919	100.00	402,389,522	100.00	25,889,397	

Note: Other liabilities primarily consist of items in the process of clearance and settlement, staff costs payable, dormant accounts and estimated liabilities.

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Deposits from customers

As at end of the Reporting Period, the Bank's gross deposits from customers amounted to RMB264,131 million, an increase of RMB8,724 million or 3.42% from the end of the previous year. The steady growth in the Bank's deposits from customers was mainly attributable to the Bank's continuous expansion of deposit customers and branch network. Set out below is a breakdown of the Bank's deposits from customers by product type and maturity profile:

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Corporate deposits				
Demand	82,621,581	31.28	88,514,651	34.66
Time	83,458,939	31.60	79,850,838	31.26
Subtotal	166,080,520	62.88	168,365,489	65.92
Personal deposits				
Demand	19,547,870	7.40	19,805,658	7.75
Time	60,168,717	22.78	47,757,459	18.70
Subtotal	79,716,587	30.18	67,563,117	26.45
Other deposits	18,333,827	6.94	19,478,792	7.63
Gross deposits from customers	264,130,934	100.00	255,407,398	100.00
Add: Accrued interest	3,627,272		-	
Total deposits from customers	267,758,206		255,407,398	

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3.2.3 Shareholders' Equity

As at end of the Reporting Period, the Bank's total Shareholders' equity reached RMB37,863 million, an increase of RMB4,424 million or 13.23% from the end of the previous year. The total equity attributable to Shareholders of the Bank reached RMB36,650 million, an increase of RMB4,444 million or 13.80% from the end of the previous year. The increase in Shareholders' equity was mainly due to the successful issuance of A Shares and sustained profitability. In September 2018, the Bank completed its initial public offering of 600 million RMB-denominated Ordinary Shares (A Shares) on the SZSE. After the offering, the Bank's total share capital increased to 5,922 million Ordinary Shares. The net proceeds raised, after deducting the issuance expenses, were RMB2,709 million.

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Shareholders' equity				
Share capital	5,921,932	15.64	5,321,932	15.92
Capital reserve	5,163,655	13.64	3,054,869	9.14
Surplus reserve	2,356,214	6.22	2,054,756	6.14
General risk reserve	5,870,320	15.50	5,520,320	16.51
Investment revaluation reserve	38,590	0.10	(22,667)	(0.07)
Remeasurement of net defined benefit liability	(44,492)	(0.12)	(52,614)	(0.16)
Retained earnings	9,518,012	25.14	8,503,783	25.43
Other equity instruments	7,825,508	20.67	7,825,508	23.40
Total equity attributable to shareholders of the Bank	36,649,739	96.79	32,205,887	96.31
Non-controlling interests	1,213,760	3.21	1,233,478	3.69
Total shareholders' equity	37,863,499	100.00	33,439,365	100.00

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3.2.4 Off-balance Sheet Commitments

The following table sets forth a breakdown of the Bank's off-balance sheet credit commitments as at the end of the Reporting Period:

Unit: RMB'000

Item	As at 31 December 2018	As at 31 December 2017
Credit commitments		
Bank acceptances	68,168,889	57,538,871
Letters of credit	9,294,124	5,264,644
Guarantees	3,993,775	3,986,890
Unused credit card commitments	1,778,943	1,275,828
Total	83,235,731	68,066,233

In addition, as at the end of the Reporting Period, there was no material litigation in which the Bank or any subsidiary of the Bank is a defendant. As at the date of this Report, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments are disclosed in Note 42 to the financial statements of the independent auditor's report of this Annual Report.

3.3 Loan Quality Analysis

As at the end of the Reporting Period, the Bank's total non-performing loans and non-performing loan ratio increased year-on-year, which was due to regional constraints, the unsound credit system and the fact that all loans overdue for more than 90 days were included in non-performing loans in accordance with regulatory requirements. During the Reporting Period, the Bank accelerated the disposal of non-performing loans, continuously strengthened credit risk management, improved the relevant procedures in credit business investigation and credit-granting approval process, reinforced post-loan management measures, and intensified the collection and disposal of and provision for non-performing loans, thus keeping the overall quality of loans under control.

As at the end of the Reporting Period, the balance of non-performing loans amounted to RMB3,938 million, and the non-performing loan ratio was 2.47%, up by 0.97 percentage point from the end of the previous year.

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3.3.1 Distribution of Loans by Five-Category Loan Classification

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Normal	150,934,330	94.59	122,264,567	95.18
Special mention	4,700,526	2.95	4,266,225	3.32
Substandard	2,859,261	1.79	1,360,669	1.06
Doubtful	1,073,407	0.67	562,134	0.44
Loss	5,268	-	2,883	-
Total loans and advances to customers	159,572,792	100.00	128,456,478	100.00
NPLs and NPL ratio^(Note)	3,937,936	2.47	1,925,686	1.50

Note: NPL ratio is calculated by dividing total NPL principal (excluding accrued interest) by total loan and advance principal to customers (excluding accrued interest).

According to the five-category loan classification system, the Bank classified its NPLs into substandard, doubtful and loss categories.

3.3.2 Distribution of Loans and Non-Performing Loans by Product Type

Unit: RMB'000

Item	As at 31 December 2018				As at 31 December 2017			
	Amount	% of total (%)	NPL amount	NPL ratio (%)	Amount	% of total (%)	NPL amount	NPL ratio (%)
Corporate loans								
Short-term loans	55,266,716	34.64	1,951,014	3.53	55,639,798	43.31	1,314,848	2.36
Medium and long-term loans	52,595,065	32.96	1,223,517	2.33	36,609,089	28.50	302,824	0.83
Subtotal	107,861,781	67.60	3,174,531	2.94	92,248,887	71.81	1,617,672	1.75
Discounted bills	7,791,800	4.88	-	-	2,094,318	1.63	-	-
Personal loans								
Personal business loans	16,645,672	10.43	498,639	3.00	12,851,941	10.01	224,780	1.75
Personal residential mortgage loans	16,265,454	10.19	14,917	0.09	10,240,718	7.97	2,573	0.03
Personal consumption loans	7,114,105	4.46	169,006	2.38	8,827,773	6.87	73,204	0.83
Auto loans	1,993,253	1.25	63,465	3.18	1,065,127	0.83	1,945	0.18
Credit card loans	1,900,727	1.19	17,378	0.91	1,127,711	0.88	5,512	0.49
Others	-	-	-	-	3	-	-	-
Subtotal	43,919,211	27.52	763,405	1.74	34,113,273	26.56	308,014	0.90
Total	159,572,792	100.00	3,937,936	2.47	128,456,478	100.00	1,925,686	1.50

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

At the end of the Reporting Period, the NPL ratio of corporate loans (excluding discounted bills) rose to 2.94%, up by 1.19 percentage points from the previous year; the NPL ratio of personal loans rose to 1.74%, up by 0.84 percentage point from the previous year. Such increases were due to regional constraints, the unsound credit system and the fact that all loans overdue for more than 90 days were included in non-performing loans in accordance with regulatory requirements.

3.3.3 Distribution of Loans and Non-Performing Loans by Industry

Unit: RMB'000

Item	As at 31 December 2018				As at 31 December 2017			
	Amount	% of total (%)	NPL amount	NPL ratio (%)	Amount	% of total (%)	NPL amount	NPL ratio (%)
Wholesale and retail	36,467,388	22.85	909,599	2.49	32,436,168	25.25	521,278	1.61
Manufacturing	14,407,170	9.03	1,911,745	13.27	13,678,950	10.65	868,910	6.35
Construction	10,518,173	6.59	92,348	0.88	11,951,304	9.30	38,482	0.32
Real estate	18,098,412	11.34	32,235	0.18	9,991,443	7.78	-	-
Leasing and commercial services	5,994,122	3.76	12,954	0.22	7,641,811	5.96	15,700	0.21
Water, environment and public facility management	8,119,439	5.09	12,400	0.15	3,676,164	2.86	-	-
Agriculture, forestry, animal husbandry and fishery	1,876,474	1.18	98,317	5.24	2,292,170	1.78	70,733	3.09
Transportation, storage and postal services	1,927,392	1.21	10,000	0.52	2,385,529	1.86	19,100	0.80
Production and supply of electricity, heat, gas and water	2,312,929	1.45	-	-	1,764,514	1.37	-	-
Accommodation and catering	1,477,051	0.92	50,000	3.39	1,075,419	0.84	50,500	4.70
Public administration, public security and social organisations	-	-	-	-	327,500	0.25	-	-
Mining	361,158	0.23	4,000	1.11	223,274	0.17	4,000	1.79
Culture, sports and entertainment	287,210	0.18	-	-	382,080	0.30	-	-
Others	6,014,863	3.77	40,933	0.68	4,422,561	3.44	28,969	0.66
Total corporate loans	107,861,781	67.60	3,174,531	2.94	92,248,887	71.81	1,617,672	1.75
Total personal loans	43,919,211	27.52	763,405	1.74	34,113,273	26.56	308,014	0.90
Discounted bills	7,791,800	4.88	-	-	2,094,318	1.63	-	-
Total	159,572,792	100.00	3,937,936	2.47	128,456,478	100.00	1,925,686	1.50

As at the end of the Reporting Period, the non-performing corporate loans of the Bank were mainly concentrated in (1) the manufacturing industry, (2) the accommodation and catering industry, (3) the wholesale and retail industry, and (4) the agriculture, forestry, animal husbandry and fishery industry, with NPL ratios of 13.27%, 3.39%, 2.49% and 5.24%, respectively.

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3.3.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth a breakdown of the Bank's loans and non-performing loans by collateral:

Unit: RMB'000

Item	As at 31 December 2018				As at 31 December 2017			
	Amount	% of total (%)	NPL amount	NPL ratio (%)	Amount	% of total (%)	NPL amount	NPL ratio (%)
Unsecured loans	20,781,632	13.02	72,205	0.35	15,453,740	12.03	9,988	0.06
Guaranteed loans	52,852,673	33.12	2,880,522	5.45	39,140,352	30.47	1,510,882	3.86
Loans secured by mortgages	54,390,463	34.09	860,413	1.58	43,574,227	33.92	381,293	0.88
Loans secured by pledges	31,548,024	19.77	124,796	0.40	30,288,159	23.58	23,523	0.08
Total	159,572,792	100.00	3,937,936	2.47	128,456,478	100.00	1,925,686	1.50

3.3.5 Borrower Concentration

As at the end of the Reporting Period, the Bank's loan balance to any single borrower did not exceed 10% of the Bank's net capital. The following table sets forth, as at the end of the Reporting Period, the Bank's loans (loan balance) to the ten largest single borrowers (excluding group borrowers), all of which were classified as normal.

Unit: RMB'000

Item	Industry	As at 31 December 2018		
		Principal balance	% of total loans (%)	% of net capital (%)
Borrower A	Water, environment and public facility management	1,900,000	1.19	4.13
Borrower B	Water, environment and public facility management	1,000,000	0.63	2.18
Borrower C	Financial services	1,000,000	0.63	2.18
Borrower D	Construction	990,000	0.62	2.15
Borrower E	Financial services	909,270	0.57	1.98
Borrower F	Real estate	850,000	0.53	1.85
Borrower G	Leasing and commercial services	835,000	0.52	1.82
Borrower H	Real estate	810,000	0.51	1.76
Borrower I	Manufacturing	799,910	0.50	1.74
Borrower J	Construction	766,700	0.48	1.67
Total		9,860,880	6.18	21.46

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3.3.6 Overdue Loans

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Current loans	152,523,448	95.58	121,579,232	94.65
Loans past due for ^(Note)				
1 to 90 days	3,294,319	2.07	3,581,771	2.79
91 to 360 days	2,087,694	1.31	2,176,372	1.69
361 days or more	1,667,331	1.04	1,119,103	0.87
Subtotal	7,049,344	4.42	6,877,246	5.35
Gross loans	159,572,792	100.00	128,456,478	100.00

Note: Representing the principal amount of the loans on which principal or interest is overdue.

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB7,049 million, representing an increase of RMB172 million or 2.50% as compared with the end of the previous year. Overdue loans accounted for 4.42% of the total loans, decreasing by 0.93 percentage point as compared with the end of the previous year.

3.3.7 Provision and Write-off of Allowance for Impairment Losses on Loans

During the Reporting Period, the Bank made a total loan loss reserve of RMB3,450 million, with RMB3,420 million provided for loans and advances to customers measured at amortised cost, and RMB30 million for loans and advances to customers measured at fair value through other comprehensive income. RMB1.78 billion of non-performing loans was written off, and RMB94 million of written-off loans was recovered. As at the end of the Reporting Period, the balance of the Bank's loan loss reserve was RMB6,097 million, of which the balance of the provision for impairment losses on loans and advances to customers measured at amortised cost was RMB6,063 million and the balance of the provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income were RMB34 million.

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Changes in provision for impairment losses on loans and advances to customers at amortised cost are set out as follows:

Unit: RMB'000

Item	For the year ended 31 December	
	2018	2017
Opening balance	4,000,536	3,458,832
Change in accounting policies	327,748	–
Provision for the period	3,420,277	1,744,274
Write-off for the period	(1,779,584)	(1,272,758)
Recovery of written-off loans	93,994	98,480
Others	–	(28,292)
Closing balance	6,062,971	4,000,536

Changes in provision for impairment losses on loans and advances to customers at fair value through other comprehensive income are set out as follows:

Unit: RMB'000

Item	2018
Opening balance	–
Change in accounting policies	4,711
Provision for the period	29,694
Closing balance	34,405

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3.4 Cash Flow Statement Analysis

During the Reporting Period, the Bank's net cash outflow from operating activities was RMB25,819 million, where the cash inflow was RMB47,639 million, a decrease of RMB11,293 million from the previous year, mainly due to the year-on-year decrease in the net increase in deposits from customers; and the cash outflow was RMB73,458 million, an increase of RMB12,545 million from the previous year, mainly due to the increase in loans and advances to customers.

During the Reporting Period, the Bank's net cash inflow from investing activities was RMB9,873 million, where the cash inflow was RMB174,777 million, a decrease of RMB85,410 million from the previous year, mainly due to the decrease in cash flow received from the recovery of investments; the cash outflow was RMB164,904 million, a decrease of RMB123,040 million from the previous year, mainly due to the decrease in cash outflow from investment payments.

During the Reporting Period, the Bank's net cash inflow from financing activities was RMB19,013 million, where the cash inflow was RMB114,544 million, an increase of RMB2,949 million from the previous year, mainly due to the increase in cash inflows received from the initial public offering of A Shares and the issuance of bonds; the cash outflow was RMB95,531 million, an increase of RMB17,014 million from the previous year, mainly due to the increase in cash outflows for the repayment of principal and interest of the bonds due.

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Unit: RMB'000

Item	For the year ended 31 December		
	2018	2017	Year-on-year change
Subtotal of cash inflows from operating activities	47,638,737	58,931,546	(11,292,809)
Subtotal of cash outflows from operating activities	73,458,206	60,912,940	12,545,266
Net cash flows used in operating activities	(25,819,469)	(1,981,394)	(23,838,075)
Subtotal of cash inflows from investing activities	174,777,317	260,186,885	(85,409,568)
Subtotal of cash outflows from investing activities	164,904,276	287,943,800	(123,039,524)
Net cash flows generated from/(used in) investing activities	9,873,041	(27,756,915)	37,629,956
Subtotal of cash inflows from financing activities	114,543,644	111,594,595	2,949,049
Subtotal of cash outflows from financing activities	95,530,561	78,516,311	17,014,250
Net cash flows generated from/(used in) financing activities	19,013,083	33,078,284	(14,065,201)
Effect of exchange rate changes on cash and cash equivalents	200,405	(208,720)	409,125
Net increase in cash and cash equivalents	3,267,060	3,131,255	135,805

3.5 Business Segment Report

The following table sets forth the Bank's total operating income by business segment for the periods indicated.

Unit: RMB'000

Item	As at 31 December 2018		As at 31 December 2017	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking business	4,172,264	37.40	4,316,111	42.26
Retail banking business	1,590,355	14.25	1,368,898	13.40
Treasury business	5,298,457	47.49	4,357,923	42.67
Others ^(Note)	95,741	0.86	170,053	1.67
Total operating income	11,156,817	100.00	10,212,985	100.00

Note: This segment consists primarily of equity investment and the corresponding income, and any other business that cannot constitute a reporting segment alone.

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3.6 Significant Accounting Policies, Accounting Estimates and Accounting Methods

The Group has implemented the New Standards for Financial Instruments since 1 January 2018. Relevant changes in accounting policies are set out in Note 2 “Significant Accounting Policies” to the financial statements of the independent auditor’s report of this Annual Report.

During the Reporting Period, the Bank did not have any major accounting errors corrected that need to be retrospectively restated. The scope of the consolidated statements for the current period is consistent with the independent auditor’s report for the previous year.

3.7 Assets and Liabilities at Fair Value

Unit: RMB'000

Item	Opening balance ^(Note)	Gains and losses from changes in fair value for the period	Accumulated changes in fair value recognised in equity	Impairment accrued during the period	Closing balance
Financial investments at fair value through profit or loss (excluding derivative financial assets)	59,990,300	35,618	-	-	60,032,975
Derivative financial assets	-	235,586	-	-	231,551
Financial investments at fair value through other comprehensive income	2,794,355	-	57,306	(207)	8,175,758
Subtotal of financial assets	62,784,655	271,204	57,306	(207)	68,440,284
Derivative financial liabilities	32,310	15,936	-	-	38,501
Subtotal of financial liabilities	32,310	15,936	-	-	38,501

Note: The Bank implemented the New Standards for Financial Instruments on 1 January 2018. The opening balance represented the book value after the implementation of the New Standards for Financial Instruments on 1 January 2018.

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3.8 Major Statement Items and Financial Indicators with Changes of More Than 30% and the Main Reasons for the Changes

Unit: RMB'000

For the year ended 31 December				
Item	2018	2017	Change compared to the same period of the previous year (%)	Main Reason Analysis
Fee and commission expenses	113,187	69,951	61.81	Due to the increased expenses of asset securitisation and agency business fee.
Net trading gains/(losses)	365,364	(474,716)	(176.96)	Due to the expanded scale of financial investments at fair value through profit or loss and the higher prices of held-for-trading bonds resulting from the implementation of the New Standards for Financial Instruments by the Bank from 1 January 2018.
Net investment gains	2,190,324	546,473	300.81	Due to the fact that some financial investments originally measured at amortised cost have been measured at fair value and are no longer regarded as interest-bearing assets under the New Standards for Financial Instruments implemented by the Bank from 1 January 2018 and the income from these instruments during the holding period is included in investment income.
Other operating income	60,965	170,053	(64.15)	The amount of government subsidies in the current period was lower than that in the previous period.
Impairment losses on assets	4,160,169	1,956,950	112.58	Mainly due to the fact that the Bank included all loans overdue for more than 90 days in non-performing loans in accordance with regulatory requirements and made provision for non-performing loans.
Operating profit	3,757,736	5,502,927	(37.71)	
Profit before taxation	3,809,906	5,547,260	(31.32)	
Income tax expenses	708,450	1,213,723	(41.63)	Mainly due to the year-on-year decrease in taxable income resulting from the decline in total profit for the current period.

As at 31 December				
Item	2018	2017	Change compared to the end of the previous year (%)	Main Reason Analysis
Deposits with banks and other financial institutions	2,156,931	4,723,649	(54.34)	The Bank adjusted the structure of such assets in consideration of asset-liability matching and market liquidity.
Placements with banks and other financial institutions	3,768,759	15,297,528	(75.36)	
Derivative financial assets	231,551	–	Newly added during the period	Rational use of derivative financial instruments such as currency swaps and forward foreign exchanges to effectively deal with market risks.

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Item	As at 31 December			Main Reason Analysis
	2018	2017	Change compared to the end of the previous year (%)	
Financial investments at fair value through profit or loss	60,032,975	11,849,297	406.64	
Financial investments at fair value through other comprehensive income	8,175,758	–	Newly added during the period	Due to the impact of implementing the New Standards for Financial Instruments.
Financial investments at amortised cost	167,830,054	–	Newly added during the period	
Available-for-sale financial assets	–	35,086,298	(100.00)	
Held-to-maturity investments	–	59,267,821	(100.00)	
Financial investments classified as receivables	–	116,470,830	(100.00)	
Finance lease receivables	13,710,666	10,490,994	30.69	As at the end of the Reporting Period, the scale of finance lease business increased as compared with the end of the previous year.
Deferred income tax assets	1,947,787	1,270,416	53.32	The deductible temporary differences for the year increased as compared with the previous year.
Other assets	2,209,547	4,779,987	(53.78)	Payables due decreased.
Borrowings from central bank	4,196,194	1,599,550	162.34	The Bank adjusted the structure of relevant liabilities in consideration of asset-liability matching and market liquidity.
Placements from banks and other financial institutions	13,652,888	22,348,389	(38.91)	
Financial assets sold under repurchase agreements	18,956,133	14,085,500	34.58	
Tax payable	428,752	666,138	(35.64)	Due to the decreased corporate income tax payables resulting from the lower total profits of the current period.
Other liabilities	2,200,561	6,145,811	(64.19)	Mainly due to the fact that accrued interest of financial instruments provided based on the effective interest method in other debts was reflected in the book balance of corresponding financial instruments at 31 December 2018.
Capital reserve	5,163,655	3,054,869	69.03	The Bank's issuance of A shares during the Reporting Period led to an increase in domestic equity premium.
Investment revaluation reserve	38,590	(22,667)	(270.25)	Changes in the fair value of financial investments measured at fair value through profit or loss.

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4 INVESTMENT ANALYSIS

4.1 Overview

The following table sets out details of the Bank's equity investment as at the end of the Reporting Period:

Unit: RMB'000

Item	For the year ended 31 December		The Bank's share of the interest in the investee (%)
	2018	2017	
Jiuding Financial Leasing Company	1,020,000	1,020,000	51.00
Fugou Zhengyin County Bank Co., Ltd.	30,120	30,120	50.20
Xinmi Zhengyin County Bank Co., Ltd.	64,000	64,000	51.20
Xunxian Zhengyin County Bank Co., Ltd.	25,500	25,500	51.00
Queshan Zhengyin County Bank Co., Ltd.	25,500	25,500	51.00
Zhongmu Zhengyin County Bank Co., Ltd.	104,000	104,000	18.53
Yanling Zhengyin County Bank Co., Ltd.	18,000	18,000	30.00
Xinzheng Zhengyin County Bank Co., Ltd.	17,280	17,280	25.00
China UnionPay Co., Ltd.	8,000	8,000	0.27
Funds Clearing Centre for City Commercial Banks	400	400	1.29
Total	1,312,800	1,312,800	

For details of the Bank's other investments as at the end of the Reporting Period, please refer to the paragraph headed "Balance Sheet Analysis" in the chapter headed "Management Discussion and Analysis".

4.2 Significant Equity Investments Made During the Reporting Period

During the Reporting Period, the Bank did not make any significant equity investment.

4.3 Significant Non-equity Investments in Progress During the Reporting Period

During the Reporting Period, the Bank did not have any significant non-equity investment in progress.

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4.4 Use of Proceeds

During the Reporting Period, the Bank publicly issued 600,000,000 A Shares with a par value of RMB1.0 each at a price of RMB4.59 per Share and completed its listing on the SZSE. The financing size and the amount and use of proceeds raised are as follows:

4.4.1 Overview of Use of Proceeds

Unit: RMB'000

Year	Method	Net proceeds	Net amount of used proceeds during the period	Cumulative net amount of used proceeds	Net amount of proceeds involved in change of use during the Reporting Period	Cumulative net amount of proceeds involved in change of use	Proportion of cumulative net amount of proceeds involved in change of use (%)	Net amount of unused proceeds	Uses and whereabouts of unused proceeds	Amount of idle proceeds over two years
2018	Initial Public Offering of ordinary A Shares	2,708,785	2,708,785	2,708,785	-	-	-	-	-	-
Total	-	2,708,785	2,708,785	2,708,785	-	-	-	-	-	-

Explanation of general use of proceeds: After deducting the issuance expenses, all proceeds from the initial public offering were used to replenish the Bank's core tier-one capital, which was in line with the committed use of proceeds.

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4.4.2 Use of Proceeds in Projects Committed

Unit: RMB'000

Amount of proceeds ⁽¹⁾				2,708,785	Total amount of proceeds used during the year					2,708,785	
Total amount of proceeds involved in change of use during the Reporting Period				Nil							
Cumulative total amount of proceeds involved in change of use				Nil	Cumulative amount of proceeds used					2,708,785	
Proportion of cumulative total amount of proceeds involved in change of use				Nil							
Project undertaken for investment and the use of excess proceeds	Project in change, including those partially changed (if any)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the Reporting Period	Cumulative invested amount as of end of the period (2)	Progress of investment as of end of the period (%) (3)=(2)/(1)	Date of the project reaching the intended working condition	Results realized during the Reporting Period	Cumulative results realized as of the end of the Reporting Period	Achieving its estimated results?	Any material changes in the feasibility of the project?
Replenished capital	Nil	2,708,785	2,708,785	2,708,785	2,708,785	100%	N/A	N/A	N/A	N/A	No
Total	-	2,708,785	2,708,785	2,708,785	2,708,785	100%	-	N/A	N/A	-	-
Reason for not meeting the schedule (by specific project)			Nil								
Explanation of the material change in the feasibility of the project			Nil								
Amount and use of the excess proceeds and the progress of the use			Nil								
Change of the place of applying the proceeds			Nil								
Adjustment to the way of applying the proceeds			Nil								
Application and replacement of the proceeds in the initial stage			Nil								
Application of idle proceeds for temporary replenishment of working capital			Nil								
Amount of positive balance of proceeds upon commencement of the project and the relevant reason ⁽²⁾ The Bank's proceeds were used up and there were no remaining proceeds used for fundraising investment projects.											
Whereabouts of unused proceeds			The Bank's proceeds were used up and there were no unused proceeds.								
Issues or other matters regarding the use and disclosure of proceeds			Nil								

Note:

1. The amount of proceeds represented the net proceeds after deducting sponsor and underwriting fees and other issuance expenses.
2. The proceeds were fully used to replenish the Bank's core tier-one capital. As the proceeds used for fundraising investment projects included the Bank's own capital and proceeds, it was unable to audit the results realized by the proceeds as at the end of the Reporting Period independently.

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4.4.3 Change of Use of Proceeds in Projects

During the Reporting Period, there was no change of use of proceeds in projects of the Bank.

4.5 Financial Assets at Fair Value

For details of the fair value measurement methods and items measured at fair value adopted by the Bank as at the end of the Reporting Period, please refer to the paragraph headed “Assets and Liabilities at Fair Value” in the chapter headed “Management Discussion and Analysis”.

4.6 Operations of Subsidiaries

4.6.1 Operations of Subsidiaries

Henan Jiuding Financial Leasing Co., Ltd.

As at the end of the Reporting Period, the Bank held 51% equity interest in Jiuding Financial Leasing Company, a subsidiary of the Bank with a registered capital of RMB2 billion. Jiuding Financial Leasing Company was established in China and carries on business in China. Its principal businesses include: (1) financial leasing business; (2) outward or inward transfer of financial leasing assets; (3) fixed income securities investment business; (4) acceptance of leasing deposits from lessees; (5) taking time deposits with a term of three months or more from non-banking shareholders; (6) interbank lending; (7) borrowing from financial institutions; (8) offshore borrowing; (9) sale and disposal of leased assets; (10) economic consultancy; (11) other business approved by the CBIRC (business activities subject to approval according to law may be carried out only after being approved by the competent authorities).

Jiuding Financial Leasing Company always upholds the business philosophy of “innovation, efficiency, synergy and stability” and adheres to the strategy of “intensively developing in Zhengzhou, consolidating its position in Henan and catering for the national market with professional specialism and distinctive features”. As at the end of the Reporting Period, Jiuding Financial Leasing Company had total assets of RMB16,504 million, net assets of RMB2,306 million, and balance of financial leasing of RMB13,954 million. During the Reporting Period, it recorded operating income of RMB358 million, operating profit of RMB125 million and net profit of RMB94 million. All of its major regulatory indicators were in compliance with the regulatory requirements.

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Fugou Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held 50.2% equity interest in Fugou Zhengyin County Bank Co., Ltd. (“**Fugou Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB60 million. Fugou Zhengyin County Bank was established in China and carries on business in China. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) debit card business; (7) acting as issuing agent, cashing agent and underwriter of government bonds; (8) acting as collection and payment agent; (9) Other business approved by the banking regulatory authority of China (business activities requiring licensing shall be carried out with valid permits or other qualification certificates).

Fugou Zhengyin County Bank has a short decision-making chain and flexible credit policy, and its business workflow and structure are designed to match the financial needs of the agricultural industry. As at the end of the Reporting Period, the bank had total assets of RMB603 million, net assets of RMB63 million, total loans of RMB346 million, total deposits of RMB428 million, and NPL ratio of 0.09%. During the Reporting Period, it recorded operating income of RMB20 million, operating profit of RMB3 million, and net profit of RMB680.52 ten thousand. All its regulatory indicators met regulatory requirements.

Xinmi Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held 51.2% equity interest in Xinmi Zhengyin County Bank Co., Ltd. (“**Xinmi Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB125 million. Xinmi Zhengyin County Bank was established in China and carries on business in China. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) acting as issuing agent, cashing agent and underwriter of government bonds; (8) acting as collection and payment agent and insurance agent; (9) other business approved by the banking regulatory authority (business activities subject to approval according to law may be carried out only after being approved by the competent authorities).

Xinmi Zhengyin County Bank upholds the service tenet of “serving agriculture, farmers and rural areas as well as small and micro enterprises in Xinmi”. As at the end of the Reporting Period, the bank had total assets of RMB673 million, net assets of RMB40 million, total loans of RMB486 million, total deposits of RMB631 million, and NPL ratio of 2.81%. During the Reporting Period, it recorded operating income of RMB33 million, operating profit of RMB4 million, and net profit of RMB39.76 ten thousand. All its regulatory indicators met regulatory requirements.

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Xunxian Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held 51% equity interest in Xunxian Zhengyin County Bank Co., Ltd. (“**Xunxian Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB50 million. Xunxian Zhengyin County Bank was established in China and carries on business in China. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) acting as issuing agent, cashing agent and underwriter of government bonds; (6) interbank lending; (7) debit card business; (8) acting as collection and payment agent and insurance agent; (9) other business approved by the banking regulatory authority (business operations requiring permits shall be carried out after obtaining relevant permits from the competent authorities) (business activities subject to approval according to law may be carried out only after being approved by the competent authorities).

Xunxian Zhengyin County Bank upholds the service tenet of “joining hands with the public, serving agriculture, farmers and rural areas, taking root in rural areas and supporting small agricultural enterprises”. As at the end of the Reporting Period, the bank had total assets of RMB413 million, net assets of RMB42 million, total loans of RMB216 million, and total deposits of RMB339 million. During the Reporting Period, it recorded operating income of RMB10 million, operating profit of RMB6 million, and net profit of RMB582.89 ten thousand. All its regulatory indicators met regulatory requirements.

Queshan Zhengyin County Bank Co., Ltd.

As at the end of the Reporting Period, the Bank held 51% equity interest in Queshan Zhengyin County Bank Co., Ltd. (“**Queshan Zhengyin County Bank**”), a subsidiary of the Bank with a registered capital of RMB50 million. Queshan Zhengyin County Bank was established in China and carries on business in China. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) acting as issuing agent, cashing agent and underwriter of government bonds; (8) acting as collection and payment agent and insurance agent; (9) other business approved by the banking regulatory authority (business activities subject to approval according to law may be carried out only after being approved by the competent authorities).

Queshan Zhengyin County Bank upholds the service tenet of “serving agriculture, farmers and rural areas as well as SMEs in Queshan”. As at the end of the Reporting Period, the bank had total assets of RMB271 million, net assets of RMB44 million, total loans of RMB93 million, and total deposits of RMB226 million. During the Reporting Period, it recorded operating income of RMB8 million, operating profit of RMB2 million, and net profit of RMB195.06 ten thousand. All its regulatory indicators met regulatory requirements.

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4.6.2 Operations of Investee Companies

As at the end of the Reporting Period, the Bank held 18.53%, 30.00% and 25.00% equity interest in Zhongmu Zhengyin County Bank Co., Ltd. (“**Zhongmu Zhengyin County Bank**”), Yanling Zhengyin County Bank Co., Ltd. and Xinzheng Zhengyin County Bank Co., Ltd., respectively. The total asset value of the three county banks reached RMB20 billion, and their total deposits and total loans amounted to RMB17.9 billion and RMB12.5 billion, respectively.

Since the establishment of Zhongmu Zhengyin County Bank in 2009, Zhengyin county banks have always been committed to serving “agriculture, farmers and rural areas” and supporting “small and medium-sized enterprises”. With a growing asset size and an increasingly balanced structure of deposits and loans, the bank has stepped up its efforts to support agricultural enterprises and increased shareholder returns year by year. As a result, Zhongmu Zhengyin County Bank is ranked at the forefront among all county banks in the country in terms of comprehensive strength.

4.6.3 Acquisition and Disposal of Subsidiaries During the Reporting Period

During the Reporting Period, the Bank did not acquire or dispose of any subsidiary.

4.7 Structured Entities Controlled by the Bank

Details of the structured entities controlled by the Bank are set out in Note 43 to the financial statements of the independent auditor’s report of this Annual Report.

5 CAPITAL MANAGEMENT

The Bank’s goals of capital management include: (1) maintaining stable capital adequacy ratio level and solid capital base, supporting the development of the Bank’s various businesses and the implementation of strategical planning, improving capability to resist risk, and realizing comprehensive, coordinated and sustainable development; (2) perfecting “economic-profit-centered” performance management system constantly, measuring and covering all types of risks accurately, and optimizing the Bank’s resource allocation and operational management mechanism, so as to create the best return for shareholders; (3) utilizing a variety of capital instruments rationally, optimizing the total amount and structure of capital, and enhancing capital quality. The Bank’s capital management mainly includes capital adequacy ratio management and capital financing management, etc.

Capital adequacy ratio management is at the core of the Bank’s capital management. In accordance with the requirements of the CBIRC, the Bank monitors the capital adequacy ratio regularly and submits required information to the CBIRC Henan Bureau quarterly. The Bank carries out capital adequacy ratio prediction monthly to ensure that indicators meet regulatory requirements via pressure testing. Through promoting the construction of comprehensive risk management, the Bank can further improve its risk identification and assessment capability and calculate risk weighted assets more accurately based on the business nature.

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Capital financing management aims to further strengthen capital capacity, improve capital structure and enhance capital quality. The Bank focuses on capital's endogenous growth, strives to realize scale expansion, balances and coordinates profitability and capital restriction, replenishes capital via measures like profit growth, keeping surplus reserve and allocating sufficient provision for impairment losses on loans, optimizes capital structure and raises capital adequacy ratio level, so as to improve the Bank's capability to resist risk and support real economy's development.

5.1 Capital Adequacy Ratio Analysis

The Bank continued to refine its business structure and strengthen its capital management. Set out below are the Bank's capital adequacy ratios as at the end of the Reporting Period and the end of the previous year calculated in accordance with the Administrative Measures for Capital of Commercial Banks (Provisional) issued by the CBIRC in 2012 and other relevant requirements issued:

Unit: RMB'000

Item	As at 31 December 2018	As at 31 December 2017
Core tier-one capital		
Share capital	5,921,932	5,321,932
Valid portion of capital reserve	5,163,655	3,054,869
Other comprehensive income	(5,902)	(75,281)
Surplus reserve	2,356,214	2,054,756
General reserve	5,870,320	5,520,320
Retained earnings	9,518,012	8,503,783
Valid portion of minority interests	602,538	452,798
Total core tier-one capital	29,426,769	24,833,177
Core tier-one capital deductions	(714,478)	(456,513)
Net core tier-one capital	28,712,291	24,376,664
Additional tier-one capital	7,905,847	7,885,881
Net tier-one capital	36,618,138	32,262,545
Tier-two capital		
Qualifying portion of tier-two capital instruments issued	7,000,000	7,000,000
Surplus provision for loan impairment	2,179,647	2,231,162
Valid portion of minority interests	160,677	120,746
Net tier-two capital	9,340,324	9,351,908
Net capital base	45,958,462	41,614,453
Total risk-weighted assets	349,504,822	307,474,718
Core tier-one capital adequacy ratio	8.22%	7.93%
Tier-one capital adequacy ratio	10.48%	10.49%
Capital adequacy ratio	13.15%	13.53%

Note: For details, please refer to the column headed "Financial Summary" under Investor Relations on the Bank's website.

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5.2 Leverage Ratio Analysis

Unit: RMB'000

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Net tier-one capital	37,906,989	38,666,795	33,842,133	30,799,147
Balance of on/off-balance sheet assets after adjustment	558,245,642	540,919,431	516,002,030	499,350,230
Leverage ratio (%)	6.79	7.15	6.56	6.17

Note: Indicators related to leverage ratio as at the end of the Reporting Period, the end of the third quarter of 2018, the end of the half of 2018 and the end of the first quarter of 2018 are calculated based on the requirements of the Administrative Measures for Leverage Ratio Management of Commercial Banks (Amended) (Former CBRC Order [2015] No. 1) coming into effect on 1 April 2015 which are consistent with the data reported to the regulatory authorities. For details, please refer to the column headed “Financial Summary” under Investors Relation of the Bank’s website.

6 BUSINESS OPERATION

6.1 Corporate Banking Business

6.1.1 Corporate Deposits and Loans

Corporate deposits

In 2018, against the backdrop of the ongoing slowdown of the domestic macro economy, the difficulties in developing the real economy and tightening of financial regulations, the Bank’s corporate deposit business maintained a stable growth momentum. Through promoting online and offline transaction banking and investment banking services and advancing business transformation and upgrading, the Bank enhanced the design and innovation of comprehensive solutions for corporate liability products to gradually improve the comprehensive efficiency of corporate deposits. The Bank continued to consolidate its strategic and institutional customer base and enhance the overall contribution of corporate customers. In an effort to push ahead marketing initiatives to institutional customers in an all-round manner through independent management and marketing, the Bank actively participated in provincial and municipal bidding projects, and won the bid for the fixed deposit of funds from a provincial fiscal account. The Bank sped up the bidding and marketing for projects such as Henan local government bonds, deposits of local farmers’ social security funds, a housing maintenance fund and the province’s expressway toll collection network, and further strengthened the fund management for governmental and institutional customers. As at the end of the Reporting Period, the Bank’s balance of corporate deposits amounted to RMB184,414 million, accounting for 69.82% of the total balance of general deposits and representing a year-on-year decrease of RMB3.43 billion or 1.83%.

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Corporate loans

The Bank consistently follows national strategies to serve the real economy, and accelerate the innovation of credit products based on its unique positioning as a bank focusing on commerce and logistics business. For corporate loans, the Bank focuses on innovation and risk prevention, and promotes the steady development of corporate credit business by strengthening calibrated marketing, improving credit review and approval mechanism, and innovating in financing models. In order to promote the adjustment of credit structure, the Bank continued to step up its effort in withdrawing from industries with overcapacity while vigorously promoting the construction of a green credit system. As at the end of the Reporting Period, the Bank's aggregate principal of corporate loans (including discounted bills) amounted to RMB115,654 million, representing an increase of RMB21,310 million or 22.59% from the beginning of the year.

6.1.2 Customer management and team building

Customer management

In 2018, the Bank continued to improve its customer relationship management ("CRM"). It concentrated on the customer marketing management of the entire bank through sales management and inspection mechanisms, reformed and enhanced the CRM system to achieve online and intelligent analysis of its sales process management, and pushed forward the dynamic customer marketing management of the entire bank, which further strengthened its customer base, and enhanced the management efficiency of customer relationship and customer managers. Taking advantage of its increasingly extensive network layout in Henan Province and advanced CRM methods, the Bank's number of customers continued to increase steadily.

Team building for sales teams

By introducing a hierarchical management system for corporate customer managers, the Bank promoted the evaluation of customer managers and continuously improved the performance evaluation and target management methodology for customer managers. By means of strict evaluation of, inter alia, the performance, service quality and moral character of customer managers, we initiated dynamic management over customer managers to continuously improve the customer manager team structure. Moreover, the Bank established and improved the comprehensive training system for customer managers and built the capacity of customer managers to improve the service quality and marketing skills of customer managers. The mechanism for workforce recruitment and departure was rigorously enforced and a reasonable remuneration system was set up to stimulate the positive work attitude of customer managers, thereby building a professional corporate customer manager team that is highly energetic and service-oriented with strong professional ethics. By consistently improving the management system of corporate customer managers, the Bank facilitated sustainable business development.

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6.2 Commerce and Logistics Finance

In 2018, the Bank adhered to the unique positioning as a “commerce and logistics bank” and constructed a “Five-Clouds” platform to strengthen product and service innovation. Specifically, the Bank built a professional value-added “Cloud Service” platform by establishing the “Cloud Logistics” and “Cloud Business” product systems and improving the “Cloud Financing” and “Cloud Trading” functions to provide full-process transaction services for enterprises and enhance customer experience, so as to accrue settlement deposits and broaden income sources of intermediary business.

“Cloud Trading”

The Bank’s “Cloud Trading” platform uses advanced financial technology and scientific and agile iterative development methods to develop a complete set of solutions for treasury management of enterprises. The Bank introduced products such as corporate online banking, cash management, bank-enterprise direct link, interbank treasury management cloud platform, corporate settlement card and e-government to provide enterprises with a series of innovative payment and settlement services. By embedding financial services in transaction links to satisfy the needs of enterprises in various application scenarios, the platform can help enterprises achieve a range of treasury management goals such as pooling resources, reducing costs, accelerating fund flow, controlling risks and enhancing asset allocation. As at the end of the Reporting Period, the Bank had signed 28,025 corporate online banking customers with a transaction amount of RMB656.5 billion; the cash management platform had provided treasury management solutions for 839 large and medium-sized enterprises and public institutions; the bank-enterprise direct link had successfully connected with a number of medium and large group customers; the Bank had issued 2,316 corporate settlement cards in total; and the Bank had provided cash management solutions for many institutional customers including the public resources trading centre, courts, housing provident fund centre, land and resources trading centre, etc.

“Cloud Financing”

The Bank established an online supply chain financing platform based on the credit of core enterprises to develop financing services for upstream and downstream customers nationwide. With system connection and information exchange among the Bank’s online supply chain financing platform, fund supervision system, core enterprises’ ERP (Enterprise Resource Planning) systems and order systems, the Bank employs electronic signature law and electronic signature technology and draws on the credit of core enterprises to provide full-process online financing services for upstream and downstream partners of the core enterprises. Currently, the online 1+N prepayment financing, online 1+N factoring pool financing, online factoring and online 1+N re-factoring, financing functions have been up and running. During the Reporting Period, the “Cloud Financing” platform achieved the direct connection among multiple B2B (Business-to-Business) e-commerce platforms, supply chain finance platforms and core enterprises, and commenced business operations in June 2018, thus expanding the Bank’s channels to secure customers in large quantities for its “Cloud Financing” business. As at the end of the Reporting Period, more than 100 customers received financing online via the “Cloud Financing” platform, and online financing business exceeded RMB400 million.

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“Cloud Logistics”

The “Cloud Logistics” platform is an open comprehensive service platform for the logistics industry. It is a professional “Internet + Logistics + Finance” platform created by the Bank to provide consignors with online registration, online ordering, online freight payment and other related functions. The platform provides logistics companies with such functions as entry application, online receipt of orders, logistics tracking, online entrusted collection of payments and branch fund management to improve their automated financial reconciliation and sub-account management capabilities and help them achieve automated fund management. For orders on the platform paid through the Bank’s acquiring channel, the Bank will supervise the funds from entrusted collection of payments for goods and ensure that the collected payments are safely and timely distributed to the consignors. Currently, the Bank has signed business cooperation agreements with a number of logistics companies.

“Cloud Service”

The “Cloud Service” platform, based on the WeChat public account named “Zhengzhou Bank Trade Finance” (鄭州銀行商貿金融), promoted the Bank’s latest products for corporate banking according to customers’ industry focus so as to accurately push industry insight reports and forward-looking industry analysis for corporate customers. The platform also linked the corporate online banking, providing customers with financial value-added services such as the online appointment to open corporate banking account, account alerts, electronic invoicing, easy payment and bank-enterprise reconciliation. In the future, the “Cloud Service” platform will integrate the application scenarios of “Cloud Financing”, “Cloud Trading”, “Cloud Logistics” and “Cloud Service”, in an effort to incorporate the functions of the “Five-Cloud” platform to form an organic ecosystem.

“Cloud Business”

The “Cloud Business” platform mainly serves the “Commerce and Logistics Alliance” initiated by the Bank and is expected to be an online e-commerce asset trading platform. The platform integrates the resources of the alliance to achieve win-win results by having qualified investors such as banks and quasi-financial institutions provide financial support as to the assets and financing needs of customers in the nine major commerce and logistics industries posted on the platform.

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6.3 Personal Banking Business

6.3.1 Personal deposits

As a local financial institution in Zhengzhou, Bank of Zhengzhou adhered to its unique positioning as a “boutique bank for residents”. Focusing deeply on the main business of serving personal customers, the Bank carried on business product innovation, improved service systems, increased customer value, built a high-performing team, stressed the integration of cross marketing, consumer finance and wealth management, and continuously improved the quality of financial services closely related to local residents. The Bank also strived to enhance the quality of business development and the influence of quality to constantly push forward the development of personal deposit business. Meanwhile, the Bank actively responded to interest rate liberation, constantly enhanced the pricing strategy for the deposit interest rate based on market and customer demands, and improved the ability of deposit self-pricing and risk management. As at the end of the Reporting Period, the Bank’s total personal deposits amounted to RMB79,717 million, representing an increase of RMB12,153 million or 17.99% from the end of the previous year. The Bank’s personal deposit business was ranked the top among its regional peers in terms of total balance, increment and market share.

6.3.2 Personal loans

During the Reporting Period, the Bank accelerated innovation in personal services and products, vigorously developed Le Home Loans (樂房貸), Residential Mortgage (房屋按揭) and Le Auto Loans (樂車貸) business, and introduced an online central approval process operated by Credit Workshop (信貸工廠). Firstly, the Bank established a mechanism for monitoring and improving Le Home Loans products, and set up an efficient team in charge of the whole process of Le Home Loans business. Secondly, the Bank improved the current Le Auto Loans business model by refining Operational Rules for Personal Auto and Construction Machinery and Equipment Loans (《個人汽車及工程機械設備貸款操作規程》), Operational Rules for Personal Car Rental Loans (《個人租車貸操作規程》) and Operational Rules for Personal Car Finance Loans (《個人車易融貸款操作規程》) as well as designating three branches specifically to manage automotive loans business. Thirdly, the Bank promoted Residential Mortgage Loans business provincewide. As at the end of the Reporting Period, the balance of the Bank’s personal loans amounted to RMB43,919 million, representing an increase of RMB9,806 million or 28.75% from the end of the previous year.

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6.3.3 Bank cards

In addition to the basic version of debit cards such as Shangding Card (商鼎卡), the Bank also issued special themed cards such as Zhengbian Pass (鄭汴通卡), Xuchang One-Card (許昌一卡通) and Henan Trade Unions Membership Card (河南省工會會員卡) (including Kaifeng Trade Union, Xinxiang Trade Union, Luoyang Trade Union, Zhumadian Trade Union, Nanyang Trade Union, Anyang Trade Union and Puyang Trade Union) during the Reporting Period, with a steady growth of new card issuance. As at the end of the Reporting Period, the Bank has issued a total of 5,311,700 debit cards, with 756,000 new cards issued as compared with the end of the previous year.

The Bank launched its first Shangding credit card in October 2014, and launched a new themed credit card named Shangding Star Card (商鼎星卡) and two co-brand credit cards named Luohe Youth Hostel Card (漯河青年之家卡) and Puyang Youth Hostel Card (濮陽青年之家卡) during the Reporting Period. As at the end of the Reporting Period, 54,022 Shangding Star Cards and Youth Hostel Cards have been issued in total with the aggregate issuance volume of 277,606 Shangding credit cards, aggregate transaction amount of RMB32.4 billion (during the Reporting Period: RMB13.5 billion) and aggregate profit or loss of RMB213 million (during the Reporting Period: RMB99 million).

6.4 Financial services for small and micro enterprises

In 2018, upholding the development positioning of providing “finance for small and micro enterprises”, the Bank continually improved its product system and innovated in service models to increase financing support for small and micro borrowers. Firstly, five product lines were launched online, namely Ant Cash Now (螞蟻借唄), Baidu Umoney (百度有錢花), Dashu Finance (大數金融), SSDL (盛世大聯) and Zhong Rui Financial (眾睿資服), and the “E Purchase Loan” and other simple loan products were also introduced. In total, approximately RMB4 billion of loans have been granted. In addition, the Bank’s balance of tech loans was RMB43 million, ranking second among the 12 banks in cooperation with the Henan Science and Technology Department on “Tech Loan” business. The Bank was selected as a bank partner of Zhengzhou Science and Technology Bureau for “Zhengzhou Tech Loan” business and signed a fund deposit agreement with Zhengzhou Science and Technology Bureau. Secondly, the Bank improved its due diligence and accountability system. We mainly revamped the content regarding due diligence results, evaluation basis, punishment standards and tolerance of the system, focused more on list management of non-due diligence, and laid emphasis on the “first responsible person” role of the account manager. During the Reporting Period, three rounds of due diligence inspections were conducted on 1,021 credit customers. Thirdly, the Bank vigorously enhanced technology strength and launched the project for enhancement and upgrading of retail credit risk model system, the credit factory construction project and the Tongdun anti-fraud application project in 2018. As at the end of the Reporting Period, the Bank’s balance of loans to small and micro enterprises each with a credit facility of not more than RMB10 million (including principal) amounted to RMB22,822 million, representing a year-on-year increase of RMB4,815 million or 26.74%, 2.51 percentage points higher than the Bank’s loan growth rate. The number of small and micro enterprises receiving loans was 56,400, representing a year-on-year increase of 22,600. The regulatory objective of “two increases and two controls” was successfully completed.

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6.5 Treasury Business

6.5.1 Money market transactions

During the Reporting Period, under more complex international and domestic economic and political landscapes, China's economy was facing more severe challenges. After a long period of rapid economic development, the economy has entered a period of slowdown. However, returning to a more reasonable state does not mean that the economy is going to decline. Rather, it is to accumulate strength for the next take-off. In addition, the global economy is experiencing a synchronous growth. China's supply-side reform has made significant progress, with quality enterprises maintaining a stable growth in profitability. The escalation of Sino-US trade frictions and the transitional pains brought by China's economic policies to private enterprises that need to re-focus on their core business intensified the pressure on the asset quality of financial institutions to a certain extent. In 2018, in response to economic development, China adopted a more proactive fiscal policy and a sound and neutral monetary policy. The money market interest rate dropped evidently and the liquidity term structure improved. Nevertheless, the mechanism of spreading the effect of monetary policy needs to be straightened to turn "loose monetary policy" to "easy credit", so as to promote the robust development of enterprises and the market economy.

The Bank actively responded to and aligned with market changes. While conducting compliant business development, the Bank adopted a number of measures simultaneously and combined the old model with the new one to further expand the customer base of interbank business. Through interbank visits and exchange activities, interbank product briefings and other methods, the Bank further improved the stickiness of interbank business and stability of monetary circulation. The Bank proactively grasped market opportunities to improve profitability while ensuring liquidity. As at the end of the Reporting Period, the total balance of the Bank's deposits and placements with banks and other financial institutions and financial assets held under resale agreements amounted to RMB9,378 million, representing 2.01% of the Bank's total assets; and the total balance of the Bank's deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB60,008 million, accounting for 14.01% of the Bank's total liabilities.

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6.5.2 *Investment in securities and other financial assets*

During the Reporting Period, the Bank paid close attention to changes in international dynamics, the domestic and international economic environment and the capital market, strengthened research into and trend analysis of changes in the bond market, capital market, external regulatory policies and macroeconomic environment, promptly adjusted the direction of capital investment and the business development strategy, captured suitable business opportunities and strived to increase the interest margin of capital investment while maintaining risk control. Meanwhile, the Bank continually explored and made timely adjustments to ways of accepting various deposits to increase the capital available for investment, and diversified investment business and strengthened research into innovative business to increase the efficiency in using capital. As at the end of the Reporting Period, the total investment bonds, investment products under trust schemes, investment products managed by securities companies and other securities financial assets of the Bank amounted to RMB236,157 million, representing an increase of RMB12,851 million or 5.75% as compared with the end of the previous year. Specifically, the total amount of the Bank's bond investments was RMB76,798 million, representing a year-on-year increase of 19.59%, and the total amount of the Bank's investment products under trust schemes and investment products managed by securities companies was RMB134,697 million, representing a year-on-year increase of 1.80%.

6.5.3 *Wealth management business*

During the Reporting Period, the Bank issued a total of 550 wealth management products to raise a total amount of RMB95.86 billion. As at the end of the Reporting Period, the total size of outstanding wealth management products reached RMB45,494 million, down by RMB3,905 million or 7.91% from the end of the previous year. During the Reporting Period, the Bank continually cut down the scale of its interbank wealth management and principal-guaranteed wealth management business according to the regulatory requirements. As at the end of the Reporting Period, the size of interbank wealth management was RMB13,920 million, down by RMB8,930 million or 39.08% from the end of the previous year; the size of principal-guaranteed wealth management was RMB9,122 million, down by RMB2,776 million or 23.33% from the end of the previous year. Meanwhile, the Bank continued to develop the personal non-principal-guaranteed wealth management business and built a "wealth management + deposit" spiral growth system to effectively improve the liquidity management for wealth management business, which can help achieve the Bank's strategic transformation objective of downsizing interbank wealth management business. As at the end of the Reporting Period, the outstanding balance of personal non-principal-guaranteed wealth management products was RMB22,432 million, representing an increase of RMB9,831 million or 78.02% from the beginning of the year.

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In 2018, the Bank issued exclusive wealth management products for VIP customers, salary-paying customers, trade union card customers, and cross-marketing customers to ensure a continuous supply of products on a daily basis. Through benchmarking against peers, the Bank developed its own distribution strategies and designed assets-under-management (“**AUM**”) products to expand AUM customer base. As at the end of the Reporting Period, the Bank had launched 57 “RMB300,000 AUM” and “Flash Purchase” wealth management products and raised a total of RMB10,057 million. According to relevant new regulations and regulatory requirements and in line with the trend of “removing rigid repayment and taking risks on your own” in the wealth management sector, the Bank promptly launched net-worth wealth management products to adapt to the market. On 19 December 2018, the Bank successfully launched the net-worth wealth management product “Jinwutong Dingxin No. 1”, opened for subscription and redemption on a regular basis, the first among city commercial banks in Henan Province. This first net-worth product of the Bank was well-received by investors.

6.6 Distribution Channels

6.6.1 Physical outlets

During the Reporting Period, the Bank has established its head office in Zhengzhou, the PRC and twelve branches in Nanyang, Xinxiang, Luoyang, Anyang, Xuchang, Shangqiu, Luohe, Xinyang, Puyang, Pingdingshan, Zhumadian and Kaifeng were granted approval to commence operation. As at the end of the Reporting Period, 155 sub-branches and one special entity in total were established within Henan Province. The Bank operates mainly in Henan Province.

As at the end of the Reporting Period, the Bank had a total of 152 on-site self-service outlets, including 82 in downtown Zhengzhou, 20 in the counties surrounding Zhengzhou and 50 in the branches and their surrounding counties. The Bank also had a total of 140 off-site self-service outlets in Henan Province, including 77 in downtown Zhengzhou and 63 in the counties surrounding Zhengzhou and the branches. The Bank’s network of off-site and on-site self-service outlets provided customers with 24-hour convenient service and better geographic coverage.

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6.6.2 Electronic banking

Self-service banking

The Bank's self-service banking equipment includes automated cash withdrawal machines, automated teller machines, smart counters, online banking terminals, easy payment terminals, "QuikTrans (快窗)", "Yintietong (銀鐵通)" and form filling machines, which provide customers with a wide range of efficient services such as cash deposit and withdrawal, account inquiry, bill payment, PIN change, funds transfer, train ticket purchase and automatic form filling. Adhering to our customer-oriented approach, we have been developing and upgrading our self-service banking facilities with new functions. Currently, the Bank is actively undergoing a transformation in self-service equipment with a focus on developing multifunctional non-cash self-service equipment. In particular, the growing smart counter business, which is the most representative of its kind, brought about better customer flow management and reduced the burden on the frontline staff, making it an indispensable marketing and business processing channel for the branches and sub-branches. As at the end of the Reporting Period, we had 1,471 self-service banking facilities, including 323 automated cash withdrawal machines, 394 automated teller machines, 309 smart counters, 255 online banking terminals, 153 easy payment terminals, 36 form filling machines and 1 "QuikTrans" teller. During the Reporting Period, the total number of cash deposit and withdrawal transactions was 8,224,300, representing a year-on-year decrease of 20.07%, while the total amount of cash deposit and withdrawal transactions was RMB19,380 million, representing a year-on-year decrease of 4.53%.

Online banking

During the Reporting Period, 339,900 new personal online banking accounts were registered, representing a year-on-year increase of 18.35%. The number of transactions reached 5,081,300 while the transaction amount reached RMB74,738 million. As at the end of the Reporting Period, the total number of personal online banking customers reached 10,440,000 (excluding closed accounts). As at the end of the Reporting Period, the number of contracted corporate online banking customers was over 28,500, representing a year-on-year increase of 14.76%. The number of online banking transactions reached 1,940,000, representing a year-on-year increase of 32.6%, while the transaction amount reached RMB656.5 billion, representing a year-on-year increase of 31.33%.

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Mobile banking

The Bank's mobile banking service was officially rolled out on 9 January 2013 and its upgraded version was introduced on 11 November 2015. Mobile banking service mainly includes the "Financial Street (金融街)" and "Living Circle (生活圈)" projects. The Financial Street project mainly refers to finance-related functions of the mobile banking service, including fund purchase, comprehensive personal loan inquiry, application for credit cards and interbank payment through the Bank's credit cards. Adhering to the Bank's positioning as a "boutique bank for residents", the Living Circle project aims to render daily life services closely linked to financial products, such as hospital appointment bookings and ticket bookings. The powerful features and improving services of mobile banking presented a fresh user experience to customers. During the Reporting Period, 459,100 new mobile banking accounts were registered, representing a year-on-year increase of 46.54%, while the number and amount of transactions amounted to 3,764,700 and RMB140,105 million respectively, representing year-on-year increases of 27.09% and 152.71% respectively. As at the end of the Reporting Period, the total number of mobile banking accounts reached 1,215,300 (excluding closed accounts) while the aggregate number and amount of transactions amounted to 9,436,900 and RMB215,881 million respectively.

Online payment

Our online payment platform was officially launched in July 2012. As at the end of the Reporting Period, the Bank's online payment service has covered the mainstream payment methods such as Alipay, Tenpay, Baifubao, Chinabank Payments of JD.com and Yifubao, providing diversified payment methods for our bank cards and enhancing customer's payment experience. During the Reporting Period, 660,000 new online payment accounts were registered, representing a year-on-year decrease of 62.69%, while the number and amount of transactions amounted to 49,172,000 and RMB19,577 million respectively, representing year-on-year increases of 113.91% and 95.77% respectively. As at the end of the Reporting Period, the total number of online payment accounts of the Bank reached 5,329,700 while the aggregate number and amount of transactions amounted to 82,873,700 and RMB33,943 million respectively.

Telephone banking

We offer uninterrupted 24/7 telephone banking service to customers through the nationwide customer service hotline 95097 (the original hotline 4000-967585 was upgraded to 95097 at 00:00 on 19 September 2018), including financial business consultation, transaction inquiry, loss reporting, bill payment, loan business consultation, investment and wealth management services, PIN services, credit card services, outbound calls and customer care. The customer service centre continued to enhance user experience and actively expand the scope of service based on customer needs. During the Reporting Period, our telephone banking service department handled a total of 3,364,000 cases.

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WeChat Banking

The Bank's WeChat Banking service was officially launched on 25 October 2013. WeChat Banking provides customers with extensive online functions, including personal account balance inquiry, transaction detail inquiry, free account activity alerts, credit card inquiry and online application, online application for personal loans and product inquiry, branch inquiry and reservation, form pre-filling service and union card area, and releases information on our new services, new products and promotion activities regularly every week. As at the end of the Reporting Period, we had 894,300 WeChat Banking-bound card customers.

Ding Rong Yi

The Bank's internet financial service platform "Ding Rong Yi (鼎融易)", based on the "Internet Plus" strategy, focuses on residents, commerce and logistics, financial services for micro, small and medium-sized enterprises and other core services. Providing online account opening application, online financial management, convenient payment, online loan disbursal, E-commerce service, order matching, online transactions, logistics and distribution, warehousing management and other diversified service features, Ding Rong Yi is a comprehensive Internet financial service platform covering financial, daily life and social networking services. As at the end of the Reporting Period, 589,800 Ding Rong Yi accounts were opened, with aggregate number of transactions of 1,861,200 and total transaction amount of RMB41,323 million. Electronic account loans of RMB1,214 million were distributed, with intermediary business revenue of RMB1,292.65 ten thousand (before tax) and total customer revenue of approximately RMB200 million.

7 RISK MANAGEMENT

The Bank always upholds the "prudent, rational and sound" risk management philosophy and has its key management personnel maintain a conservative and sound risk management style, thereby developing a healthy compliance and risk control culture. In the principle of comprehensive risk management, the Bank has established and continuously improved a comprehensive risk management system covering all kinds of risks to balance risks and benefits and combine control and efficiency. The Bank has established risk management processes and systems according to the different characteristics of credit risk, market risk, operational risk and liquidity risk and other risks. The Bank is mainly exposed to the following risks in business operations.

7.1 Credit Risk

Credit risk refers to the risk of loss caused by the failure by a debtor or counterparty to perform its contractual obligations or responsibilities. The Bank's credit risk exposure mainly comes from loan portfolios, investment portfolios, guarantees and other types of on- and off-balance sheet credit risk. We have built a credit risk management framework covering all credit business processes and developed policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. For credit risk management, we mainly adopt the following measures:

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Firstly, we strengthen policy implementation. As the state introduces industry policies and regulatory policies for key industries, the Bank will promptly revise relevant credit policies accordingly and urge its branches to strictly implement the policy requirements and enhance sensitivity to policies and awareness of compliance. Secondly, we strengthen the review of credit business. After the annual credit approval, each operating branch shall regularly review credit facilities according to the credit risk and financial status changes of customers, obtain the real information on customers, and timely report any potential risks to the credit review department for dynamic adjustment of relevant credit lines and plans. Thirdly, we strengthen concentration limit management. As to the credit application of branches and the review of credit granting business by the credit approval lines of the head office, the Bank follows the principle of substance over form to strictly review underlying assets with substantial credit risks to be borne by the Bank, and rigorously implements the credit concentration limit requirements for single corporate customers and group customers. Fourthly, we formulate and issue bank-wide risk guidelines. The risk guidelines, which reveal the Bank's risk orientation, credit approval focus, key regulatory policies, compliance focus and risk trend in the risk guidelines, are designed to help branches understand the changes in the Bank's risk orientation and adjust marketing focus in a timely manner. Fifthly, the Bank continuously upgrades its unified credit system with tried-and-true functions to provide technical support for credit risk management and achieve central control over the Bank's customer credit lines.

As at the end of the Reporting Period, the Bank's credit risk concentration indicators were as follows:

1. Largest single customer loan concentration: as at the end of the Reporting Period, the Bank's balance of loans to the largest customer was RMB1.9 billion, representing an increase of RMB602 million from the beginning of the year and a loan concentration of 4.35% (up by 1.07 percentage points from the beginning of the year), meeting the 10% cap requirement stipulated by the CBIRC.
2. Largest single group customer loan concentration: as at the end of the Reporting Period, the Bank's outstanding balance of credit facility to the largest single group customer was RMB2,882 million, with a credit concentration of 6.6%, meeting the 15% cap requirement stipulated by the CBIRC.
3. Single related party credit concentration: as at the end of the Reporting Period, the Bank's outstanding balance of credit facility to the related party customer was RMB1,104 million, with a credit concentration of 2.53%.
4. Credit concentration on all related parties: as at the end of the Reporting Period, the Bank's outstanding balance of credit facilities to all related parties was RMB4,262 million, with a credit concentration of 9.76%, meeting the 50% cap requirement stipulated by the CBIRC.

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7.2 Market Risk

Market risk refers to the risk of on- or off-balance-sheet loss arising from adverse changes in market prices. The market risks faced by the Bank are mainly interest rate risk and exchange rate risk. The Bank's market risk management objective is to ensure that potential market losses are controlled at an acceptable level based on risk tolerance while striving to obtain maximum risk-adjusted returns. The Bank's market risk management covers the whole process of identifying, measuring and monitoring market risks. For market risk management, we mainly adopt the following measures:

Firstly, we carry out comprehensive research and analysis, and develop and improve the market risk research and analysis mechanism. We regularly arrange for relevant business departments to carry out investment research, write analytical research reports, enrich the types of market risk reports, complete the release of weekly and quarterly market risk reports on time, and guide business activities. Secondly, we improve the market risk management system. We have reviewed and improved more than 40 sets of relevant measures, revised the Measures for Market Risk Management and the Measures for the Administration of Market Risk Limits, added the Management Rules on Market Risk Stress Testing and the Management Measures on Market Risk Measurement, and drafted such market risk management measures as the Measures for the Classification of Trading and Bank Account Books, the Measures for Bond Business Risk Management, the Measures for Interbank Business Risk Management, and the Measures for Exchange Rate Risk Management. Thirdly, we formulate a market risk limit management scheme. We carry out tests on the enforcement of risk limits, conduct analysis and draw conclusions on situations where limits are exceeded, and continuously improve the risk limit management mechanism. Fourthly, we strengthen the construction of a market risk management team. The Bank has increased its efforts in introducing external talents and conducting internal training for seeking "talent support". We actively introduce market risk management personnel from the outside, hosted targeted theoretical, business, regulatory training, and conduct thorough testing of the market risk management team. Fifthly, the Bank has pushed forward market risk prevention and control projects with good results achieved in five aspects, i.e. talent enhancement, technology support, system guarantee, business adjustment and asset enhancement, comprehensively enhancing the Bank's market risk management capabilities.

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7.3 Operational Risk

Operational risk refers to the risk of loss caused by imperfect or problematic internal procedures, personnel or information technology systems, or external events, mainly including internal and external frauds, workplace safety failures, business interruptions, damage of tangible assets and information technology system failures. The Bank's operational risk management objective is to establish a sound operational risk management framework to effectively manage operational risks and keep operational risk losses to a minimum. For operational risk management, we closely follow regulatory requirements and the Bank's internal control requirements to step up the business support for branches and departments of the head office and improve operational risk management capabilities and compliance management. While strengthening personnel management, improving the internal control system and increasing technology support, we conduct compliance inspections and application and rectification of inspection results to strengthen process management and improve business processes and mechanisms on a continuous basis, so as to ensure the Bank's compliance in operations and promote steady and rapid business development. For operational risk management, we mainly adopt the following measures:

Firstly, we improve the internal control system, strengthen staff behaviour management, and comprehensively improve the quality of risk management personnel and business personnel. Secondly, we build a big data risk control system, establish an in-process risk early warning platform, improve the functions of relevant business and management systems, strengthen process control, and improve technical and machine prevention of risks. Thirdly, we consolidate the "institutional system" to lay a solid foundation for compliance-based operation. We carry out system evaluation and improvement to sort out and identify loopholes and risks in various systems and processes, and formulate, modify and abolish relevant systems and rules according to the Bank's actual situation and regulatory requirements to ensure that the Bank operates in compliance with laws and regulations. Fourthly, we strengthen the management of business under authority, refine the criteria for dynamic adjustment of the authority of branches and sub-branches, and specify the adjustment criteria and procedures for suspension, termination and resumption of authority to prevent business risks. Fifthly, we innovate in supervision and inspection modes, expand the scope of business inspections, stress the off-site inspection mode, and conduct targeted business and employee behaviour inspections. Sixthly, we strengthen rectification with strict accountability and implement "real rectification". Seventhly, we scientifically use operational risk monitoring, identification and management tools, consolidate the forefront of operational risk management, conduct in-depth analysis of the causes of risk events, and timely reveal and prevent operational risks.

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7.4 Liquidity Risk

Liquidity risk refers to the risk of failure to obtain sufficient funds in time or failure to obtain sufficient funds at a reasonable cost to pay off debts falling due, fulfil other payment obligations and meet other capital requirements for normal business operations. The objective of the Bank's liquidity risk management is to ensure that sufficient funds are available at all times to satisfy repayment obligations and working capital requirements. Based on changes in the market environment, the Bank closely monitor the daily funding gap, scientifically set the term structure, and promptly adjust the inflow and outflow of funds to ensure the liquidity of the Bank. In addition, based on the new regulatory requirements on liquidity, we have adjusted the asset-liability structure and enhanced the liquidity indicators, thereby making significant progress in liquidity management. Our main liquidity management measures are as follows:

Firstly, we strengthen the management of cash flow positions, and incorporate liquidity management into the appraisal indicators of branches, and "leverage appraisal and supervisory reporting" to improve branches' capabilities in cash flow position forecasting, cash limits and interbank deposit management. Secondly, we adjust and enhance the asset-liability structure, increase short-term quality liquid assets, increase the proportion of long-term liabilities, reduce the duration mismatch of assets and liabilities, and improve the liquidity indicators of the Bank. Thirdly, we establish a communication mechanism for liquidity management and hold regular liquidity management meetings to analyse the liquidity situation of the market and the Bank and study the subsequent investment and financing plans and liquidity management strategies. Fourthly, we regularly assess the Bank's liquidity risk situation, risk limit indicators and monitoring indicators, carry out liquidity risk stress tests to test the Bank's risk tolerance under stress conditions, and put forward suggestions for enhancement of business development. Fifthly, we improve the liquidity emergency response mechanism, carry out liquidity emergency drills and design comprehensive and scientific drill scenarios to test the Bank's capabilities in liquidity emergency response and handling. Sixthly, we improve the liquidity management system, and enhance the functions and adjust the calculation models of the asset and liability management system in accordance with the new regulatory rules and new accounting standards, to give full play to the role of the asset and liability management system in identifying, measuring, monitoring and controlling liquidity risks.

As at the end of the Reporting Period, the Bank's liquidity risk indicators were as follows:

1. Liquidity ratio: as at the end of the Reporting Period, the Bank's liquidity ratio was 58.22%, meeting the requirement of not less than 25% as stipulated by the CBIRC.
2. Liquidity coverage ratio: as at the end of the Reporting Period, the Bank's liquidity coverage ratio was 241.44%, meeting the requirement of not less than 100% as stipulated by the CBIRC.
3. Net stable funding ratio: as at the end of the Reporting Period, the Bank's net stable funding ratio was 103.72%, meeting the requirement of not less than 100% as stipulated by the CBIRC.

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4. Liquidity matching ratio: as at the end of the Reporting Period, the Bank's liquidity matching ratio was 107.77%, meeting the requirement of not less than 100% as stipulated by the CBIRC.

Overall, the Bank's key liquidity indicators meet regulatory requirements and have passed the liquidity stress test. On the premise of no systemic crisis, the Bank's overall liquidity risk is under effective control.

7.5 Information Technology Risk

Information technology risk refers to the operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and management flaws in the course of applying information technology. The objective of the Bank's information technology risk management is to identify, assess, monitor and control information technology risks by establishing an effective mechanism for the Bank to operate in a safe, continuous and stable environment. For information technology risk management, we mainly adopt the following measures:

Firstly, we strengthen off-site regulatory reporting management of information technology, formulate a plan for annual reporting and specify the reporting specifications and requirements. Secondly, we carry out information technology risk monitoring on a continuous basis, formulate an Information Technology Risk Monitoring Report for each quarter and submit it to the chief information officer, the internal audit office of the Board and the regulatory authorities. Thirdly, we conduct review and evaluation of major projects, conduct risk assessment of new core business system and review of financial sharing project under construction to identify various risks and propose preventive measures. Fourthly, we keep abreast of internal and external risk events and disclose such events.

7.6 Reputational Risk

Reputational risk refers to the risk of negative reporting and comments about the Bank due to its operations, management and other activities or external events. The objective of the Bank's reputational risk management is to identify, monitor, control and eliminate reputational risk by establishing a positive, reasonable and effective mechanism for reputational risk management in order to build and maintain a good corporate image and promote its sustainable development. The Bank has taken a series of measures to carry out reputation risk management:

Firstly, we improve the public opinion monitoring system and speed up public opinion response, strengthen and regulate the management of online reviewers, and establish a linkage and feedback mechanism among relevant departments, business departments and branches to timely learn about the events that may cause reputational risks. We reinforce external cooperation, improve public opinion management, set consistent response to negative public opinions, and strengthen brand image building. We intensify monitoring for instant early warning and handling of sensitive information in public opinions, with a view to gaining time for active response. Secondly, we strengthen education on public opinion and enhance the ability of all employees to prevent and resolve public opinion crisis. By spreading public opinion knowledge, we acquaint employees with the work methods and response plans for reputational risk prevention and control, thus enhancing bank-wide awareness of reputational risk. Meanwhile, we strengthen education on public opinion crisis prevention and control throughout the Bank to improve the ability of all employees to prevent and resolve public opinion crisis.

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7.7 Anti-Money Laundering Management

The Bank has established a bank-wide anti-money laundering institutional structure, an internal control system and standard operating procedures regarding anti-money laundering in accordance with the Anti-Money Laundering Law of the People's Republic of China and other applicable laws and regulations promulgated by the PBoC. The Bank is committed to continuously improving anti-money laundering and anti-terrorism financing capabilities by strengthening Know Your Customer (KYC) and customer risk assessment procedures, increasing risk monitoring and early warning activities, and improving the functions of the anti-money laundering information system. The Bank constantly steps up its efforts in anti-money laundering publicity to strengthen employees' awareness of anti-money laundering, and carries out anti-money laundering work carefully at the employee level.

8 RECEIVING RESEARCH DELEGATIONS, COMMUNICATION AND INTERVIEW ACTIVITIES

During the Reporting Period, the Bank did not receive any research delegations, and had no communication and interview activities.

9 SOCIAL RESPONSIBILITY

9.1 Fulfilment of Social Responsibility

In 2018, the Bank adhered to the social responsibility philosophy of "serving local small and medium-sized enterprises, focusing on people's livelihood, and developing high-end business", integrated social responsibility work into business operation based on the expectations and demands of various stakeholders, and shouldered the responsibility as a local corporate bank to continuously create value for the country, shareholders, employees, customers and the public. Firstly, we served local economic development. We set up the Commerce and Logistics Bank Alliance of China and initiated and hosted summits of China's commerce and logistics banks to promote the innovation and development of commerce and logistics banking and achieve the mutually beneficial and win-win development of various players. Secondly, we improved our corporate governance. Faced with the dual regulatory requirements at home and abroad after listing of "A+H" Shares, we revised and added corporate governance measures in a timely manner, improved the internal control system and internal audit management system, strengthened the capabilities in prevention and control of various risks, created stable economic returns for Shareholders, and safeguarded the legitimate rights and interests of Shareholders. Thirdly, we put into practice the positioning of providing financial services for residents. We pushed forward the retail transformation project, put great efforts in product innovation and service quality for the convenience and benefit of the people, improved the working mechanism of consumer rights protection, and strived to provide efficient and safe financial services to customers. Fourthly, we attached importance to enhancing employee value. We combined online learning with offline training to improve employees' professional skills and help them solve bottlenecks in career development. Also, we invited industry experts to hold special lectures on policy changes or hot issues to enhance employees' ability to cope with changes in the economic environment. Fifthly, we put into practice the concept of green development. We continued to improve the green credit system, have financial resources lean towards the green environmental protection industries,

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develop e-banking business, step up network channel construction, strengthen environmental risk management, and promote sustainable environmental development. Sixthly, we kept giving back to society. We sponsored the “Zhengzhou Bank Cup” International Marathon to promote the prosperous development of Zhengzhou’s sports industry with deeds. We cooperated with the relevant authorities to extract illegal fund-raising monitoring data and reported clues to suspected illegal fund-raising cases to help maintain financial order and social stability.

The Bank will publish the 2018 Environmental, Social and Governance Report (Corporate Social Responsibility Report) separately in accordance with the relevant requirements of the Hong Kong Stock Exchange and the SZSE.

9.2 Fulfilment of Social Responsibility in Calibrated Poverty Alleviation

9.2.1 Calibrated Poverty Alleviation Planning

Based on top-level design, the Bank focused on credit support and introduced a series of special financial credit products according to local conditions. All business lines and departments worked together to ensure the full implementation of poverty alleviation policies. We laid emphasis on credit-based poverty alleviation, innovated in service models, and started with product R&D to introduce tech loans, poverty alleviation loans and guaranteed insurance loans. Under the “3+1” (government, banks, enterprise + poverty alleviation objects) poverty relief scheme for calibrated poverty alleviation, we worked with agricultural guarantee companies to establish a special poverty alleviation model targeting farmers in poverty-stricken villages and build a distinctive credit and guarantee system to alleviate the predicament of poor rural households which have little assets and collateral.

The Bank has set up the Leading Group of Zhengzhou Bank on Calibrated Poverty Alleviation to regularly hold work meetings on calibrated poverty alleviation and study and develop relevant policies and measures. There are calibrated poverty alleviation bodies under the leading group. The Kaifeng branch acts as the lead bank for relevant business in Lankao County, while the Shangqiu branch serves as the lead bank for poverty alleviation microfinance. We issued the 2018-2020 Work Plan for Financial Calibrated Poverty Alleviation, the 2018 Work Scheme for Financial Calibrated Poverty Alleviation, the Manual on Poverty Alleviation Loans, and the Management Measures for the Evaluation and Accountability of Small and Micro (Individual) Credit Operations to specify the guidelines, basic principles, work priorities and implementation measures of the Bank’s financial calibrated poverty alleviation efforts. We also developed and implemented the due diligence and accountability system to ensure that frontline employees dare and are willing and able to carry out calibrated poverty alleviation work.

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9.2.2 Overview of Calibrated Poverty Alleviation for the Year

During the Reporting Period, under the guidance of socialism with Chinese characteristics in the new era and the spirit of the 19th National Congress of the Communist Party of China, the Bank closely followed the work requirements of the Municipal Party Committee and government of Zhengzhou on poverty relief, kept in mind its responsibility in calibrated poverty alleviation and helped combat poverty by fully introducing inclusive financial services in Henan Province to support rural invigoration, help build characteristic villages and serve rural areas.

Industrial poverty alleviation: the Bank actively attempted to meet the financial poverty alleviation and inclusive finance requirements of the state and the CBIRC, and vigorously explored the industrial poverty alleviation model of “Bank of Zhengzhou + three-level government poverty alleviation agencies + enterprises + poor households” to combine industrial poverty alleviation resources with the local characteristics of agriculture-related and poverty-stricken enterprises and rationally allocate credit resources. For these asset-light enterprises, the interest rate of loans issued to them is not more than 30% higher than the benchmark interest rate of the PBoC, and the borrowing enterprises are not required to provide physical assets as collateral. As for registered poor households, credit loans are issued to them at the benchmark interest rate of the PBoC. Meanwhile, the Bank vigorously initiated a number of characteristic industrial projects with demonstration effects, effectively supported the development of enterprises, and continually improved the income of registered poor households. As at the end of the Reporting Period, the Bank had issued RMB34,312 million of agriculture-related loans and RMB5,646.7 ten thousand of industrial calibrated poverty alleviation loans, helping 11,522 registered poor people get out of poverty.

Social poverty alleviation: during the Reporting Period, the trade union of the Bank’s head office donated RMB2 million to Zhengzhou Charity Federation on the “10.16 Zhengzhou Charity Day” to show strongly support for public welfare undertakings. Our Xinmi sub-branch donated RMB300,000 to Xinmi Police Foundation for the giving of assistance and treatment grants to families of public security officers who are in hardship due to illness and disability.

Educational poverty alleviation: our Kaifeng Branch donated RMB300,000 to a primary school in Kaifeng City through Zhengzhou Charity Federation for the construction of educational infrastructure. The Bank sponsored five poor college students from Zhoukou City for three consecutive years by donating RMB24,600 to them each year.

Targeted poverty alleviation: the Bank’s Pingdingshan branch donated RMB55,000 to a village in Pingdingshan City to assist low-income families and those in financial difficulties in paying educational, medical and subsistence costs and taking care of the elderly, the disabled and orphans.

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9.2.3 Results of Calibrated Poverty Alleviation

Indicator	Quantity/performance
I. Overview	
Including: 1. Funds	RMB59,146,600
2. Number of registered poor people lifted out of poverty	11,522
II. Items	
1. Industrial poverty alleviation	RMB56,467,000 of industrial poverty alleviation loans were issued to help 11,522 registered poor people get out of poverty
2. Poverty alleviation by transfer of employment	–
3. Relocation poverty alleviation	–
4. Educational poverty alleviation	RMB24,600 was donated to sponsor 5 poor students; RMB300,000 was donated for educational resource enhancement in poverty-stricken areas
5. Health poverty alleviation	–
6. Poverty alleviation by ecological protection	–
7. Basic living security	RMB55,000
8. Social poverty alleviation	RMB2.3 million was donated to charity foundations
9. Other items	–
III. Awards (content, class)	–

9.2.4 Subsequent Plan for Calibrated Poverty Alleviation

The Bank will continuously enhance its product innovation capabilities, intensify cooperation with local governments and guarantee companies in Henan Province, and step up efforts to support more registered poor farmers, poverty-stricken agricultural enterprises and farmers' cooperatives through joint customer access and risk sharing. In a drive to improve the efficiency of approving poverty alleviation loans, we will make full use of big data and connect to the systems of local industry and commerce authorities and tax authorities through local municipal governments to obtain more accurate information on poverty alleviation loan borrowers as the basis for pre-loan investigation and the review and approval process. We will enhance performance incentives for poverty alleviation loans and reasonably determine the tolerance of non-performing loans and due diligence and accountability rules for poverty alleviation loans and farmer loans to ensure the healthy development of the Bank's financial poverty alleviation work.

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10 OUTLOOK

10.1 Industry Landscape and Trend

China's economy has bid farewell to high-speed growth and entered a stage of quality development. Supply-side reform, consumption upgrading, and high-tech industry investment will become the main themes of economic development, while deleveraging and serving the real economy will become an important stepping stone for the development of the financial industry. In this process, commercial banks have experienced a difficult period of slowing growth and declining profitability. Since 2018, monetary policy has been loosened with stable but a bit lax money supply. Commercial banks will shift to the mode of pursuing quality development. From the perspective of regional economic environment, Henan Province and Zhengzhou City are important pillars for the rise of Central China. The Belt and Road initiative, the Airport Economic Zone and the Zhengzhou-Luoyang-Xinxiang National Independent Innovation Demonstration Zone bring great opportunities for regional economic development.

In this context, the Bank should seize the development opportunities in the macro environment. On one hand, we will follow national policies to discover industrial characteristics and explore new business opportunities; on the other hand, we will use fintech to drive business transformation. Firstly, we are well-positioned under the favourable economic conditions with preferential policies. Riding on the advantages brought by the rise of urban agglomeration in central China, including Zhengzhou's pivotal position under the "Belt and Road" initiative, the construction of the Airport Economic Zone and the Hi-tech Industrial Development Zone, the Bank will grasp the timing of building an open trade platform with characteristic services relating to commerce and logistics with a view to tapping into the needs in supply chain finance, cross-border transactions and development of the real economy. Secondly, we will explore how to serve emerging industries with regional characteristics. From the perspective of regional industrial development trends, the Bank should grasp the development opportunities of strategic emerging industries such as automobiles, electronic information and new materials, and leverage the transformation and upgrading of the manufacturing industries to develop service capabilities and innovative products targeting relevant industries. Thirdly, we will promote fintech-driven business transformation. Strengthening fintech capacity building, which can boost core business capabilities, improve business efficiency and user experience, and reduce risks and costs, is an inevitable choice for banks in an increasingly severe competitive environment and in a period of business transformation.

10.2 Corporate Development Strategy

The Bank will continue to uphold its development vision of "becoming a customer-oriented, innovation-driven and professional regional boutique bank". On the basis of "taking root in Henan and Zhengzhou and expanding to city groups in central plains of China and even the entire country", we will make full use of the Bank's leading position in Henan and Zhengzhou and focus on developing commerce and logistics banking business based on the three distinctive positioning features to explore business opportunities in boutique banking for residents and SME financing.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

In the next two to three years, the Bank will maintain overall “steady development” while seeking accelerating growth in a shift from pursuing scale and speed to pursuing quality and efficiency. We will adhere to the development theme of “consolidating the foundation and seeking innovation and transformation”, and seize the window of reform to develop core competitiveness and transform business models. Guided by the strategy to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support”, we will strengthen the weak links in the control of “credit risk, liquidity risk and operational risk”, cultivate core capabilities in “risk control, marketing and innovation”, and consolidate the special business positioning features of “finance for commerce and logistics, finance for small and micro enterprises, and finance for residents”, and build up “talent support, technology support and system support” for transformation, so as to lay a solid foundation for the long-term development and the next take-off of the Bank.

10.3 Operating Plan

China's economy is running steadily with changes and concerns. In 2019, the banking industry will face a more severe and complex development environment. Under the strong leadership of the Board, the Bank will continue to implement the general requirements of the strategy to “recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support” by focusing on capacity improvement and the “three distinctive business positioning features” and insisting on quality development and risk prevention and control, so as to promote its long-term stable development.

Firstly, we will insist on development as the first priority. The Bank will continue to adopt the profitability-oriented approach, abandon the obsession with speed and scale, put more efforts in increasing revenue and profits, and take measures to reduce the cost of debt and capital consumption and improve asset returns, so as to achieve intrinsic quality development.

Secondly, we will embark on the path of distinctive and differentiated development. The Bank will continue to further promote the transformation to trade finance and retail business. In 2019, we will drive the rapid growth of trade finance business based on the “Five-Cloud” platform for commerce and logistics and the Commerce and Logistics Bank Alliance. We will regulate sales management in retail business marketing and line up advantageous resources to develop knock-out products with a focus on improving customer experience, in an ongoing effort to enhance the “sense of accomplishment” of citizens and take the transformation to retail business to the next level.

Thirdly, we will lay emphasis on credit risk prevention and control. The Bank will focus on “controlling new credit loans and reducing old credit loans” and earnestly carry out credit risk prevention and control. We will speed up the construction of the “six unified” system, i.e. “unified post-loan management, unified release of loans, unified credit granting, unified early warning, unified archiving, and unified collateral”; strengthen bank-wide team building for risk control and improve the training mechanism to enhance the comprehensive risk control ability of employees; accelerate the development of key risk control systems and risk models to further improve the effect of technical prevention of risks; and actively learn from advanced peers to develop innovative methods for disposal of non-performing loans.

Chapter III MANAGEMENT DISCUSSION AND ANALYSIS

10.4 Potential Risks

China's economy will continue to bottom out in 2019, and the banking industry will still face huge pressure on risk prevention and maintaining steady growth. In order to better adapt to the new normal of economic development, effectively support supply-side structural reform, and firmly defend the bottom line of risks, the Bank has a long way to go in enhancing asset allocation, achieving transformation, serving the real economy, improving corporate governance, and strengthening risk prevention and control. Guided by the strategy to "recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support", the Bank will continuously improve institutional construction, personnel capabilities, and system technology, accelerate the pace of reform and transformation, and enhance the ability to resist risks.

The Bank mainly operates in Henan Province, and most of our customers and business lines are concentrated in Zhengzhou City. So the sustained growth of our business volume and profit depends to a large extent on the economic growth of Zhengzhou City and Henan Province. As such, changes in Zhengzhou's economy may have a significant impact on the Bank's business operations, asset quality, operating results and financial position.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1 CHANGES IN ORDINARY SHARES

1.1 Table of Changes in Ordinary Shares

Unit: Shares

	1 January 2018		Increase/decrease during the Reporting Period (+/-)					31 December 2018	
	Number	Proportion (%)	Issuance of new shares	Bonus shares	Shares converted from reserves	Others	Sub-total	Number	Proportion (%)
I. Shares subject to trading moratorium	3,803,931,900	71.48	-	-	-	-	-	3,803,931,900	64.23
1. State-owned shares	504,133,149	9.47	-	-	-	-	-	504,133,149	8.51
2. Shares held by state-owned legal persons	1,269,772,953	23.86	-	-	-	-	-	1,269,772,953	21.44
3. Shares held by other domestic investors	2,030,025,798	38.15	-	-	-	-	-	2,030,025,798	34.28
Including: Shares held by domestic legal persons	1,973,882,037	37.09	-	-	-	-	-	1,973,882,037	33.33
Shares held by domestic natural persons	56,143,761	1.06	-	-	-	-	-	56,143,761	0.95
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Including: Shares held by overseas legal persons	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to trading moratorium	1,518,000,000	28.52	+600,000,000	-	-	-	+600,000,000	2,118,000,000	35.77
1. Ordinary shares denominated in RMB	-	-	+600,000,000	-	-	-	+600,000,000	600,000,000	10.13
2. Domestically-listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas-listed foreign shares	1,518,000,000	28.52	-	-	-	-	-	1,518,000,000	25.64
4. Others	-	-	-	-	-	-	-	-	-
III. Total	5,321,931,900	100.00	+600,000,000	-	-	-	+600,000,000	5,921,931,900	100.00

As at the end of the Reporting Period, the Bank issued 5,921,931,900 Ordinary Shares, including 1,518,000,000 H Shares and 4,403,931,900 A Shares.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1.2 Description of Changes in Ordinary Shares

On 27 July 2018, the Bank received the Reply on Approving the Initial Public Offering of Bank of Zhengzhou Co., Ltd. (CSRC License [2018] No.1199) issued by the CSRC, which approved the public offering of the Bank of no more than 600,000,000 A Shares. On 19 September 2018, A Shares of the Bank were officially listed on the SZSE. Please refer to the above “Table of Changes in Ordinary Shares” about the changes in total number of Ordinary Shares and the shareholding structure of the Bank after the public offering.

1.3 Impacts on Financial Indicators including Earnings per Share, Net Assets per Share, etc. from Changes in Ordinary Shares during the most recent year and period

During the Reporting Period, the Bank publicly issued 600,000,000 RMB-denominated Ordinary A Shares. Net proceeds amounted to RMB2,708,785,195.80, which were included in RMB600,000,000.00 of paid-in capital and RMB2,108,785,195.80 of capital reserve (share premium). The Bank’s total share capital increased from 5,321,931,900 Shares to 5,921,931,900 Shares. The impact of the enlargement of the total share capital on financial indicators such as earnings per Share and net assets per Share for the previous year and last period is set out as follows:

	As at 31 December 2018	As at 31 December 2017
Major financial indicators		
Basic earnings per Share (RMB/Share)	0.47	0.80
Diluted earnings per Share (RMB/Share) <i>(Note)</i>	0.47	0.80
Net assets per Share attributable to ordinary Shareholders of the Bank (RMB/Share)	4.87	4.58

Note: Diluted earnings per Share were calculated by dividing the net profit attributable to ordinary Shareholders of the Bank adjusted based on diluted potential Ordinary Shares by the adjusted weighted average number of outstanding Ordinary Shares of the Bank. As there were no diluted potential Ordinary Shares of the Bank in 2018 (2017: Nil), diluted earnings per Share were equal to basic earnings per Share.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

2 ISSUANCE AND LISTING OF SECURITIES

2.1 Issuance of Securities as at the end of the Reporting Period

The 2016 first extraordinary general meeting of the Bank was convened on 27 September 2016, at which the resolution in relation to the initial public offering of no more than 600,000,000 A Shares was considered and approved. For details in relation to, among others, the A Share Offering, please refer to the circular of the Bank dated 13 August 2016 and the announcements of the Bank dated 16 July 2016, 13 August 2016, 27 September 2016, 23 December 2016 and 29 December 2016, respectively, as set out on the website of the Hong Kong Stock Exchange.

At the 80th meeting in 2018 of the 17th session of the Issuance Examination Committee of the CSRC held on 22 May 2018, the application in respect of the A Share Offering of the Bank was successfully reviewed and approved.

At the 2017 AGM of the Bank on 15 June 2018, a resolution in relation to further extension of the validity period of the plan for the A Share Offering was considered and approved, with the validity period extended to 26 September 2019. For details, please refer to the circular of the Bank dated 18 May 2018 and the announcements of the Bank dated 22 March 2018, 27 April 2018 and 15 June 2018, respectively, as set out on the website of the Hong Kong Stock Exchange.

On 27 July 2018, the CSRC notified the Bank officially in writing, and announced on the same date that the Bank was approved to issue A Shares, with the public offering of no more than 600,000,000 Shares. The validity period is within 12 months from the date of approval.

On 13 September 2018, the Bank completed the initial public offering of A Shares, issuing 600,000,000 Ordinary Shares at an offer price of RMB4.59 per Share. The gross proceeds from the public offering of A Shares of the Bank amounted to RMB2,754,000,000. After deducting the offering fee of RMB45,214,804.20 borne by the Bank, the net proceeds amounted to RMB2,708,785,195.80. For details, please refer to the announcements of the Bank dated 30 August 2018, 6 September 2018, 10 September 2018, 11 September 2018, 13 September 2018 and 18 September 2018, respectively, as set out on the websites of Cninfo and the Hong Kong Stock Exchange.

On 19 September 2018, the 600,000,000 A Shares of the Bank's initial public offering were listed on the SZSE, with the stock abbreviation "Bank of Zhengzhou" and stock code "002936". After the initial public offering of A Shares, the total share capital of the Bank was 5,921,931,900 Shares, among which 4,403,931,900 were A Shares and 1,518,000,000 were H Shares. For details, please refer to the announcement of the Bank dated 18 September 2018 as set out on the websites of Cninfo and the Hong Kong Stock Exchange.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

2.2 Description of Changes in the Structuring of Assets and Liabilities

In September 2018, the Bank initially issued 600,000,000 RMB-denominated Ordinary A Shares with a par value of RMB1.00 at an offer price of RMB4.59 per Share. After the offering, the total share capital was 5,921,931,900 Shares, with the gross proceeds amounting to RMB2,754,000,000.00. On 13 September 2018, KPMG Huazhen LLP reviewed the proceeds of the offering and issued Report on Capital Verification (KPMG Huazhen Yan Zi No. 1800380). After deducting sponsor and underwriting fees of RMB26,924,528.31 (net of value-added tax), the remaining proceeds of the Bank was RMB2,727,075,471.69. After deducting the other fundraising-related issuance fees of RMB18,290,275.89 (net of value-added tax), the net proceeds amounted to RMB2,708,785,195.80, which was fully utilized as the additional core tier 1 capital of the Bank.

2.3 Existing Internal Employee Shares

As at the end of the Reporting Period, the total number of internal employee Shareholders of the Bank was 1,080, with total shareholdings of 38,275,236 A Shares, representing 0.65% of the total share capital of the Bank as at the end of the Reporting Period. The shareholdings of internal employees originated mainly from Shares obtained through the following two ways: (1) upon the establishment of the Bank in 1996, by taking part in the establishment of the Bank as shareholders of the original urban credit cooperatives and the joint urban credit cooperative; and (2) by inheritance.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

3 INFORMATION ON ORDINARY SHAREHOLDERS

Number of Ordinary Shareholders and Their Shareholdings

As at the end of the Reporting Period, the total number of ordinary Shareholders of the Bank was 264,100, of whom 264,042 were holders of A Shares and 58 were holders of H Shares. As at the end of the month prior to the publication date of this Annual Report, the total number of ordinary Shareholders was 207,459, of whom 207,401 were holders of A Shares and 58 were holders of H Shares.

The direct shareholdings of the top 10 ordinary Shareholders of the Bank on 31 December 2018 are set out as follows:

Unit: Shares

Name of Shareholder	Nature of Shareholder	Class of Shares	Shareholdings percentage (%)	Number of Shares held at the end of the period	Changes over the Reporting Period (+/-)	Number of shares held subject to trading moratorium	Number of shares held not subject to trading moratorium	Pledged or frozen Status of	
								Shares	Number
HKSCC Nominees Limited	Overseas legal person	H Shares	25.63	1,517,868,830	+950	-	1,517,868,830	Unknown	-
Zhengzhou Finance Bureau	State-owned	A Shares	8.29	490,904,755	-	490,904,755	-	Pledged	220,900,000
Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic non-state-owned legal person	A Shares	4.42	262,000,000	-	262,000,000	-	Pledged	262,000,000
Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic non-state-owned legal person	A Shares	4.22	250,000,000	-	250,000,000	-	Pledged	124,999,990
Zhongyuan Trust Co., Ltd. (中原信託有限公司)	State-owned legal person	A Shares	4.04	239,426,471	-	239,426,471	-	-	-
Henan Chendong Industry Co., Ltd. (河南農東實業有限公司)	Domestic non-state-owned legal person	A Shares	3.82	226,000,000	-	226,000,000	-	Pledged	135,600,000
Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	State-owned legal person	A Shares	3.64	215,678,764	-	215,678,764	-	-	-
Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic non-state-owned legal person	A Shares	3.36	199,046,474	-	199,046,474	-	Pledged	149,500,000
Bridge Trust Co., Ltd. (百瑞信託有限責任公司)	State-owned legal person	A Shares	1.94	114,697,149	-	114,697,149	-	-	-
Henan Shengrun Holding Group Co., Ltd. (河南盛潤控股集團有限公司)	Domestic non-state-owned legal person	A Shares	1.69	100,000,000	-	100,000,000	-	Pledged	10,000,000
Strategic investors or ordinary legal persons becoming top 10 Shareholders by way of placing of new Shares (if any)				None					
Description of connected relationships or concerted actions of the above Shareholders			The Bank is not aware of any connected relationship among the above Shareholders or any act-in-concert parties under the "Administration Measures on the Acquisition of Listed Companies (《上市公司收購管理辦法》)".						
Description of the top 10 ordinary Shareholders participating in margin financing and securities lending business (if any)			None						

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

The direct shareholdings of the top 10 ordinary Shareholders not subject to trading moratorium of the Bank on 31 December 2018 are set out as follows:

Unit: Shares

Name of Shareholder	Number of shares held not subject to trading moratorium at the end of the Reporting Period	Type of Shares	
		Class of Shares	Number
HKSCC Nominees Limited	1,517,868,830	H Shares	1,517,868,830
ZHANG Chengxiang (張成香)	2,434,300	A Shares	2,434,300
ZHANG Wenzhong (張文忠)	1,740,400	A Shares	1,740,400
ZHANG Xinjiao (張新姣)	1,500,000	A Shares	1,500,000
XIE Chengxin (謝程心)	1,395,200	A Shares	1,395,200
SHAO Jianjian (邵建劍)	1,342,781	A Shares	1,342,781
WANG Zhidong (王治東)	1,280,000	A Shares	1,280,000
ZHOU Jichang (周吉長)	1,200,000	A Shares	1,200,000
ZHANG Haidong (張海東)	1,120,000	A Shares	1,120,000
XIANG Bogen (項伯根)	1,100,100	A Shares	1,100,100
Description of connected relationships or concerted actions among the top 10 holders of Shares not subject to trading moratorium, and between the top 10 holders of Shares not subject to trading moratorium and the top 10 Shareholders	The Bank is not aware of any connected relationship among top 10 holders of Shares not subject to trading moratorium, and between the top 10 holders of Shares not subject to trading moratorium and the top 10 Shareholders or any act-in-concert parties under the "Administration Measures on the Acquisition of Listed Companies (《上市公司收購管理辦法》)".		

Notes:

1. The data above is sourced from the register of shareholders of the Bank as at 31 December 2018.
2. The Shares held by HKSCC Nominees Limited are held by it in the capacity of agent and represent the aggregate number of H shares held by all institutional and individual investors registered in HKSCC Nominees Limited as at the end of the Reporting Period.

During the Reporting Period, none of the top 10 ordinary Shareholders and the top 10 holders of Shares not subject to trading moratorium carried out any agreed buy-back transactions.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

4 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES

Based on the knowledge of the Directors, Supervisors and chief executive of the Bank, as at 31 December 2018, the following persons, other than Directors, Supervisors and chief executive of the Bank, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Class of Shares	Long/Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Zhengzhou Finance Bureau	A Shares	Long	Beneficial owner and interest of controlled corporation ⁽¹⁾	656,163,737	14.90	11.08
Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	A Shares	Long	Beneficial owner	262,000,000	5.95	4.42
Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司)	A Shares	Long	Interest of controlled corporation ⁽²⁾	262,000,000	5.95	4.42
ZHANG Xinya (張欣雅)	A Shares	Long	Interest of controlled corporation ⁽²⁾	262,000,000	5.95	4.42
Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	A Shares	Long	Beneficial owner	250,000,000	5.68	4.22
Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司)	A Shares	Long	Interest of controlled corporation ⁽³⁾	250,000,000	5.68	4.22
Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司)	A Shares	Long	Interest of controlled corporation ⁽³⁾	250,000,000	5.68	4.22
ZHANG Huiqi (張惠琪)	A Shares	Long	Interest of controlled corporation ⁽³⁾	250,000,000	5.68	4.22
Zhongyuan Trust Co., Ltd. (中原信託有限公司)	A Shares	Long	Beneficial owner	239,426,471	5.44	4.04
Henan Zhongyuan Expressway Co., Ltd. (河南中原高速公路股份有限公司)	A Shares	Long	Interest of controlled corporation ⁽⁴⁾	239,426,471	5.44	4.04
Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司)	A Shares	Long	Interest of controlled corporation ⁽⁴⁾	239,426,471	5.44	4.04
Henan Investment Group Co., Ltd. (河南投資集團有限公司)	A Shares	Long	Beneficial owner and Interest of controlled corporation ⁽⁵⁾	329,195,683	7.48	5.56
Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	A Shares	Long	Beneficial owner	226,000,000	5.13	3.82
DU Liling (杜麗玲)	A Shares	Long	Interest of controlled corporation ⁽⁶⁾	226,000,000	5.13	3.82
WANG Meilan (王梅蘭)	A Shares	Long	Interest of controlled corporation ⁽⁶⁾	226,000,000	5.13	3.82
China Goldjoy Securities Limited (中國金洋證券有限公司)	H Shares	Long	Custodian	377,174,000	24.84	6.37
Yunnan International Holding Group Limited	H Shares	Long	Beneficial owner	227,362,623	14.98	3.84
Yunnan Energy Investment (HK) Co. Limited	H Shares	Long	Interest of controlled corporation ⁽⁷⁾	227,362,623	14.98	3.84
YUNNAN PROVINCIAL ENERGY INVESTMENT GROUP CO., LTD	H Shares	Long	Interest of controlled corporation ⁽⁷⁾	227,362,623	14.98	3.84
Hong Kong Oriental Sage Limited (香港東智有限公司)	H Shares	Long	Beneficial owner	223,000,000	14.69	3.77
ORIENTAL SAGE LIMITED (東智有限公司)	H Shares	Long	Interest of controlled corporation ⁽⁸⁾	223,000,000	14.69	3.77
China Goldjoy Credit Limited	H Shares	Long	Person having a security interest ⁽⁹⁾	199,422,377	13.14	3.37
Stellar Result Limited	H Shares	Long	Person having a security interest	199,422,377	13.14	3.37
Goldjoy Holding Limited	H Shares	Long	Interest of controlled corporation ⁽⁹⁾	199,422,377	13.14	3.37
			Person having a security interest	199,422,377	13.14	3.37
			Interest of controlled corporation ⁽⁹⁾	199,422,377	13.14	3.37

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Substantial Shareholder	Class of Shares	Long/Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Great Sphere Developments Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽⁹⁾	199,422,377	13.14	3.37
China Goldjoy Group Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽⁹⁾	199,422,377	13.14	3.37
Tinmark Development Limited	H Shares	Long	Beneficial owner	200,504,377	13.21	3.39
YAO Jianhui (姚建輝)	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽¹⁰⁾	200,504,377	13.21	3.39
Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹²⁾	129,000,000	8.50	2.18
WEI Lidong (尉立東)	H Shares	Long	Interest of controlled corporation ⁽¹²⁾	129,000,000	8.50	2.18
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司)	H Shares	Long	Beneficial owner	100,000,000	6.59	1.69
Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Zhengzhou Airport Zone Xinggang Investment and Development Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司))	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Zhengzhou Zhongrui Industrial Group Co., Ltd. (鄭州中瑞實業集團有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司))	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Zhengzhou Ruichang Enterprise Management Consulting Company Limited (鄭州瑞昌企業管理諮詢有限公司)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
WAN Yongxing (萬永興)	H Shares	Long	Interest of controlled corporation ⁽¹³⁾	100,000,000	6.59	1.69
Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司)	H Shares	Long	Beneficial owner ⁽¹⁴⁾	100,000,000	6.59	1.69
Haitong International Financial Products (Singapore) Pte. Ltd.	H Shares	Long	Person having a security interest ⁽¹⁵⁾	128,003,000	8.43	2.16
Haitong International Securities Group (Singapore) Pte. Ltd.	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽¹⁵⁾	128,003,000	8.43	2.16

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Substantial Shareholder	Class of Shares	Long/Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
Haitong International Securities Group Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽¹⁵⁾	128,003,000	8.43	2.16
Haitong International Holdings Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽¹⁵⁾	128,003,000	8.43	2.16
Haitong Securities Co., Ltd.	H Shares	Long	Person having a security interest Interest of controlled corporation ⁽¹⁵⁾	128,003,000	8.43	2.16
CITIC Securities Company Limited	H Shares	Long	Interest of controlled corporation ⁽¹⁶⁾	445,879,130	29.37	7.53
	H Shares	Short	Interest of controlled corporation ⁽¹⁶⁾	395,593,866	26.06	6.68
Goncius I Limited	H Shares	Long	Beneficial owner ⁽¹⁷⁾	115,501,859	7.61	1.95
	H Shares	Short	Beneficial owner ⁽¹⁷⁾	115,501,859	7.61	1.95
Huarong International Financial Holdings Limited	H Shares	Long	Beneficial owner ⁽¹⁸⁾	90,957,714	5.99	1.54
China Huarong Asset Management Co., Ltd.	H Shares	Long	Interest of controlled corporation ⁽¹⁸⁾	90,957,714	5.99	1.54

Notes:

- These 656,163,737 Shares are directly or indirectly held by Zhengzhou Finance Bureau, including 490,904,755 Shares directly held by Zhengzhou Finance Bureau, 65,258,982 Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), 50,000,000 Shares held by Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and 50,000,000 Shares held by Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) are directly or indirectly wholly-owned by Zhengzhou Finance Bureau. By virtue of the SFO, Zhengzhou Finance Bureau is deemed to be interested in the Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Mr. FAN Yutao (樊玉濤), a non-executive Director, is the deputy director of Zhengzhou Finance Bureau.
- Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) is wholly-owned by Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司), which is in turn owned by Ms. ZHANG Xinya (張欣雅) as to 85%. By virtue of the SFO, both Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) and Ms. ZHANG Xinya (張欣雅) are deemed to be interested in the Shares held by Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司).
- Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) is owned by Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司) as to 97.8%. Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司) is in turn owned by Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and Ms. ZHANG Huiqi (張惠琪) as to 90% and 9%, respectively. Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) is owned by Ms. ZHANG Huiqi (張惠琪) as to 98%. By virtue of the SFO, Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司), Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and Ms. ZHANG Huiqi (張惠琪) are deemed to be interested in the Shares held by Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司). Ms. ZHANG Huiqi (張惠琪) is the daughter, being above the age of 18, of Mr. ZHANG Jianguo (張敬國), a non-executive Director.
- Zhongyuan Trust Co., Ltd. (中原信託有限公司) is owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Henan Zhongyuan Expressway Co., Ltd. (河南中原高速公路股份有限公司) as to approximately 46.43% and 31.91%, respectively (as at the Latest Practicable Date, the shareholders and shareholding structure of Zhongyuan Trust Co., Ltd. (中原信託有限公司) has changed. The equity owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) has been changed to 58.97%, and the equity owned by Henan Zhongyuan Expressway Co., Ltd. (河南中原高速公路股份有限公司) remains unchanged.). Henan Zhongyuan Expressway Co., Ltd. (河南中原高速公路股份有限公司) is owned by Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) as to approximately 45.09%. By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司), Henan Zhongyuan Expressway Co., Ltd. (河南中原高速公路股份有限公司) and Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) are deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). Mr. JI Hongjun (姬宏俊), a non-executive Director, is the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司).

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

5. These 329,195,683 Shares are directly and indirectly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司), including 89,769,212 Shares directly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and 239,426,471 Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司) is deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司).
6. Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) is owned as to 50% and 50% by Ms. DU Liling (杜麗玲) and Ms. WANG Meilan (王梅蘭) respectively. By virtue of the SFO, each of Ms. DU Liling (杜麗玲) and Ms. WANG Meilan (王梅蘭) is deemed to be interested in the Shares held by Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
7. These 227,362,623 Shares are directly or indirectly held by Yunnan International Holding Group Limited, which is owned by Yunnan Energy Investment (H K) Co. Limited as to 40%, while in turn Yunnan Energy Investment (H K) Co. Limited is wholly-owned by YUNNAN PROVINCIAL ENERGY INVESTMENT GROUP CO., LTD. By virtue of the SFO, Yunnan Energy Investment (HK) Co. Limited and YUNNAN PROVINCIAL ENERGY INVESTMENT GROUP CO., LTD are deemed to be interested in the Shares held by Yunnan International Holding Group Limited.
8. These 223,000,000 Shares are directly held by Hong Kong Oriental Sage Limited (香港東智有限公司), which is wholly-owned by Oriental Sage Limited (東智有限公司). By virtue of the SFO, Oriental Sage Limited (東智有限公司) is deemed to be interested in the Shares held by Hong Kong Oriental Sage Limited (香港東智有限公司).
9. China Goldjoy Credit Limited has a security interest in these 199,422,377 Shares. China Goldjoy Credit Limited is wholly-owned by Stellar Result Limited, which is in turn owned as to 80% by Goldjoy Holding Limited. Goldjoy Holding Limited is wholly-owned by Great Sphere Developments Limited, which is in turn wholly-owned by China Goldjoy Group Limited. By virtue of the SFO, Stellar Result Limited, Goldjoy Holding Limited, Great Sphere Developments Limited and China Goldjoy Group Limited are deemed to be interested in the Shares held by China Goldjoy Credit Limited.
10. 1,082,000 Shares are directly held by Tinmark Development Limited. Besides, China Goldjoy Group Limited is owned by Tinmark Development Limited as to 41.73%. By virtue of the SFO, Tinmark Development Limited is deemed to be interested in the 199,422,377 Shares held by China Goldjoy Credit Limited through China Goldjoy Group Limited, Great Sphere Developments Limited, Goldjoy Holding Limited and Stellar Result Limited. Therefore, Tinmark Development Limited is deemed to be interested in a total of 200,504,377 Shares.
11. Tinmark Development Limited is wholly-owned by Mr. YAO Jianhui (姚建輝). By virtue of the SFO, Mr. YAO Jianhui (姚建輝) is deemed to be interested in the Shares in which Tinmark Development Limited is deemed to be interested.
12. Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) is owned as to 99.83% by Mr. WEI Lidong (尉立東) and Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) holds a total of 129,000,000 Shares through certain subsidiaries.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

13. Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) (“**Hong Kong Xingrui**”) is wholly-owned by Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) (“**Xingrui Industrial**”), being a state-owned company under the Zhengzhou Airport Zone Economic Integrated Experimental Zone (Zhengzhou Xinzheng Integrated Free Trade Zone) Management Committee (鄭州航空港經濟綜合實驗區(鄭州新鄭綜合保稅區)管理委員會), which was formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Management Committee (鄭州新鄭綜合保稅區(鄭州航空港區)管理委員會). Xingrui Industrial is owned as to 51% and 49% by Zhengzhou Airport Zone Xinggang Investment Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as: Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司) (“**Zhengzhou Xinggang**”), and Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司) (“**Ruimaotong**”). Ruimaotong is wholly-owned by Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司) (“**Jiangsu Jinhe**”), which is in turn wholly owned by a company (being listed on the Shanghai Stock Exchange) under Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司) (“**Ruimaotong Supply Chain Management**”). Ruimaotong Supply Chain Management is owned as to 60.76% by Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司) (“**Zhengzhou Ruimaotong**”). Zhengzhou Ruimaotong is wholly-owned by Zhengzhou Zhongrui Industrial Group Co., Ltd. (鄭州中瑞實業集團有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司)) (“**Zhengzhou Zhongrui**”). Zhengzhou Zhongrui is owned as to 85% by Zhengzhou Ruichang Enterprise Management Consulting Company Limited (鄭州瑞昌企業管理諮詢有限公司) (“**Zhengzhou Ruichang**”), which is owned as to 70% by Mr. WAN Yongxing (萬永興). By virtue of the SFO, each of Xingrui Industrial, Zhengzhou Xinggang, Ruimaotong, Jiangsu Jinhe, Ruimaotong Supply Chain Management, Zhengzhou Ruimaotong, Zhengzhou Zhongrui, Zhengzhou Ruichang and Mr. WAN Yongxing is deemed to be interested in the Shares held by Hong Kong Xingrui.
14. Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司) was established by the Zhengzhou Zhengdong New District Management Committee (鄭州鄭東新區管理委員會).
15. Haitong International Financial Products (Singapore) Pte. Ltd has a security interest in these 128,003,000 Shares. Haitong International Financial Products (Singapore) Pte. Ltd. is wholly-owned by Haitong International Securities Group (Singapore) Pte. Ltd., which is in turn wholly-owned by Haitong International Finance Company Limited. Haitong International Finance Company Limited is wholly-owned by Haitong International (BVI) Limited, which is in turn wholly-owned by Haitong International Securities Group Limited. Haitong International Securities Group Limited is held as to 63.08% by Haitong International Holdings Limited, which is in turn wholly-owned by Haitong Securities Co., Ltd. By virtue of the SFO, Haitong International Securities Group (Singapore) Pte. Ltd., Haitong International Finance Company Limited, Haitong International (BVI) Limited, Haitong International Securities Group Limited, Haitong International Holdings Limited and Haitong Securities Co., Ltd. are deemed to be interested in the Shares held by Haitong International Financial Products (Singapore) Pte. Ltd.
16. CITIC Securities Company Limited held 445,879,130 H Shares (long position) of the Bank and 395,593,866 H Shares (short position) of the Bank through certain of its wholly-owned subsidiaries. In addition, 396,460,130 H Shares (long position) and 395,593,866 H Shares (short position) involve derivatives in the classes below:
- | | |
|---|---|
| 5,197,584 H Shares (long position) | – Convertible instruments (on-exchange transaction) |
| 391,262,546 H Shares (long position) and
395,593,866 H Shares (short position) | – Settled in cash (curb trading) |
17. These 115,501,859 H Shares (long position) and 115,501,859 H Shares (short position) held by Goncius I Limited involve derivatives in the classes below:
- | | |
|---------------------------------------|---|
| 115,501,859 H Shares (long position) | – Convertible instruments (on-exchange transaction) |
| 115,501,859 H Shares (short position) | – Settled in cash (curb trading) |

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

18. Huarong International Financial Holdings Limited is owned as to 51% by Camellia Pacific Investment Holding Limited, which is wholly-owned by China Huarong International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd. respectively, while Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd. are both wholly owned by China Huarong Asset Management Co., Ltd. By virtue of the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in the Shares held by Huarong International Financial Holdings Limited. Furthermore, such 90,957,714 H Shares (long position) involve derivatives in the class below:

90,957,714 H Shares (long position)

– Others (on-exchange transaction)

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

5 INFORMATION ON CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As at the end of the Reporting Period, the Bank did not have any controlling Shareholders or de facto controllers.

6 HOLDERS WITH 5% OR MORE SHAREHOLDING IN THE BANK

As at the end of the Reporting Period, Zhengzhou Finance Bureau directly held 490,904,755 A Shares (long position), accounting for 8.29% of the total issued Ordinary Shares of the Bank. In addition, Zhengzhou Finance Bureau is deemed to be interested in an aggregate of the 165,258,982 A Shares (long position) held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). These 656,163,737 A Shares (long position) in total account for 11.08% of the total issued Ordinary Shares of the Bank.

As at the end of the Reporting Period, Henan Investment Group Co., Ltd. (河南投資集團有限公司) directly held 89,769,212 A Shares (long position) and was deemed to be interested in 239,426,471 A Shares (long position) held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). Such 329,195,683 A Shares (long position) in total account for 5.56% of the total issued Ordinary Shares of the Bank.

As at the end of the Reporting Period, China Goldjoy Securities Limited (as custodian) held 377,174,000 H Shares (long position), accounting for 6.37% of the total issued Ordinary Shares of the Bank.

As at the end of the Reporting Period, CITIC Securities Company Limited held an aggregate of 445,879,130 H Shares (long position) and an aggregate of 395,593,866 H Shares (short position) of the Bank, through certain of its wholly-owned subsidiaries, accounting for 7.53% and 6.68% of the total issued Ordinary Shares of the Bank, respectively, among which, 396,460,130 H Shares (long position) and 395,593,866 H Shares (short position) involve derivative instruments.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

7 RESTRICTIONS ON REDUCTION OF SHAREHOLDINGS OF CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS, PARTIES TO RESTRUCTURING OR OTHER ENTITIES WITH UNDERTAKINGS

During the Reporting Period, the Bank had no cases involving restrictions on reduction of shareholdings of controlling Shareholders, de facto controllers, parties to restructuring or other entities with undertakings.

8 PLEDGE AND FREEZING OF SHARES OF THE BANK

As at the end of the Reporting Period, to the knowledge of the Bank, 1,432,313,879 Ordinary Shares of the Bank (accounting for 24.19% of the total issued Ordinary Shares) were subject to pledges and 32,414,867 Ordinary Shares were subject to freezing. No Shares were subject to judicial auction during the Reporting Period.

9 OFFSHORE PREFERENCE SHARES

The Bank completed the issuance of Offshore Preference Shares in October 2017. For information about the issuance, changes and shareholders of Offshore Preference Shares, please refer to the chapter headed “Issuance of Preference Shares” of this Annual Report.

CHAPTER V ISSUANCE OF PREFERENCE SHARES

1 ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE LAST THREE YEARS AS AT THE END OF THE REPORTING PERIOD

In order to further improve the comprehensive competitiveness of the Bank and enhance the capability of sustainable development, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,191 million at a dividend rate of 5.50% on 18 October 2017 through a private offering in the overseas market according to the approval from the Former CBRC Henan Office (Yu Yin Jian Fu [2017] No. 154) and CSRC (Zheng Jian Xu Ke [2017] No. 1736). The Offshore Preference Shares (abbreviation of preference share: ZZBNK 17USDPREF; stock code: 04613) were listed on the Hong Kong Stock Exchange on 19 October 2017 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 59,550,000, all of which were issued and fully paid in US dollars.

Based on the Renminbi central parity rate against the US dollar published by the China Foreign Exchange Trade System on 18 October 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB7,860 million. Pursuant to applicable laws and regulations and approval from the CBIRC, the CSRC and other relevant regulatory authorities, the proceeds raised from the Offshore Preference Shares issuance, after deduction of the issuance expenses, have been fully used to replenish the additional tier 1 capital of the Bank, which is consistent with the specific use disclosed earlier.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the relevant announcements and circulars of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank.

2 NUMBER OF SHAREHOLDERS OF OFFSHORE PREFERENCE SHARES AND PARTICULARS OF SHAREHOLDING

As at the end of the Reporting Period, the total number of holders (or nominees) of Offshore Preference Shares of the Bank was one. As at the end of the month prior to the publication date of this Annual Report, the total number of holders (or nominees) of Offshore Preference Shares was one.

The following table sets out shareholdings of the top 10 shareholders of Offshore Preference Shares (or nominees) of the Bank as at 31 December 2018:

Unit: Shares

Name of shareholder	Type of shareholder	Shareholding percentage ⁽⁹⁾ (%)	Number of shares held as at the end of the Reporting Period	Changes over the Reporting Period	Number of shares held subject to trading moratorium	Number of shares held without trading moratorium	Shares pledged or frozen Status of shares	Number
The Bank of New York Depository (Nominees) Limited	Overseas legal person	100	59,550,000	-	-	59,550,000	Unknown	Unknown
Description of different requirements on other terms of preference shares held other than dividend distribution and residual property distribution		None						
Description of the related relationship or concerted action among top 10 shareholders of preference shares and between top 10 shareholders of preference shares and top 10 shareholders of Ordinary Shares		The Bank is not aware of any connected relation or acting in concert relationship (as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》)) between the aforesaid shareholders of preference shares and the top ten shareholders of Ordinary Shares.						

Notes:

- The above data are based on the register of the shareholders of Offshore Preference Shares of the Bank as at 31 December 2018.
- The above Offshore Preference Shares were issued through a private offering, information of nominees of the allottees was recorded on the register of shareholders of preference shares.
- "Shareholding percentage" refers to the percentage of Offshore Preference Shares held by shareholders of preference shares in the total number of Offshore Preference Shares.

CHAPTER V ISSUANCE OF PREFERENCE SHARES

3 PROFIT DISTRIBUTION OF OFFSHORE PREFERENCE SHARES

The dividend on the Offshore Preference Shares is paid in cash on an annual basis. After receiving the dividends at the prescribed dividend rate, the shareholders of preference shares shall not be entitled to any distribution of residual profits of the Bank together with the Shareholders of Ordinary Shares. The Bank shall have the right to cancel dividends in whole or in part and this will not constitute an event of default. Any amount of dividends not paid to the shareholders of preference shares in full by the Bank will not be accumulated to the following dividend period.

In 2017, the issued Offshore Preference Shares were not yet due for dividend distribution, and there was no dividend payment in respect of the Offshore Preference Shares.

During the Reporting Period, as considered and approved at the meeting of the Board of the Bank held on 9 October 2018, the Bank distributed the dividends on the Offshore Preference Shares pursuant to the terms of the Offshore Preference Shares. The total dividends on the Offshore Preference Shares distributed by the Bank amounted to US\$72,783,333.33, of which US\$65,505,000 was paid to the holders of Offshore Preference Shares at a coupon dividend rate of 5.50%, and US\$7,278,333.33 was withheld as the income tax at a rate of 10% pursuant to relevant laws and regulations. The dividend period was from and including 18 October 2017 to but excluding 18 October 2018, the dividend payment date was 18 October 2018 and the recipients were holders of Offshore Preference Shares whose names appeared on the register of members of the Bank as at the close of business of the clearing system on 17 October 2018. For details, please refer to the announcement dated 9 October 2018 published by the Bank on the website of the Hong Kong Stock Exchange and the announcement dated 10 October 2018 published by the Bank on the website of CNINFO. On 18 October 2018, the Bank completed the first payment of dividends after the issuance of Offshore Preference Shares.

The Bank will hold a Board Meeting at least ten working days prior to the second dividend payment date of the Offshore Preference Shares (i.e. 18 October 2019) to consider issues related to the dividend payment and issue announcements to notify holders of the Offshore Preference Shares.

Distribution of Offshore Preference Shares for the Past Three Years

Unit: RMB'000

Year of distribution	Distributed amount (tax inclusive)	Net profit attributable to shareholders of the Bank under the consolidated financial statements for the distribution year	Percentage to the net profit attributable to shareholders of the Bank under the consolidated financial statements (%)	Explanation of shortfall accumulating to the next accounting year due to insufficient distributable profits or portion that can be allocated to remaining profit distribution
2018	502,343	3,058,831	16.42	–
2017	–	4,280,024	–	–
2016	–	3,998,768	–	–



CHAPTER V ISSUANCE OF PREFERENCE SHARES

4 REPURCHASE OR CONVERSION OF OFFSHORE PREFERENCE SHARES

During the Reporting Period, there was no repurchase or conversion of the Offshore Preference Shares issued by the Bank.

5 RESUMPTION OF VOTING RIGHTS OF OFFSHORE PREFERENCE SHARES

During the Reporting Period, no voting rights of the Offshore Preference Shares were resumed between the end of the Reporting Period and the end of the month prior to the publication date of this Annual Report.

6 ACCOUNTING POLICIES ADOPTED FOR OFFSHORE PREFERENCE SHARES AND REASONS

In accordance with Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and Rules on the Difference between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment promulgated by the MOF, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND CHANGES IN THEIR SHAREHOLDINGS

Directors

Name	Gender	Date of birth	Position	Status	Term of Office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase in the number of Shares held during the Reporting Period (Shares)	Decrease in the number of Shares held during the Reporting Period (Shares)	Number of Shares held as at the end of the Reporting Period (Shares)
WANG Tianyu (王天宇)	M	March 1966	Chairman and Executive Director	In office	2011.3.9-2021.6.14	A Share	25,003	-	-	25,003
SHEN Xueqing (申學清)	M	July 1965	President and Executive Director	In office	2012.7.12-2021.6.14	-	-	-	-	-
FENG Tao (馮濤)	M	September 1963	Vice Chairman and Executive Director	In office	2016.8.4-2021.6.14	-	-	-	-	-
FAN Yutao (樊玉濤)	M	May 1966	Non-executive Director	In office	2015.9.8-2021.6.14	-	-	-	-	-
ZHANG Jingguo (張敬國)	M	July 1963	Non-executive Director	In office	2012.7.12-2021.6.14	-	-	-	-	-
JI Hongjun (姬宏俊)	M	June 1963	Non-executive Director	In office	2012.7.12-2021.6.14	-	-	-	-	-
LIANG Songwei (梁嵩巍)	M	August 1968	Non-executive Director	In office	2012.7.12-2021.6.14	-	-	-	-	-
WANG Shihao (王世豪)	M	April 1950	Non-executive Director	In office	2018.7.5-2021.6.14	-	-	-	-	-
XIE Taifeng (謝太峰)	M	August 1958	Independent non-executive Director	In office	2015.9.8-2021.6.14	-	-	-	-	-
WU Ge (吳革)	M	May 1967	Independent non-executive Director	In office	2015.9.8-2021.6.14	-	-	-	-	-
CHAN Mei Bo Mabel (陳美寶)	F	November 1971	Independent non-executive Director	In office	2015.9.8-2021.6.14	-	-	-	-	-
LI Yanyan (李燕燕)	F	January 1968	Independent non-executive Director	In office	2018.7.5-2021.6.14	-	-	-	-	-
XU Jingnan (徐靜楠)	F	October 1981	Non-executive Director	Resigned	2017.10.27-2018.6.15	-	-	-	-	-
MA Jinwei (馬金偉)	M	January 1976	Non-executive Director	Resigned	2015.9.8-2018.6.15	-	-	-	-	-
YU Zhanglin (于章林)	M	December 1966	Non-executive Director	Resigned	2016.8.4-2018.6.15	-	-	-	-	-
WANG Shihao (王世豪)	M	April 1950	Independent non-executive Director	Resigned	2012.7.12-2018.6.15	-	-	-	-	-
LI Huaizhen (李懷珍)	M	June 1957	Independent non-executive Director	Resigned	2015.9.8-2018.10.19	-	-	-	-	-

Note: The starting dates of the term of office represent the dates on which the relevant qualifications are approved by the banking regulatory authority.

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

Supervisors

Name	Gender	Date of birth	Position	Status	Term of Office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase in the number of Shares held during the Reporting Period (Shares)	Decrease in the number of Shares held during the Reporting Period (Shares)	Number of Shares held as at the end of the Reporting Period (Shares)
ZHAO Lijuan (趙麗娟)	F	September 1962	Chairwoman of the Board of Supervisors and Employee Supervisor	In office	2018.6.15-2021.6.14	-	-	-	-	-
ZHU Zhihui (朱志暉)	M	August 1969	Shareholder Supervisor	In office	2015.6.18-2021.6.14	-	-	-	-	-
MA Baojun (馬寶軍)	M	March 1963	External Supervisor	In office	2018.1.19-2021.6.14	-	-	-	-	-
SONG Ke (宋科)	M	April 1982	External Supervisor	In office	2017.5.19-2021.6.14	-	-	-	-	-
CHENG Jie (成潔)	F	December 1968	Employee Supervisor	In office	2018.6.15-2021.6.14	A Share	6,309	-	-	6,309
LI Huaibin (李懷斌)	M	September 1969	Employee Supervisor	In office	2018.6.15-2021.6.14	-	-	-	-	-
ZHAO Lijuan (趙麗娟)	F	September 1962	Chairwoman of the Board of Supervisors and Shareholder Supervisor	Resigned	2016.6.17-2018.6.15	-	-	-	-	-
MENG Jun (孟君)	F	November 1971	Shareholder Supervisor	Resigned	2012.2.26-2018.6.15	-	-	-	-	-
TANG Yunwei (湯雲為)	M	November 1944	External Supervisor	Resigned	2012.2.26-2018.6.15	-	-	-	-	-
DUAN Ping (段萍)	F	April 1966	Employee Supervisor	Resigned	2012.2.26-2018.6.15	A Share	4,000	-	-	4,000
CUI Huarui (崔華瑞)	F	May 1967	Employee Supervisor	Resigned	2015.2.26-2018.6.15	-	-	-	-	-
ZHANG Chungu (張春閔)	F	December 1968	Employee Supervisor	Resigned	2012.2.26-2018.6.15	A Share	14,056	-	-	14,056

Senior Management

Name	Gender	Date of birth	Position	Status	Term of Office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase in the number of Shares held during the Reporting Period (Shares)	Decrease in the number of Shares held during the Reporting Period (Shares)	Number of Shares held as at the end of the Reporting Period (Shares)
SHEN Xueqing (申學清)	M	July 1965	President	In office	Since 5 April 2012	-	-	-	-	-
XIA Hua (夏華)	M	August 1967	Vice President	In office	Since 6 February 2012	-	-	-	-	-
GUO Zhibin (郭志彬)	M	October 1968	Vice President	In office	Since 30 December 2015	A Share	37,320	-	-	37,320
SUN Haigang (孫海剛)	M	August 1977	Vice President	In office	Since 28 February 2018	-	-	-	-	-
ZHANG Wenjian (張文建)	M	June 1965	Vice President	In office	Since 28 February 2018	-	-	-	-	-
MAO Yuezhen (毛月珍)	F	April 1963	Vice President and Chief Accountant	In office	Since 28 February 2018	A Share	10,647	-	-	10,647
FU Chunqiao (傅春喬)	M	October 1973	Secretary of the Board of Directors	In office	Since 18 October 2013	-	-	-	-	-
JIANG Tao (姜濤)	M	April 1972	Chief Information Officer	In office	Since 31 December 2015	A Share	5,000	-	-	5,000
LI Lei (李磊)	M	August 1973	Assistant to President	In office	Since 21 November 2017	A Share	74,344	-	-	74,344
ZHANG Houlin (張厚林)	M	June 1976	Assistant to President	In office	Since 21 November 2017	-	-	-	-	-
WANG Yanli (王豔麗)	F	October 1970	Chief Risk Officer	In office	Since 12 February 2018	A Share	111,515	-	-	111,515
WANG Zhaoqi (王兆琪)	F	November 1967	Chief Auditor	In office	Since 8 March 2018	A Share	70,617	-	-	70,617

Note: The starting dates of the term of office represent the dates on which the relevant qualifications are approved by the banking regulatory authority.

The table above discloses the Shares directly held by the directors, the supervisors and senior management of the Bank. For the interests and short positions that the Directors, the Supervisors and the chief executive have in the Bank under the SFO and according to the Stock Exchange Listing Rules, please refer to the chapter headed "Report of the Board of Directors".

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

2 CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Type	Date	Reason
LI Yanyan (李燕燕)	Independent non-executive Director	Elected	5 July 2018	
WANG Shihao (王世豪)	Non-executive Director	Elected	5 July 2018	
XU Jingnan (徐靜楠)	Non-executive Director	Resigned	15 June 2018	Expiry of the term of office
MA Jinwei (馬金偉)	Non-executive Director	Resigned	15 June 2018	Expiry of the term of office
YU Zhanglin (于章林)	Non-executive Director	Resigned	15 June 2018	Expiry of the term of office
LI Huaizhen (李懷珍)	Independent non-executive Director	Resigned	19 October 2018	Resigned for other work arrangements
ZHAO Lijuan (趙麗娟)	Chairwoman of the Board of Supervisors and Employee Supervisor	Elected	15 June 2018	
MA Baojun (馬寶軍)	External Supervisor	Elected	15 June 2018	
CHENG Jie (成潔)	Employee Supervisor	Elected	15 June 2018	
LI Huaibin (李懷斌)	Employee Supervisor	Elected	15 June 2018	
MENG Jun (孟君)	Shareholder Supervisor	Resigned	15 June 2018	Expiry of the term of office
TANG Yunwei (湯雲為)	External Supervisor	Resigned	15 June 2018	Expiry of the term of office
DUAN Ping (段萍)	Employee Supervisor	Resigned	15 June 2018	Expiry of the term of office
CUI Huarui (崔華瑞)	Employee Supervisor	Resigned	15 June 2018	Expiry of the term of office
ZHANG Chungu (張春閣)	Employee Supervisor	Resigned	15 June 2018	Expiry of the term of office
SUN Haigang (孫海剛)	Vice President	Redeployed	28 February 2018	Work needs
ZHANG Wenjian (張文建)	Vice President	Redeployed	28 February 2018	Work needs
MAO Yuezhen (毛月珍)	Vice President	Redeployed	28 February 2018	Work needs
WANG Yanli (王豔麗)	Chief Risk Officer	Redeployed	12 February 2018	Work needs
WANG Zhaoqi (王兆琪)	Chief Auditor	Redeployed	8 March 2018	Work needs

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

2.1 Changes of Directors during the Reporting Period

Upon the expiry of the term of office of the fifth session of the Board of Directors of the Bank, as re-elected or elected at the 2017 AGM of the Bank, a total of 13 Directors have been elected as members of the sixth session of the Board of Directors. Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao were elected as executive Directors, Mr. FAN Yutao, Mr. ZHANG Jingguo, Mr. JI Hongjun, Mr. LIANG Songwei and Mr. WANG Shihao were elected as non-executive Directors, Mr. LI Huaizhen, Mr. XIE Taifeng, Mr. WU Ge, Ms. CHAN Mei Bo Mabel and Ms. LI Yanyan were elected as independent non-executive Directors. For details, please refer to the circular of the Bank dated 18 May 2018 and the announcements of the Bank dated 25 April 2018 and 15 June 2018 and the announcement on list of directors and their roles and functions dated 6 July 2018 which are published on the website of the Hong Kong Stock Exchange. Ms. XU Jingnan, Mr. MA Jinwei and Mr. YU Zhanglin ceased to be non-executive Directors upon the expiry of the term of office of the fifth session of the Board of Directors on 15 June 2018.

The qualification of Mr. WANG Shihao as a non-executive director and the qualification of Ms. LI Yanyan as an independent non-executive director were approved by the Former CBRC Henan Office on 5 July 2018. For details, please refer to the announcement on approval of the qualification of directorships by the regulatory body published on the website of the Hong Kong Stock Exchange by the Bank on 6 July 2018.

On 19 October 2018, Mr. LI Huaizhen resigned as an independent non-executive director. For details, please refer to the announcement on the resignation of independent non-executive Director dated 19 October 2018 of the Bank published on the website of the Hong Kong Stock Exchange and the announcement dated 22 October 2018 on resolutions of the third meeting of the sixth session of the Board of Directors published on the CNINFO.

2.2 Changes of Supervisors during the Reporting Period

The proposed appointment of Mr. MA Baojun as an external Supervisor was considered and approved by the Board of Supervisors and was submitted for approval at the 2018 first Extraordinary General Meeting of the Bank. For details of the proposed appointment of Mr. MA Baojun, please refer to the announcement dated 22 November 2017 on the change of Supervisor published by the Bank on the website of the Hong Kong Stock Exchange. Upon election at the 2018 first Extraordinary General Meeting of the Bank held on 19 January 2018, Mr. MA Baojun was elected as an external Supervisor of the fifth session of the Board of Supervisors.

Upon approval at the Employees' Representative Meeting of the Bank convened on 8 April 2018, Ms. ZHAO Lijuan was re-designated as an employee Supervisor, Ms. CHENG Jie and Mr. LI Huaibin were elected as employee Supervisors. Their tenure of office shall be in line with the term of office of the sixth session of the Board of Supervisors. For details, please refer to the announcement dated 12 April 2018 on the change of Supervisors published by the Bank on the website of the Hong Kong Stock Exchange. Ms. DUAN Ping, Ms. CUI Huarui and Ms. ZHANG Chungce ceased to be employee Supervisors upon the expiry of the term of office of the fifth session of the Board of Supervisors on 15 June 2018.

Upon the expiry of the term of office of the fifth session of the Board of Supervisors of the Bank, as re-elected or elected at the 2017 AGM of the Bank, 3 Supervisors have been elected as members of the sixth session of the Board of Supervisors. Mr. ZHU Zhihui was elected as a shareholder Supervisor, Mr. MA Baojun and Mr. SONG Ke were elected as external Supervisors. For details, please refer to the circular dated 18 May 2018 and the announcements dated 25 April 2018 and 15 June 2018 published by the Bank on the website of the Hong Kong Stock Exchange. Ms. MENG Jun and Mr. TANG Yunwei ceased to be a shareholder Supervisor and an external Supervisor, respectively, upon the expiry of the term of office of the fifth session of the Board of Supervisors on 15 June 2018.

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

2.3 Changes of Senior Management during the Reporting Period

As considered and approved at the Board meeting held on 19 January 2018, the Board decided to appoint Mr. SUN Haigang, Mr. ZHANG Wenjian and Ms. MAO Yuezhen as vice presidents of the Bank, and Ms. WANG Zhaoqi as the chief auditor of the Bank. The qualifications of Mr. SUN Haigang, Mr. ZHANG Wenjian and Ms. MAO Yuezhen were approved by the Former CBRC Henan Office on 28 February 2018 and the qualification of Ms. WANG Zhaoqi was approved by the Former CBRC Henan Office on 8 March 2018.

The qualification of Ms. WANG Yanli (王豔麗) as the chief risk officer of the Bank was approved by the Former CBRC Henan Office on 12 February 2018.

2.4 Changes of Senior Management after the Reporting Period

As considered and approved at the Board meeting held on 27 January 2019, the Board decided to appoint Mr. FU Chungqiao as the vice president of the Bank, and Ms. LI Hong and Mr. LIU Jiuqing as the assistants to president of the Bank. The qualifications of the aforesaid people are still subject to the approval of the CBIRC Henan Office. For details, please refer to the announcement dated 28 January 2019 published by the Bank on the website of the Hong Kong Stock Exchange and the announcement dated 28 January 2019 published by the Bank on the website of CNINFO.

3 POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

3.1 Biographies of Current Directors, Supervisors and Senior Management

Directors

Mr. WANG Tianyu, aged 52, has served as a Director of the Bank since December 2005 and the chairman of the Bank since March 2011, being primarily responsible for the overall operations and strategic management of the Bank. In addition, Mr. WANG has served as the chairman of Zhongmu Zhengyin County Bank (中牟鄭銀村鎮銀行) since May 2012.

Mr. WANG has nearly 26 years of experience in banking business operations and management. He joined the Bank in August 1996 and had successively served as the president of the Jingwu Road subbranch and the vice president and president of the Bank from August 1996 to December 2011. Prior to that, Mr. WANG had served as the deputy director of Henan Province Yugong Urban Credit Cooperatives (河南省豫工城市信用社) from November 1992 to August 1996. In addition, Mr. WANG has been a member of the 12th People's Congress of Henan Province (第十二屆河南省人民代表大會) since January 2013 and was awarded the title of "National Model Worker" (全國勞動模範) in April 2015. He was elected as a deputy to the 13th National People's Congress in January 2018.

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

Mr. WANG graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1988, majoring in finance, and obtained a bachelor's degree in economics. He obtained a master's degree in business administration from National University of Singapore (Singapore) in June 2006, an executive master's degree in business administration from Tsinghua University (Beijing, China) in January 2015 and a doctor's degree in economics from Huazhong University of Science and Technology (Hubei, China) in December 2018. He has been a senior accountant accredited by the People's Government of Henan Province since December 1998.

Mr. SHEN Xueqing, aged 53, has served as an executive Director of the Bank since July 2012 and the president of the Bank since April 2012. He is primarily responsible for the daily operations and management of the Bank.

Mr. SHEN has nearly 23 years of experience in banking business operations and management. He joined the Bank in December 2011. Prior to joining the Bank, he held a number of positions in Guangdong Development Bank Co., Ltd. (廣東發展銀行股份有限公司) (currently known as China Guangfa Bank Co., Ltd., 廣發銀行股份有限公司) from June 1996 to November 2011. He had served successively as the deputy manager and the manager of general office, the director of operations department and the assistant to sub-branch president of Huayuan Road sub-branch, Zhengzhou branch from June 1996 to October 2000, the assistant to sub-branch president, the vice president and the president of Dongming Road sub-branch, Zhengzhou branch from October 2000 to July 2004, the general manager of general office and the general manager of No. 3 corporate banking department of Zhengzhou branch from July 2004 to April 2006, the president of Anyang sub-branch from April 2006 to September 2009, and the vice president of Changsha branch from October 2009 to November 2011. Prior to that, he had worked at the Financial and Trade Commission of Pingdingshan City, Henan Province (河南省平頂山市財政貿易委員會) and successively served as staff member, deputy chief and deputy director of the general office from July 1990 to June 1996.

Mr. SHEN graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1990, majoring in finance, and obtained a bachelor's degree in economics. He obtained an executive master's degree in business administration degree from Xi'an Jiaotong University (Shaanxi, China) in December 2008, and an executive master's degree in business administration from Tsinghua University (Beijing, China) in July 2015. He has been a senior economist accredited by the People's Government of Henan Province since December 2005.

Mr. FENG Tao, aged 55, has served as an executive Director and the vice chairman of the Bank since August 2016. He is primarily responsible for the operation of the internal audit office of the Board. In addition, he has served as the chairman of Queshan Zhengyin County Bank (確山鄭銀村鎮銀行股份) since November 2017.

Mr. FENG has nearly 38 years of experience in the banking industry. He joined the Bank in June 2016. Prior to that, he had worked in Shangcheng County sub-branch of the People's Bank of China (PBoC) from December 1980 to August 1983 and served as the clerk, staff member, deputy chief staff member and chief staff member of PBoC Henan branch from July 1986 to December 1998, and chief staff member of bank management department of PBoC Zhengzhou Central Sub-branch from December 1998 to September 2003. He had held several positions in the Former CBRC Henan Office successively from September 2003 to May 2016 and during his tenure, he had served successively as principal staff member of the city commercial bank supervision department, deputy director of the logistics service center, deputy chief of No. 2 state-owned bank supervision department, deputy chief of No. 1 offsite supervision department, researcher of No. 1 offsite supervision department and researcher of state-owned bank supervision department from September 2003 to December 2012, chief of CBRC Jiaozuo Branch from December 2012 to February 2015, and chief of City Commercial Banks Regulatory Department from February 2015 to May 2016.

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Mr. FENG studied finance in Henan College of Financial Management Cadres (河南金融管理幹部學院) (Henan, China) (open college) from August 1983 to July 1986, and graduated from Correspondence Education College of CPC Central Committee Party School (中共中央黨校函授學院) (Beijing, China) in December 1998, majoring in economic management (correspondence education). He has been an economist accredited by PBoC Henan Office since October 1993.

Mr. FAN Yutao, aged 52, has served as a non-executive Director of the Bank since September 2015. He has served as the deputy director-general of Zhengzhou Finance Bureau since February 2016 and director of Bridge Trust Company Limited (百瑞信託有限責任公司) since June 2011. In addition, he had served as the staff member of the budget section of Zhengzhou Finance Bureau from July 1988 to June 1994, the deputy chief of the budget section of Zhengzhou Finance Bureau from June 1994 to April 2002, the chief of budget section of Zhengzhou Finance Bureau from April 2002 to April 2006 and the chief of treasury section of Zhengzhou Finance Bureau from April 2006 to July 2009, and the chief economist of Zhengzhou Finance Bureau from July 2009 to February 2016.

Mr. FAN graduated from the Information Engineering College of the People's Liberation Army of the PRC (中國人民解放軍信息工程學院) (Henan, China) in July 1988, majoring in computer science and engineering, and obtained a bachelor's degree in engineering. He also obtained a completion certificate in accounting from the Graduate School of the Institute of Fiscal Science of the Ministry of Finance (財政部財政科學研究所研究生部) (Beijing, China) in July 2001.

Mr. ZHANG Jingguo, aged 55, has served as a non-executive Director of the Bank since July 2012. He has served as the chairman of Henan Zensun Property Co., Ltd. (河南正商置業有限公司) since January 2001. He has served as the chairman of the board, an executive director and the chief executive officer of ZH International Holdings Ltd. (formerly known as Heng Fai Enterprises Limited, listed on the Hong Kong Stock Exchange, stock code: 00185) since July 2015, and a co-chairman and director of Global Medical REIT (listed on the New York Stock Exchange, stock code: GMRE) since June 2016, executive director of Henan Hongguang Zensun Property Co., Ltd. since October 2017 and chairman of Zanyu Technology Group Co., Ltd. (贊宇科技集團股份有限公司) (listed on the Shenzhen Stock Exchange, stock code: 002637) since October 2018. In addition, he had served as the deputy chief of Henan Household Appliances Industry Co., Ltd. (河南省五金家電工業公司) from July 1983 to June 1991, the vice general manager of Henan Light Industry Corporation (河南省輕工實業總公司) from July 1991 to April 1995 and the general manager of Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) from April 1995 to April 2001.

Mr. ZHANG graduated from Zhengzhou University (Henan, China) in June 1983, majoring in wireless communication, and obtained a bachelor's degree in science. He also obtained a completion certificate in international trade from Renmin University of China (Beijing, China) in July 2001 and obtained an executive master's degree in business administration from Peking University (Beijing, China) in July 2013. He has been a senior engineer accredited by the People's Government of Henan Province since August 1997.

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Mr. JI Hongjun, aged 56, has served as a non-executive Director of the Bank since July 2012. He has successively served as the deputy general manager and the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司) since December 2003, a director of Great Wall Fund Management Co., Ltd. (長城基金管理有限公司) since December 2008 and a director of Henan Asset Management Company Limited (河南資產管理有限公司) since August 2017. In addition, he had served as the cadre of the finance and trade department of Henan Province Planning Economy Commission from July 1984 to December 1984, the clerk of the finance department and successively the staff member, the deputy chief staff member and the principal staff member of the foreign economy department of Henan Province Planning Economy Commission from December 1984 to December 1994, successively the principal staff member of the foreign economy department, the deputy chief of the senior officer department, the deputy chief of the fixed asset investment department of Henan Province Planning Commission from December 1994 to August 2000, the deputy chief of the finance department of Henan Province Development and Planning Commission (河南省發展計劃委員會) from August 2000 to November 2003 (serving as the deputy chief of the No. 1 credit loan section of Henan Branch of the China Development Bank (國家開發銀行河南省分行) from September 2002 to September 2003), and a non-executive director of Bank of China Travel Services Jiaozuo Co., Ltd. (焦作中旅銀行股份有限公司) from November 2012 to May 2016.

Mr. JI graduated from CPC Henan Provincial Committee Party School (中共河南省委黨校) (Henan, China) in July 1994, majoring in economics (evening college). He obtained a completion certificate of the program of post-graduate course for further studies in finance (金融學專業研究生課程進修班) from the Business School of Wuhan University (Hubei, China) in June 2004 and a master's degree in business administration from the Asia International Open University (Macau) (Macau, China) in November 2010. He has been a financial planner accredited by the Beijing Finance Training Centre (北京金融培訓中心) since October 2007.

Mr. LIANG Songwei, aged 50, has served as a non-executive Director of the Bank since July 2012. He has served as the general manager of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司) since November 2008, a director of the aforesaid company since December 2009, the chairman of the aforesaid company since June 2015 and the chairman of Zhengzhou Industry Development Guidance Fund Co., Ltd. (鄭州市產業發展引導基金有限公司) since January 2015. In addition, he served as the business manager of Henan Native Produce Import and Export Co., Ltd. (河南省土產進出口公司) from August 1989 to June 1993, the chairman of Henan Baihe International Highway Technology Co., Ltd. (河南百和國際公路科技有限公司) from July 1993 to August 2006 and has served as the assistant to the general manager of Zhengzhou Baiwen Co., Ltd. (Group) (鄭州百文股份有限公司(集團)) from November 2001 to September 2008. He had served as a director and the deputy general manager of Zhengzhou Baiwen Group Co., Ltd. (鄭州百文集團有限公司) from August 2006 to October 2008, a director of Zhengzhou Middle and Small-sized Enterprises Guarantee Co., Ltd. (鄭州中小企業擔保有限公司) from June 2009 to August 2018, the chairman of Zhengzhou Guotou Asset Management Co., Ltd. (鄭州市國投資產管理有限公司) from July 2017 to August 2018, the chairman of Zhengzhou Guokai Zhengtuo Investment Co., Ltd. (鄭州市國開鄭投投資有限公司) from November 2017 to August 2018, and the chairman of Zhengzhou Zhongrongchuang Industrial Investment Co., Ltd. (鄭州市中融創產業投資有限公司) from July 2018 to January 2019.

Mr. LIANG graduated from the Graduate School of the Chinese Academy of Social Sciences (Beijing, China) in December 1998, majoring in literature and art. He graduated from University of International Business and Economics (Beijing, China) in June 2005, majoring in international trade.

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Mr. WANG Shihao, aged 68, has served as a non-executive Director of the Bank since July 2018. He has served as a part-time professor of Shanghai National Accounting Institute since July 2010, a part-time professor of Overseas Education College of Shanghai Jiao Tong University since January 2011, a part-time professor of the College of Business of Shanghai University of Finance and Economics since May 2013, and an independent director of Bank of Lanzhou Co., Ltd. since June 2016. In addition, He served as the director and the legal representative of Shanghai City Credit Cooperatives (上海市城市信用合作社聯社) from February 1991 to December 1995, the director and vice president of Shanghai City Cooperation Commercial Bank (上海城市合作商業銀行) (currently known as Bank of Shanghai) from December 1995 to May 2010, the legal representative of the Funds Clearing Centre for City Commercial Banks from July 2002 to August 2013, the director-general and the legal representative of the Funds Clearing Centre for City Commercial Banks (城市商業銀行資金清算中心) from September 2002 to December 2013, the special expert for decision consulting of the Shanghai People's Government (上海市人民政府決策諮詢特聘專家) from March 2008 to February 2010 and from December 2010 to November 2012, the independent director of Huishang Bank Corporation Limited from October 2011 to November 2018, the independent non-executive director of the Bank from July 2012 to June 2018 and a visiting professor (2012-2014) of the School of Economics of Fudan University from June 2012 to December 2014.

Mr. WANG graduated from Fudan University (Shanghai, China) in July 1984, majoring in financial management. He completed a joint program of executive master's degree of business administration organised by Shanghai National Accounting Institute (Shanghai, China) and Arizona State University (U.S.) in June 2005, and obtained a master's degree in business administration from Arizona State University (U.S.). He has been a senior economist accredited by the PBoC since July 1993.

Mr. XIE Taifeng, aged 60, has served as an independent non-executive Director of the Bank since September 2015. He has served as the professor of School of Finance of Capital University of Economics and Business since July 2005, an independent director of China Haohua Chemical Group Co., Ltd. (中國昊華化工集團股份有限公司) since March 2013, the independent director of Woori Bank (China) Limited (友利銀行(中國)有限公司) since September 2013, and the independent director of Green Fund Management Co., Ltd.(格林基金管理有限公司) since October 2016. In addition, He served as the teaching assistant of the Economics Department, the lecturer of the Economics Department, the associate professor of the Business School, the dean of the Finance Department, the deputy dean of the Business School, the professor and the deputy dean of the Business School of Zhengzhou University from January 1982 to July 2000, the professor of Business Administration Branch School of Beijing Machinery Industry Institute (北京機械工業學院) from July 2000 to July 2005 and the deputy dean, and the dean and PhD supervisor of School of Finance of Capital University of Economics and Business from January 2006 to March 2015.

Mr. XIE graduated from Zhengzhou University (Henan, China) in December 1981, majoring in politics and economics, and obtained a bachelor's degree in economics. He graduated from the Southwestern University of Finance and Economics (Sichuan, China) in July 1986, majoring in monetary banking, and obtained a master's degree in economics in January 1989. He obtained a doctoral degree in economics from Southwestern University of Finance and Economics (Sichuan, China) in January 2000. He has been a professor accredited by the People's Government of Henan Province since May 1996.

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Mr. WU Ge, aged 51, has served as an independent non-executive Director of the Bank since September 2015. He has served as the director and the legal representative of Beijing Zhongwen Law Firm (北京市中聞律師事務所) since November 2013, the director of the Constitutional and Human Rights Committee of the All China Lawyers Association (中華全國律師協會憲法與人權專業委員會) since 2004, a part-time researcher of the Institute of Criminal Law Science of Beijing Normal University since August 2006, the director of the third and the fourth sessions of the Chinese Overseas Friendship Association (中華海外聯繫會) since September 2008, the standing vice president of the China Institute of Case-based Jurisprudence (中國案例法學研究會) since October 2013, a part-time researcher of the Human Rights Education and Research Centre of the Southwestern University of Politics and Law, being the national base of human rights education and training, since April 2015. In addition, he served as a part-time professor of the Law School of China University of Political Science and Law from May 2007 to May 2010, a tutor of the Master of Laws program of the Law School of Tsinghua University from October 2012 to October 2015, a tutor of the Master of Laws program of Central University of Finance and Economics from December 2015 to 2018, a member of the 11th Henan Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆河南省委員會) from January 2013 to January 2018 and an independent member of the Loans Review Committee of the headquarters of China Development Bank from 2007 to 2018.

Mr. WU graduated from Renmin University of China (Beijing, China) in January 2000, with a master's degree in law. He obtained a completion certificate of a post-graduate course in finance from the School of Economics of Peking University (Beijing, China) in December 2002.

Ms. CHAN Mei Bo Mabel, aged 47, has served as an independent non-executive Director of the Bank since September 2015. She established Mabel Chan & Co. (陳美寶會計師事務所) in January 1999 and became the deputy managing partner of Grant Thornton Limited in January 2016. She has served as an independent non-executive Director of Kingmaker Footwear Holdings Ltd. (listed on the Hong Kong Stock Exchange, stock code: 01170) since August 2011, and an independent non-executive Director of South China Assets Holdings Limited (formerly known as South China Land Limited, listed on the Hong Kong Stock Exchange, stock code: 08155) from May 2013 to March 2017. She served as a council member of the Association of Women Accountants HK Ltd. (香港女會計師協會) from January 2006 to March 2017, and served as the president in 2010. She had served as the president of the Society of Chinese Accountants and Auditors (香港華人會計師公會) from December 2009 to December 2010, a member of Barristers Disciplinary Tribunal Panel of Hong Kong (香港大律師紀律審裁團) since May 2010, a member of the Council of Hong Kong Baptist University since January 2013, a member of the Appeal Panel (Housing) of Hong Kong (香港上訴委員會(房屋)) from April 2014 to April 2018, and a member of the Council of Hong Kong Institute of Certified Public Accountants (香港會計師公會) since December 2007 and the president of the aforesaid Institute from December 2016 to December 2017, a member of the Small and Medium Enterprises Committee of HKSAR (香港中小型企業委員會) since January 2017, a member of the Securities and Futures Appeals Tribunal of HKSAR (香港證券及期貨事務上訴審裁處) since April 2017, a member of the Export Credit Insurance Corporation Advisory Board of HKSAR (香港出口信用保險局諮詢委員會) since April 2017, a member of the Air Transport Licensing Authority of HKSAR (香港空運牌照局) since August 2017 and a member of the Trade and Industry Advisory Board of HKSAR (香港工業貿易諮詢委員會) since September 2017.

Ms. CHAN obtained a master's degree in business administration from Hong Kong University of Science and Technology (Hong Kong) in November 2000. She has been a member of the Chartered Association of Certified Accountants (英國特許公認會計師公會) since November 1996, a member of Hong Kong Institute of Certified Public Accountants (香港會計師公會) since January 1997 and a certified public accountant (practising) accredited by the Hong Kong Society of Accountants (香港會計師公會) since 1999, a member of the Society of Chinese Accountants & Auditors (香港華人會計師公會) since December 2002, a member of the Institute of Chartered Accountants in England and Wales (英格蘭和韋爾斯特許會計師公會) since February 2008, and a member of CPA Australia (澳洲會計師公會) since 2017.

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Ms. LI Yanyan, aged 51, has served as an independent non-executive Director of the Bank since July 2018. She has served as director and editor-in-chief of the editorial department for the university newspaper of Zhengzhou University since January 2015. Prior to this, she worked as a teacher in the social science department of the Xinxiang Medical University from July 1990 to August 1994, a teacher in the faculty of economics of Henan University from June 1997 to May 2001 and a teacher and deputy dean of the faculty of commerce of Zhengzhou University from May 2001 to January 2015.

Ms. LI obtained a bachelor's degree in history from Henan University (Henan, China) in July 1990, a master's degree in economics from the Fudan University (Shanghai, China) in June 1997 and a doctorate degree in economics from Nanjing University (Jiangsu, China) in June 2007, and she carried out her post-doctoral research work at Chinese Academy of Social Sciences (Beijing, China) from October 2007 to April 2010. She has held the title of professor accredited by the People's Government of Henan Province since May 2008.

Supervisors

Ms. ZHAO Lijuan, aged 56, has served as a Supervisor and the chairwoman of the Board of Supervisors of the Bank since June 2016, and has served as the chairwoman of the labor union of the Bank since November 2007. In addition, she has served as chairwoman of Xunxian Zhengyin County Bank since November 2017.

Ms. ZHAO joined the Bank in August 1996 and had successively served as the vice president and the president of the Wulibao sub-branch, the president of the Jinhai Avenue sub-branch and the vice president of the Bank from August 1996 to June 2016, and a shareholder Supervisor and the chairwoman of the Board of Supervisors of the Bank from June 2016 to June 2018. She has served as an employee Supervisor and the chairwoman of the Board of Supervisors of the Bank since June 2018. Prior to joining the Bank, she successively served as the accountant and the accounting chief of Zhengzhou Wulibao City Credit Cooperatives (鄭州五裡堡城市信用社) from December 1984 to August 1996.

Ms. ZHAO graduated from the Air Force Logistics Management College of the People's Liberation Army of the PRC (中國人民解放軍空軍後勤管理學院) (Jiangsu, China) in June 2004, majoring in financial management. She obtained a completion certificate of advanced course program in finance major in the master of business administration program (工商管理碩士課程金融方向高級研修班) from the School of Finance of Renmin University of China (Beijing, China) in March 2008. She has been a senior political consultant accredited by the Senior Professional Evaluation Committee of Henan Province Enterprises' Ideological and Political Personnel (河南省企業思想政治工作人員高級專業職務任職資格評審委員會) since January 2009, and a senior economist accredited by the Ministry of Personnel of the PRC since November 2015.

Mr. ZHU Zhihui, aged 49, has served as a shareholder Supervisor of the Bank since June 2015. He had served as deputy general manager of Henan Province Light Industry Economic Technology Import and Export Co., Ltd. (河南省輕工經濟技術進出口公司) from June 1987 to March 1993 and the general manager of Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) from March 1993 to November 2011. He served as the chairman of Zhengzhou Huida Industry (Group) Co., Ltd. (鄭州暉達實業(集團)有限公司) from May 1998 to December 2014, the chairman of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) since December 2005, the chairman of Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) since November 2011, the chairman of Henan Huida Jiarui Property Co., Ltd. (河南暉達嘉睿置業有限公司) since 2013 and the chairman of Huida Holdings Limited (暉達控股有限公司) since 2015.

Mr. ZHU graduated from CPC Henan Provincial Committee Party School (中共河南省委黨校) (Henan, China) in December 1996, majoring in economic management (correspondence education), and obtained a completion certificate in business strategy advanced program (經營方略高級研修班) from Peking University (Beijing, China) in April 2010.

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Mr. MA Baojun, aged 55, has served as an external Supervisor of the Bank since January 2018. He has served as the chairman of Henan Songshan Technology and Innovation Fund Management Co., Ltd. (河南嵩山科創基金管理有限公司) since December 2016 and director of Tak Yau Limited since June 2017. He served as a staff member of the industry department of Zhengzhou Finance Bureau from August 1986 to November 1988, a staff member of the Zhengzhou Finance Bureau office from November 1988 to March 1992, the deputy director of the Zhengzhou Finance Bureau office from March 1992 to November 1993, the deputy general manager of Zhengzhou Trust Investment Company (鄭州信託投資公司) from November 1993 to October 1995, the general manager of Zhengzhou Trust Investment Company (鄭州信託投資公司) from October 1995 to May 2002, the chairman of the board of directors of Bridge Trust Investment Company Limited (百瑞信託投資有限責任公司) from May 2002 to April 2011, a member of the Communist Party Committee of SPIC Capital Holding Co., Ltd. (國家電投資本控股有限公司) from April 2011 to August 2016, the chairman of the board of directors of Bridge Trust Company Limited (百瑞信託有限責任公司) from April 2011 to December 2016, the chairman of the board of directors of Central China Airport Industry Fund Management Co., Ltd. (中原航空港產業投資基金管理有限公司) from January 2015 to March 2018, the chairman of the board of directors of Henan Jianye Holdings Development Co., Ltd. (河南建業控股發展有限公司) from December 2016 to July 2018 and a director of Henan Houpu Jianye Fund Management Co., Ltd. (河南厚朴建業基金管理有限公司) from August 2017 to January 2019.

In July 1986, Mr. MA graduated from South-Central University for Nationalities (中南民族學院) (Hubei, China), majoring in Chinese language and literature, and obtained a bachelor's degree in arts. In June 2005, Mr. MA graduated from National University of Singapore (Singapore) and obtained a master's degree of business administration. He has been a senior economist accredited by the People's Government of Henan Province since April 1994.

Mr. SONG Ke, aged 37, has served as an external Supervisor of the Bank since May 2017. He has served as a lecturer in the Faculty of Monetary Finance of the School of Finance of Renmin University of China (中國人民大學財政金融學院貨幣金融系) since September 2015, assistant to the dean of the School of Finance of Renmin University of China (中國人民大學財政金融學院) since January 2018, a council director and deputy director of the International Monetary Institute of Renmin University of China (中國人民大學國際貨幣研究所) since January 2014, an external supervisor of Xiamen International Financial Technology Co., Ltd. (廈門國際金融技術有限公司) since October 2015 and an independent non-executive director of Zhejiang YongAn Rongtong Holdings Co., Ltd. (浙江永安融通控股股份有限公司) (listed on the Hong Kong Stock Exchange, stock code: 08211) and Rongshu FinTech (Shenzhen) Limited (融數科技(深圳)有限公司) since December 2017 and an independent non-executive director of Bank of Guizhou Co., Ltd since August 2018. Mr. SONG served as league secretary general of the School of Finance of Renmin University of China (中國人民大學財政金融學院) from July 2004 to September 2009 and a post-doctoral researcher of the School of Statistics of Renmin University of China from July 2012 to July 2015. He was appointed as deputy commissioner of the Banking Commission of the Guizhou People's Government Finance Office (貴州省政府金融辦銀行處) from November 2012 to December 2013.

Mr. SONG graduated from the School of Finance of Renmin University of China (Beijing, China) in July 2004, majoring in finance, with a bachelor's degree in economics. He continued his masters and doctoral studies at the School of Finance of Renmin University of China (Beijing, China) from September 2006 to July 2012, and obtained a doctoral degree in economics.

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Ms. CHENG Jie, aged 50, has served as an employee Supervisor of the Bank since June 2018, and has been the president of the Longzi Lake sub-branch of the Bank since September 2016. She joined the Bank in August 1996 and had successively served as the head of the credit section of the Jingwu Road sub-branch, an office head and deputy president of the Weier Road sub-branch and the president of the Wenbo sub-branch and the Eastern District sub-branch, respectively, from August 1996 to September 2016. Prior to this, Ms. CHENG served as an accounting staff member of Yellow River Shopping Mall in Zhengzhou City (鄭州市黃河商場) from December 1986 to May 1993. She had successively served various roles at Henan Province Yugong Urban Credit Cooperatives (河南省豫工城市信用社), such as a teller, the head of the savings department and the head of the credit department from May 1993 to August 1996.

Ms. CHENG graduated from the East China Institute of Technology (華東工學院) (currently known as Nanjing University of Science and Technology (南京理工大學)) (Jiangsu, China) in June 1992. She has been an economist accredited by the Ministry of Personnel of the People's Republic of China since November 2000.

Mr. LI Huaibin, aged 49, has served as an employee Supervisor of the Bank since June 2018, and has been the president of the Nongye Road East sub-branch of the Bank since September 2018. He joined the Bank in July 1997 and had successively served as an employee of the Commodity Exchange sub-branch, the chief of section of corporate banking department of the head office, the president of the Executive District sub-branch, the president of the Eastern District sub-branch, the president of the Xingyang sub-branch and the president of the Shangqiu branch of the Bank, respectively, from July 1997 to September 2018. Prior to this, he served as a sales manager of the sales department of Zhengzhou Grain Machinery Co., Ltd. (鄭州糧機股份有限公司) from July 1993 to July 1997.

Mr. LI graduated from Zhengzhou Institute of Food Science (鄭州糧食學院) (currently known as the Henan University of Technology (河南工業大學)) (Henan, China) in July 1993, with his bachelor's degree in food engineering, and graduated from Zhongnan University of Economics and Law (Hubei, China) in August 2007, with his master's degree in finance. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1998.

Senior Management

For Mr. SHEN Xueqing's biography, please see the section headed "Directors" of this chapter.

Mr. XIA Hua, aged 51, has served as a vice president of the Bank since February 2012. He is primarily responsible for the operations of the asset security department, the financial market department and the investment banking department. Mr. XIA has nearly 29 years of experience in the banking industry. He joined the Bank in December 2011 and Prior to joining the Bank, he had successively served in the Former CBRC Henan Office as a principal staff member and the deputy chief of the state-owned banking regulatory No. 1 department, the deputy chief and the regulatory researcher of the city commercial banks regulatory department from September 2003 to December 2011. He had successively served as the vice president of the PBoC sub-branch in Yichuan County, the deputy principal staff member and a principal staff member of the rural cooperative finance management department of the Henan office, a principal staff member of the cooperation department of the Zhengzhou regulatory office of the Jinan office, a principal staff member of the regulatory department of Agricultural Bank of China from August 1996 to September 2003, and a staff member of the foreign exchange department of PBoC Luoyang Office from July 1990 to July 1996.

Mr. XIA graduated from Beijing Agricultural Engineering University (北京農業工程大學) (Beijing, China) in July 1990, majoring in applied electronic technology, with a bachelor's degree in engineering, and an EMBA degree from the China Europe International Business School (中歐國際工商管理學院) (Shanghai, China) in October 2015. He has been an economist accredited by the Ministry of Personnel of the PRC since June 1995.

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Mr. GUO Zhibin, aged 50, has served as the vice president of the Bank since December 2015. He is primarily responsible for the operations of the operations management department, the compliance department and the administrative management department of the Bank. In addition, he has served as the chairman of Xinzheng Zhengyin Country Bank Co., Ltd. since July 2018. Mr. GUO has over 20 years of experience in the banking industry. He served as an assistant to the president of the Bank from December 2010 to December 2015. Prior to that, he had served as the president of the Huanghe Road sub-branch of the Zhengzhou branch at Industrial Bank Co., Ltd. (興業銀行股份有限公司) from March 2006 to December 2010. In addition, he had served at Everbright Bank Co., Ltd. (光大銀行股份有限公司) as the assistant to the president and the vice president of the Hongzhuan Road sub-branch of the Zhengzhou branch, the deputy general manager of corporate business No. 2 department of the Zhengzhou branch, and the general manager of the asset security department of the Zhengzhou branch from June 1999 to March 2006. He served as the manager and the deputy general manager of the general office of Henan Yutai Mall Co., Ltd. (河南豫泰商廈有限公司) from October 1997 to May 1999, and the deputy director of the general office of the Zhengzheng Sanjie (證政三街) sub-branch of the Bank and the Henan Province Labor City Credit Cooperative (河南省勞動城市信用社) from August 1996 to October 1997 and from January 1995 to August 1996, respectively.

Mr. GUO graduated from Zhengzhou University (Henan, China) in June 1995, majoring in finance. He graduated from Henan University (Henan, China) with the completion of the national economics postgraduate course program (國民經濟學專業研究生課程進修班) in July 1999, and obtained a master's degree in business administration from the Asia International Open University (Macau) (Macau, China) in August 2004, and an EMBA degree from the Guanghua School of Management, Peking University (北京大學光華管理學院) (Beijing, China) in June 2017. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1997.

Mr. SUN Haigang, aged 41, has served as a vice president of the Bank since February 2018. He is primarily responsible for the credit approval department, the credit extension management department, the risk management department and the science and technology development department of the Bank. Mr. SUN has nearly 10 years of experience in the banking industry. He joined the Bank in October 2009 and served as an assistant to the president of the Bank and the general manager of the strategic development department of the Board from October 2009 to October 2013, and an assistant to the president of the Bank and the president of the Luoyang branch from October 2013 to April 2016. Prior to joining the Bank, he worked at Baosteel Holding Co., Ltd. (寶山鋼鐵股份有限公司) from July 2007 to September 2009.

Mr. SUN graduated from Henan University (Henan, China) in June 2000, majoring in marketing (advertising), with a bachelor of arts degree. He graduated from Henan University (Henan, China) in July 2004, majoring in political economics, with a master's degree in economics. He graduated from Shanghai University of Finance and Economics (Shanghai, China) in June 2007, majoring in industrial economics, with a doctoral degree in economics. He has been a senior economist accredited by the Human Resources and Social Security Ministry of the PRC since December 2014.

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Mr. ZHANG Wenjian, aged 53, has served as a vice president of the Bank since February 2018. He is primarily responsible for the operations of the electronic banking department, the retail banking department, the credit card department, the financial department of small business, the internet finance department and the asset management department. Mr. ZHANG has over 34 years of experience in the banking industry. He joined the Bank in November 1997 and had successively served as a staff member of the Zhengliu Street sub-branch, the deputy general manager of the financial accounting department, the general manager of the accounting and settlement department, the general manager of the corporate business department, a member of the preparatory team of the Nanyang branch, and the president of the Nanyang branch from November 1997 to May 2011. He served as an assistant to president of the Bank from May 2011 to March 2018. Prior to that, he had served as the deputy chief of the accounting section and the director of the transaction centre of the Jinshui subbranch of Industrial & Commercial Bank of China Limited (中國工商銀行股份有限公司) from February 1985 to November 1997.

Mr. ZHANG graduated from Zhengzhou Workers' University (鄭州市職工大學) (Henan, China) in June 1989, majoring in applied computer science, and graduated from Nanjing Institute of Political Science (南京政治學院) (Jiangsu, China) in June 2005, majoring in economic management and graduated from the School of Economic Management of Nankai University (Tianjin, China), majoring in economic management in June 2016. He has been a senior economist accredited by the Ministry of Personnel of the PRC since December 2016.

Ms. MAO Yuezhen, aged 55, has served as a vice president of the Bank since February 2018 and the chief accountant of the Bank since October 2011. She is primarily responsible for the operations of the finance and accounting department and the institution development department. Ms. MAO has nearly 26 years of experience in finance and accounting. She joined the Bank in August 1996 and had successively served as the chief of the accounting section of the Hongqi Road sub-branch, the vice president of the Hongqi Road sub-branch, the deputy director of the auditing department, the general manager of the audit and supervision department, the director of the assessment office, the general manager of the planning and asset department, and the general manager of the finance and accounting department of the Bank from August 1996 to October 2011. Prior to joining the Bank, she had served as the manager of the accounting department of Henan Jinyu Experimental Bank (河南金育實驗銀行) from April 1993 to July 1996, and a lecturer of the Henan College of Financial Management Cadres (河南金融管理幹部學院) from July 1987 to March 1993.

Ms. MAO graduated from the Henan College of Financial Management Cadres (河南金融管理幹部學院) (Henan, China) in July 1995, majoring in finance. She has been a senior accountant accredited by the MOF since October 2015.

Mr. FU Chunqiao, aged 45, has served as the director of the Office of the Board of Directors of the Bank since January 2011 and the secretary to the Board of Directors since October 2013. He is primarily responsible for the operations of the Office of the Board of Directors. Mr. FU has over 22 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the deputy manager and the deputy general manager of the planning and asset department, and the deputy general manager and the general manager of the asset operation department from March 2000 to January 2011.

Mr. FU graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1995, majoring in money and banking. He obtained a master's degree in law from Zhengzhou University (Henan, China) in June 2008. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1999.

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Mr. JIANG Tao, aged 46, has served as the chief information officer of the Bank since December 2015, and the general manager of the science and technology development department of the Bank since April 2005. Mr. JIANG has nearly 25 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the assistant engineer of the science and technology department, the chief of the ex post-supervision and development department and the chief and deputy general manager of the science and technology development department from August 1996 to April 2005.

Mr. JIANG graduated from Zhengzhou University (Henan, China) in July 1994, majoring in computer science and its application. He obtained a master's degree in computer engineering from PLA Information Engineering University (Henan, China) from September 2002 to July 2005. He has been a senior programmer accredited by the Examination Board of China Qualification Certificate of Computer and Software Technology Proficiency (中國計算機軟件專業技術資格和水平考試委員會) since October 2003.

Mr. LI Lei, aged 45, has served as an assistant to the president of the Bank since November 2017. He is primarily responsible for the operations of the corporate business department, the transaction banking department I and the transaction banking department II. Mr. LI has about 27 years of experience in the banking industry. He joined the Bank in September 1996, and had successively served as the deputy chief of the accounting section, the deputy director of the transaction centre, the deputy manager of the asset security department and the credit department of the Jinhai Avenue sub-branch, the deputy general manager of the head office risk management department, the deputy general manager of the head office credit approval department, the president of the Zidong sub-branch, the president of the Baolongcheng sub-branch, and the president of the Xinzheng sub-branch, the general manager of the head office corporate business department, the president of the Xinxiang branch and the president of the Luoyang branch from September 1996 to November 2017. Prior to that, he worked at Zhengzhou Urban Credit Cooperatives from July 1992 to August 1996.

Mr. LI graduated from the Party School of the Central Committee of the Communist Party of China (Beijing, China) in December 1996, majoring in foreign economics, and graduated from TEDA College, Nankai University (南開大學泰達學院) (Tianjin, China) in July 2017, majoring in finance. He has been an assistant accountant accredited by the Ministry of Personnel of the PRC since April 1996.

Mr. ZHANG Houlin, aged 42, has served as an assistant to the president of the Bank since November 2017. He is primarily responsible for the operations of the Nanyang branch and serves as its president. Mr. ZHANG has about 20 years of experience in the banking industry. Mr. ZHANG joined the Bank in August 1999, and had successively served as a staff member of the head office business department, a staff member of the head office corporate business department, the president of the Longhai East Road sub-branch, the president of the Dengfeng sub-branch, the president of the Anyang branch and the president of the Nanyang branch from August 1999 to December 2017.

Mr. ZHANG graduated from Zhengzhou Shengda University of Economics, Business & Management (鄭州大學升達經貿學院) (Henan, China) in July 1999, majoring in accounting. He has been an accountant accredited by the MOF since May 1999.

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Ms. WANG Yanli, aged 48, has served as the chief risk officer of the Bank since February 2018. She is primarily responsible for asset security and risk management of the Bank. Ms. WANG joined the Bank in August 1996, and had successively served as a vice president of the Jinhai Avenue sub-branch, the president of the Jinhai Avenue sub-branch, the president of the Dashiqiao sub-branch, the director of the head office business department of the Bank, the general manager of the risk management department, the general manager and the chief risk officer of the credit approval department and the general manager of the risk management department from August 1996 to February 2018. Prior to joining the Bank, she served as deputy director of Zhengzhou Urban Credit Cooperatives from June 1995 to August 1996, worked in Zhengzhou Urban Credit Cooperatives from July 1991 to June 1995 and worked in the North Electric Power Section of Zhengzhou Railway Bureau (鄭州鐵路局北電務段) from December 1989 to June 1991.

Ms. WANG graduated from Zhongzhou University in July 1989 with a major in household appliances. She obtained her master's degree in business administration from Kunming University of Science and Technology from September 2009 to July 2011. She has been a senior accountant accredited by the MOF since October 2016 and an economist accredited by the MOF since October 2016.

Ms. WANG Zhaoqi, aged 51, has served as the chief auditor of the Bank since March 2018. She is primarily responsible for the internal audit. Ms. WANG joined the Bank in August 1996 and worked in the accounting office of the Bank from August 1996 to July 1999. She had successively served as the auditor of deputy division level of the audit and supervision department, the vice general manager of the audit and supervision department, the vice general manager (presiding) of the post-supervision department, the general manager of the post-supervision department, the general manager of the audit department, the director of the internal audit office of the Board of Directors, the general manager of the former accounting and settlement department and the general manager of the operations management department from July 1999 to March 2018. Prior to this, she worked in the accounting department of Zhengzhou Urban Credit Union (鄭州市城市信用聯社) from July 1991 to August 1996 and worked in Zhengzhou Construction Urban Credit Cooperative (鄭州市建設城市信用社) from November 1984 to July 1991.

Ms. WANG graduated from Renmin University of China in June 2018 with a major in business administration. She has been a senior accountant accredited by the Department of Personnel of Henan Province since December 2007 and a senior auditor accredited by the Department of Personnel of Henan Province since September 2008.

Joint Company Secretaries

Mr. FU Chunqiao, is one of the joint company secretaries of the Bank being appointed on 29 September 2015. Please see the section headed "Senior Management" for his biography of this chapter.

Ms. LEUNG Wing Han Sharon, is one of the joint company secretaries of the Bank being appointed on 6 November 2015. Ms. LEUNG is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has over 13 years of experience in finance, accounting and company secretarial matters. Ms. LEUNG holds degrees of bachelor of business administration in accounting, bachelor of laws, and master of laws in international corporate and financial law. Ms. LEUNG is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in the UK, and the Association of Chartered Certified Accountants in the UK. She is also a member of the Hong Kong Institute of Certified Public Accountants.

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3.2 Positions of Current Directors, Supervisors and Senior Management in Shareholder Units

Name of the Incumbent	Name of Shareholder Unit	Position taken in Shareholder Unit	Term of Office	Remuneration Allowance from Shareholder Unit
FAN Yutao	Zhengzhou Finance Bureau (鄭州市財政局)	Deputy director	Since February 2016	Yes
Ji Hongjun	Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Deputy president	Since December 2003	Yes
LIANG Songwei	Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	Chairman	Since June 2015	Yes
ZHU Zhihui	Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Chairman	Since December 2005	No

3.3 Positions of Current Directors, Supervisors and Senior Management in Other Units

Name of the Incumbent	Name of Other Unit	Position taken in Other Unit	Term of Office	Remuneration Allowance from Other Unit
WANG Tianyu (王天宇)	Zhongmu Zhengyin County Bank	Chairman	Since May 2012	No
FENG Tao (馮濤)	Queshan Zhengyin County Bank	Chairman	Since November 2017	No
FAN Yutao (樊玉濤)	Bridge Trust Company Limited (百瑞信託有限責任公司)	Director	Since June 2011	No
ZHANG Jingguo (張敬國)	Henan Zensun Property Co., Ltd. (河南正商置業有限公司)	Chairman	Since January 2001	Yes
ZHANG Jingguo (張敬國)	ZH International Holdings Ltd.	Chairman of the board, executive director and chief executive officer	Since July 2015	No
ZHANG Jingguo (張敬國)	Global Medical REIT	Co-chairman and director	Since June 2016	No

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Name of the Incumbent	Name of Other Unit	Position taken in Other Unit	Term of Office	Remuneration Allowance from Other Unit
ZHANG Jingguo (張敬國)	Henan Hongguang Zensun Property Co., Ltd. (河南宏光正商置業有限公司)	Executive director	Since October 2017	No
ZHANG Jingguo (張敬國)	Zanyu Technology Group Co., Ltd. (贊宇科技集團股份有限公司)	Chairman	Since October 2018	No
JI Hongjun (姬宏俊)	Great Wall Fund Management Co., Ltd. (長城基金管理有限公司)	Director	Since December 2008	Yes
JI Hongjun (姬宏俊)	Henan Asset Management Company Limited (河南資產管理有限公司)	Director	Since August 2017	No
LIANG Songwei (梁嵩巍)	Zhengzhou Middle and Small-sized Enterprises Guarantee Co., Ltd. (鄭州中小企業擔保有限公司)	Director	From June 2009 to August 2018	No
LIANG Songwei (梁嵩巍)	Zhengzhou Industry Development Guidance Fund Co., Ltd. (鄭州市產業發展引導基金有限公司)	Chairman	Since January 2015	No
LIANG Songwei (梁嵩巍)	Zhengzhou Guotou Asset Management Co., Ltd. (鄭州市國投資產管理有限公司)	Chairman	From July 2017 to August 2018	No
LIANG Songwei (梁嵩巍)	Zhengzhou Guokai Zhengtou Investment Co., Ltd. (鄭州市國開鄭投資有限公司)	Chairman	From November 2017 to August 2018	No
LIANG Songwei (梁嵩巍)	Zhengzhou Zhongrongchuang Industrial Investment Co., Ltd. (鄭州市中融創產業投資有限公司)	Chairman	From July 2018 to January 2019	No
WANG Shihao (王世豪)	Shanghai National Accounting Institute	Part-time professor	Since July 2010	No
WANG Shihao (王世豪)	Overseas Education College of Shanghai Jiao Tong University	Part-time professor	Since January 2011	No
WANG Shihao (王世豪)	College of Business of Shanghai University of Finance and Economics	Part-time professor	Since May 2013	No
WANG Shihao (王世豪)	Bank of Lanzhou Co., Ltd.	Independent director	Since June 2016	Yes
WANG Shihao (王世豪)	Huishang Bank Corporation Limited	Independent director	From October 2011 to November 2018	Yes
XIE Taifeng (謝太峰)	School of Finance of Capital University of Economics and Business	Professor	Since July 2005	Yes
XIE Taifeng (謝太峰)	China Haohua Chemical Group Co., Ltd. (中國昊華化工集團股份有限公司)	Independent director	Since March 2013	Yes
XIE Taifeng (謝太峰)	Woori Bank (China) Limited (友利銀行(中國)有限公司)	Independent director	Since September 2013	Yes
XIE Taifeng (謝太峰)	Green Fund Management Co., Ltd. (格林基金管理有限公司)	Independent director	Since October 2016	Yes
WU Ge (吳革)	Beijing Zhongwen Law Firm (北京市中聞律師事務所)	Director	Since November 2013	Yes

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Name of the Incumbent	Name of Other Unit	Position taken in Other Unit	Term of Office	Remuneration Allowance from Other Unit
WU Ge (吳革)	Constitutional and Human Rights Committee of the All China Lawyers Association (中華全國律師協會憲法與人權專業委員會)	Director	Since 2004	No
WU Ge (吳革)	Institute of Criminal Law Science of Beijing Normal University	Part-time researcher	Since August 2006	No
WU Ge (吳革)	Chinese Overseas Friendship Association (中華海外聯誼會)	Director	Since September 2008	No
WU Ge (吳革)	China Institute of Case-based Jurisprudence (中國案例法學研究會)	Standing vice president	Since October 2013	No
WU Ge (吳革)	National Base of Human rights Education and Training, i.e. Human Rights Education and Research Centre of the Southwestern University of Politics and Law	Part-time researcher	Since April 2015	No
WU Ge (吳革)	Law School of Central University of Finance and Economics	Tutor of the Master of Laws program	From December 2015 to 2018	No
WU Ge (吳革)	Headquarters of China Development Bank	Independent member of the Loans Review Committee	From 2007 to 2018	No
CHAN Mei Bo Mabel (陳美寶)	Mabel Chan & Co. (陳美寶會計師事務所), Hong Kong	Founder	Since January 1999	Yes
CHAN Mei Bo Mabel (陳美寶)	The Council of Hong Kong Institute of Certified Public Accountants (香港會計師公會)	Member	Since December 2007	No
CHAN Mei Bo Mabel (陳美寶)	Barristers Disciplinary Tribunal Panel of Hong Kong (香港大律師紀律審裁團)	Member	Since May 2010	No
CHAN Mei Bo Mabel (陳美寶)	Kingmaker Footwear Holdings Ltd.	Independent non-executive Director	Since August 2011	Yes
CHAN Mei Bo Mabel (陳美寶)	Hong Kong Baptist University	Member of the Council	Since January 2013	No
CHAN Mei Bo Mabel (陳美寶)	Grant Thornton Hong Kong Limited	Deputy managing partner	Since January 2016	Yes
CHAN Mei Bo Mabel (陳美寶)	Small and Medium Enterprises Committee of HKSAR (香港中小型企業委員會)	Member	Since January 2017	No
CHAN Mei Bo Mabel (陳美寶)	Export Credit Insurance Corporation Advisory Board of HKSAR (香港出口信用保險局諮詢委員會)	Member	Since April 2017	No
CHAN Mei Bo Mabel (陳美寶)	Securities and Futures Appeals Tribunal of HKSAR (香港證券及期貨事務上訴審裁處)	Member	Since April 2017	No
CHAN Mei Bo Mabel (陳美寶)	Air Transport Licensing Authority of HKSAR (香港空運牌照局)	Member	Since August 2017	No
CHAN Mei Bo Mabel (陳美寶)	Trade and Industry Advisory Board of HKSAR (香港工業貿易諮詢委員會)	Member	Since September 2017	No

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Name of the Incumbent	Name of Other Unit	Position taken in Other Unit	Term of Office	Remuneration Allowance from Other Unit
CHAN Mei Bo Mabel (陳美寶)	Appeal Panel (Housing) of Hong Kong (香港上訴委員會(房屋))	Member	From April 2014 to April 2018	No
LI Yanyan (李燕燕)	Zhengzhou University	Professor	Since May 2008	Yes
LI Yanyan (李燕燕)	Editorial department for the university newspaper of Zhengzhou University	Director and editor-in-chief	Since January 2015	Yes
ZHAO Lijuan (趙麗娟)	Xunxian Zhengyin County Bank	Chairwoman	Since November 2017	No
ZHU Zhihui (朱志暉)	Huida Holdings Limited (暉達控股有限公司)	Chairman	Since January 2015	No
ZHU Zhihui (朱志暉)	Henan Jiarui Property Co., Ltd. (河南嘉睿置業有限公司)	Chairman	Since March 2013	Yes
MA Baojun (馬寶軍)	Central China Airport Industry Fund Management Co., Ltd. (中原航空港產業投資基金管理有限公司)	Chairman of the board of directors	From January 2015 to March 2018	No
MA Baojun (馬寶軍)	Henan Jianye Holdings Development Co., Ltd. (河南建業控股發展有限公司)	Chairman of the board of directors	From December 2016 to July 2018	Yes
MA Baojun (馬寶軍)	Henan Songshan Technology and Innovation Fund Management Co., Ltd. (河南嵩山科創基金管理有限公司)	Chairman	Since December 2016	Yes
MA Baojun (馬寶軍)	Tak Yau Limited	Director	Since June 2017	No
MA Baojun (馬寶軍)	Henan Houpu Jianye Fund Management Co., Ltd. (河南厚朴建業基金管理有限公司)	Director	From August 2017 to January 2019	No
SONG Ke (宋科)	International Monetary Institute of Renmin University of China (中國人民大學國際貨幣研究所)	Council director and deputy director	Since January 2014	No
SONG Ke (宋科)	Faculty of Monetary Finance of the School of Finance of Renmin University of China (中國人民大學財政金融學院貨幣金融系)	Lecturer	Since September 2015	Yes
SONG Ke (宋科)	Xiamen International Financial Technology Co., Ltd. (廈門國際金融技術有限公司)	External supervisor	Since October 2015	No
SONG Ke (宋科)	Zhejiang YongAn Rongtong Holdings Co., Ltd. (浙江永安融通控股股份有限公司)	Independent non-executive director	Since December 2017	Yes
SONG Ke (宋科)	Rongshu FinTech (Shenzhen) Limited (融數科技(深圳)有限公司)	Independent non-executive director	Since December 2017	Yes
SONG Ke (宋科)	School of Finance of Renmin University of China (中國人民大學財政金融學院)	Assistant to the dean	Since January 2018	No
SONG Ke (宋科)	Bank of Guizhou Co., Ltd	Independent non-executive director	Since August 2018	Yes
GUO Zhibin (郭志彬)	Xinzheng Zhengyin Country Bank Co., Ltd.	Chairman	Since July 2018	No

3.4 Penalties Imposed on Directors, Supervisors and Senior Management Who Currently Hold Positions or Resigned During the Reporting Period in the Past Three Years

The Directors, Supervisors and senior management of the Bank who currently hold positions or resigned during the Reporting Period did not have any punishments by the securities regulatory authorities in the past three years.

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4 REMUNERATION POLICY AND ANNUAL REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Remuneration Policy

4.1.1 *The Decision-making Process*

The Bank's general meeting decides on the remuneration of Directors and Supervisors, considers and approves the remuneration measures for Directors and Supervisors, authorises the Remuneration and Appraisal Committee of the Board of Directors to formulate the remuneration plan for the relevant Directors and Supervisors, and is responsible for the assessment and implementation. The Board of Directors of the Bank determines the remuneration of the senior management personnel, considers and approves the remuneration measures for senior management personnel, authorises the Remuneration and Appraisal Committee of the Board of Directors to formulate the remuneration plan of relevant senior management personnel, and is responsible for assessment and implementation.

4.1.2 *Determination Basis*

According to the Administrative Measures of Bank of Zhengzhou Co., Ltd. on Remuneration and Performance for Directors and Supervisors at Governance Level and the Administrative Measures of Bank of Zhengzhou Co., Ltd. on Remuneration and Performance for Senior Management at Operation Level, the Bank determined the total annual remuneration of the Chairman of the Board of Directors, the vice Chairman of the Board of Directors, the chairman of the Board of Supervisors and senior management personnel based on their annual assessment results. The Bank remunerates non-executive Directors and independent non-executive Directors according to the payment plan for allowances of the non-executive Directors and remuneration of independent non-executive Directors, and remunerates the shareholder Supervisors and external Supervisors based on the payment plan for allowances of shareholder Supervisors and remuneration of external Supervisors. The remuneration standard of other Supervisors is implemented in accordance with relevant measures of the Bank.

4.1.3 *Actual Payments*

The Bank pays the basic salaries of the Chairman of the Board of Directors, the vice Chairman of the Board of Directors, the chairman of the Board of Supervisors and the senior management according to the remuneration management system; and pays the performance salaries according to the annual performance assessment. Other directors and supervisors are paid monthly according to the allowance standards.

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4.2 Remuneration for Directors, Supervisors and Senior Management

Unit: RMB'000

Name	Position	Status	Total remuneration from the Bank before tax during the Reporting Period	Whether obtained remuneration from shareholder unit or its related party
WANG Tianyu(王天宇)	Chairman and Executive Director	In office	2,126	No
SHEN Xueqing (申學清)	President and Executive Director	In office	2,023	No
FENG Tao (馮濤)	Vice Chairman and Executive Director	In office	1,868	No
FAN Yutao (樊玉濤)	Non-executive Director	In office	–	Yes
ZHANG Jingguo (張敬國)	Non-executive Director	In office	36	Yes
JI Hongjun (姬宏俊)	Non-executive Director	In office	36	Yes
LIANG Songwei (梁嵩巍)	Non-executive Director	In office	–	Yes
WANG Shihao (王世豪)	Non-executive Director	In office	172	No
XIE Taifeng (謝太峰)	Independent non-executive Director	In office	180	No
WU Ge (吳革)	Independent non-executive Director	In office	180	No
CHAN Mei Bo Mabel (陳美寶)	Independent non-executive Director	In office	180	No
LI Yanyan(李燕燕)	Independent non-executive Director	In office	75	No
ZHAO Lijuan (趙麗娟)	Chairwoman of the Board of Supervisors and Employee Supervisor	In office	1,918	No
ZHU Zhihui (朱志暉)	Shareholder Supervisor	In office	36	Yes
MA Baojun(馬寶軍)	External Supervisor	In office	138	No
SONG Ke (宋科)	External Supervisor	In office	150	No
CHENG Jie (成潔)	Employee Supervisor	In office	1,635	No
LI Huaibin (李懷斌)	Employee Supervisor	In office	1,371	No
XIA Hua (夏華)	Vice President	In office	1,921	No
GUO Zhibin (郭志彬)	Vice President	In office	1,817	No

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Name	Position	Status	Total remuneration from the Bank before tax during the Reporting Period	Whether obtained remuneration from shareholder unit or its related party
SUN Haigang (孫海剛)	Vice President	In office	1,795	No
ZHANG Wenjian (張文建)	Vice President	In office	1,792	No
MAO Yuezhen (毛月珍)	Vice President and Chief Accountant	In office	1,795	No
FU Chunqiao (傅春喬)	Secretary of the Board of Directors	In office	1,733	No
JIANG Tao (姜濤)	Chief Information Officer	In office	1,090	No
LI Lei (李磊)	Assistant to President	In office	1,655	No
ZHANG Houlin (張厚林)	Assistant to President	In office	1,033	No
WANG Yanli (王豔麗)	Chief Risk Officer	In office	1,293	No
WANG Zhaoqi (王兆琪)	Chief Auditor	In office	675	No
XU Jingnan (徐靜楠)	Non-executive Director	Resigned	18	Yes
MA Jinwei (馬金偉)	Non-executive Director	Resigned	18	Yes
YU Zhanglin (于章林)	Non-executive Director	Resigned	18	No
LI Huaizhen (李懷珍)	Independent non-executive Director	Resigned	150	No
MENG Jun (孟君)	External Supervisor	Resigned	18	Yes
TANG Yunwei (湯雲為)	External Supervisor	Resigned	75	No
DUAN Ping (段萍)	Employee Supervisor	Resigned	962	No
CUI Huarui (崔華瑞)	Employee Supervisor	Resigned	1,739	No
ZHANG Chungu (張春閣)	Employee Supervisor	Resigned	906	No
Total			32,627	-

Note: The remuneration packages of the Directors, Supervisors and senior management personnel of the Bank are set out in Note 9 to the financial statements of the independent auditor's report of this Annual Report.

4.3 Share Incentives Granted for Directors, Supervisors and Senior Management During the Reporting Period

During the Reporting Period, the Directors, Supervisors and senior management personnel of the Bank neither held any options nor were granted restricted share units or any forms of share incentives.

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5 STAFF

5.1 Composition

As at the end of the Reporting Period, the following table sets out the composition of employees of the Bank:

	Number of employees
Number of in-service employees of the Bank	4,460
Number of in-service employees of the subsidiaries	248
Total number of in-service employees	4,708
Number of resigned and retired employees with costs borne	1,019

Note: The number of employees excludes dispatched employees.

By department/function

Job category	Number of employees	Percentage
Corporate banking	747	16%
Retail banking	1,126	24%
Risk management, internal audit and compliance	438	9%
Finance and accounting	1,371	29%
I.T.	148	3%
Business management and support	878	19%
Total	4,708	100%

By age

Age group	Number of employees	Percentage
30 years old or below	2,459	52%
31 to 40 years old	1,371	29%
41 to 50 years old	759	16%
Over 50 years old	119	3%
Total	4,708	100%

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

By level of education

Highest level of education	Number of employees	Percentage
Master's degree or above	784	17%
Bachelor's degree	3,410	72%
Non-degree tertiary	435	9%
Others	79	2%
Total	4,708	100%

5.2 Staff Training Plan

The Bank formulated the annual training plan based on the annual development strategies and the actual business development needs. The Bank focused on capacity building, improved its training system and strengthened the construction of the training management mechanism, providing a strong talent pool and institutional support for the long-term development of the Bank. During the Reporting Period, the Bank consolidated the three-level training resources at its headquarters, branches and sub-branches as well as launching leadership training for senior-/mid-level management, training camps for president of model bank in commercial logistics, training for professional officials, training on professional knowledge and marketing skills for junior staff, new staff trainings and reserve cadres training for head office staff according to the core business of each line. In addition, the Bank has remained committed to building mobile learning platforms and internal instructor teams, offering sound faculty and on-line platform support.

5.3 Remuneration Policy for Staff

The Bank adheres to the principles of “fairness, competition and incentivisation” in formulating its remuneration policy. In other words, the remuneration policy shall be able to reflect external fairness, internal fairness and individual fairness of salary; it shall be conducive to enhancing our market competitiveness and attractiveness to talented people. When adjusting its remuneration structure, the Bank will increase the level of remuneration for positions whose remunerations are far below the market level based on the results of a market salary survey, so as to ensure the level of remuneration offered by us is competitive; and it shall also be able to make our salary more incentivised, namely to motivate our employees by incorporating floating wages and performance-linked bonus and other incentive components into our salary packages, and to provide employees at different positions with equal promotion opportunities by designing different promotion channels. The Bank makes social insurance contributions and housing provident fund contributions and provides other employee benefit packages for employees in accordance with applicable laws, rules and regulations of the PRC.

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5.4 Labor Outsourcing

As at the end of the Reporting Period, the Bank had 347 dispatched employees, representing 7.2% of total number of employees. The positions assigned to dispatched employees were mainly auxiliary positions such as savings tellers, lobby assistants, voucher scanning, file input and drivers. The Bank's unified management systems on vacation, induction, training, etc., also apply to the dispatched employees. The salaries of the dispatched employees were determined based on their performance assessment results. The Bank assesses the dispatched employees regularly and transfers the dispatched employees to official staff in proportion on merit.

6 BASIC INFORMATION OF INSTITUTIONS UNDER THE BANK

The following table sets out the branches and sub-branches of the Bank as at the end of the Reporting Period:

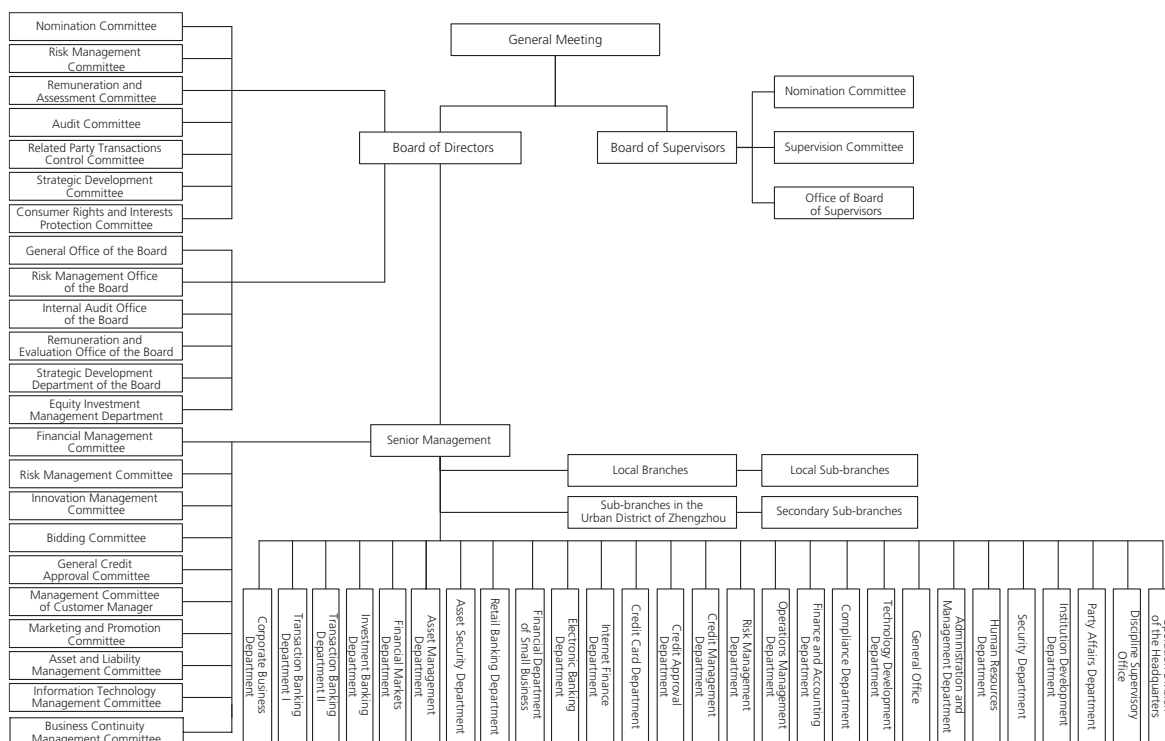
Region	Name of branch	Business address (China)	Number of institutions under the Bank	Number of employees	Asset size (RMB'000)
Zhengzhou, Henan	Headquarters	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province	In charge of 119 branch institutions in districts of Zhengzhou for conducting external business and 49 institutions in other prefectural-level cities in Henan for conducting external business	4,460	449,272,997
Zhengzhou, Henan	Branch institutions in districts of Zhengzhou for conducting external business directly managed by the headquarters	-	99	3,272	387,076,714
Zhengzhou, Henan	Small Business Financial Service Centre	Room 102, 1-2/F and Room 301-309, 3/F, 4A, North of Longhu Zhonghuan South Road and East of Jiuru Road, Zhengdong New District, Zhengzhou City, Henan Province	In charge of 20 institutions for conducting external business	261	6,408,880
Nanyang, Henan	Nanyang	The junction of Zhongjiing Road and Fanli Road, Wancheng District, Nanyang City, Henan Province	In charge of 10 institutions for conducting external business	157	7,245,538
Xinxiang, Henan	Xinxiang	No. 278, Xiangyang Road, Xinxiang City, Henan Province	In charge of seven institutions for conducting external business	118	3,476,665
Luoyang, Henan	Luoyang	Longan Building (隆安大廈), the junction of Guanlin Road and Houzaimen Street, Luolong District, Luoyang City, Henan Province	In charge of seven institutions for conducting external business	121	11,885,922

CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

Region	Name of branch	Business address (China)	Number of institutions under the Bank	Number of employees	Asset size (RMB'000)
Anyang, Henan	Anyang	Yiwu International Business & Trade Mansion, the junction of Chouzhou Road and Delong Street, Andong New District, Anyang City, Henan Province	In charge of six institutions for conducting external business	78	11,887,833
Shangqiu, Henan	Shangqiu	Floor A2B, Siji Harbour, Wenhua Road North and Zhongzhou Road East, Liangyuan District, Shangqiu City, Henan Province	In charge of five institutions for conducting external business	97	4,370,701
Xuchang, Henan	Xuchang	Juncheng International Building (亨通君成國際大廈), the junction of Liancheng Avenue and Weiwen Road, Weidu District, Xuchang City, Henan Province	In charge of three institutions for conducting external business	63	3,018,518
Luohe, Henan	Luohe	Floor 1-5, Changjian International (昌建國際), the junction of Songshan West Branch Road and Mudanjiang Road, Yancheng District, Luohe District, Henan Province	In charge of three institutions for conducting external business	49	1,932,161
Xinyang, Henan	Xinyang	Floor 1-2, Zhongle Baihua Mansion (中樂百花公館), the junction of Xinqi Avenue and Xinba Street, Yangshan New District, Xinyang City, Henan Province	In charge of four institutions for conducting external business	69	3,626,845
Puyang, Henan	Puyang	The northwest of junction of Renmin Road and Kaizhou Road, Longhua District, Puyang City, Henan Province	In charge of one institution for conducting external business	52	2,697,173
Pingdingshan, Henan	Pingdingshan	The southeast of junction of Kaiyuan Road and Qinggong Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one institution for conducting external business	43	2,290,633
Zhumadian, Henan	Zhumadian	The southwest of junction of Huaihe Avenue and Tianzhongshan Avenue, Zhumadian City, Henan Province	In charge of one institution for conducting external business	36	1,677,877
Kaifeng, Henan	Kaifeng	The southeast of junction of Jinming Avenue and Hanxing Road, Kaifeng City, Henan Province	In charge of one institution for conducting external business	44	1,677,537

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1 COMPANY STRUCTURE



Note: After the Reporting Period, as considered and passed at the first extraordinary meeting of the sixth session of the Board of Directors of the Bank in 2019, it was decided to close the Electronic Banking Department and Internet Finance Department and merge the two departments into the Channel Management Department, and rename the Technology Development Department as Information Technology Department. As considered and passed at the second extraordinary meeting of the sixth session of the Board of Directors of the Bank in 2019, it was decided to set up the Asset and Liability Management Department.

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2 OVERVIEW OF CORPORATE GOVERNANCE

During the Reporting Period, the Bank continuously improved its corporate governance structure and established a sound internal management and control system in strict accordance with the requirements of the Company Law, the Securities Law, the Corporate Governance Guidelines for Listed Companies issued by the CSRC, the SZSE Listing Rules, the Guidelines for the Standardized Operation of Listed Companies on the SME Board of the SZSE, and the Stock Exchange Listing Rules. By constantly improving the Bank's corporate governance, we have built a well-established corporate governance mechanism where duties of the general meeting, the Board of Directors (the "Board"), the Board of Supervisors and senior management are clearly defined with effective checks and balances to ensure efficient coordination and scientific decision-making. As at the end of the Reporting Period, there had been no inconsistency between the Bank's corporate governance and the relevant provisions of the Company Law and the CSRC, nor had the bank received any documents on administrative or regulatory measures from the regulatory authorities requiring rectification within a time limit.

During the Reporting Period, the Bank strictly abided by the code provisions of the Corporate Governance Code and the relevant listing rules on inside information disclosure. The Directors are not aware of any information indicating that the Bank had not complied with the code provisions set out in the Corporate Governance Code during the Reporting Period.

The Bank actively follows international and domestic corporate governance standards, has established a sound corporate governance system, and revises the corporate governance measures from time to time in accordance with the regulatory provisions and the listing rules of the SZSE and the Hong Kong Stock Exchange. During the Reporting Period, the Bank newly formulated the Management Measures on the Shares of the Bank Held by Directors, Supervisors and Senior Management Personnel, the Rules for the Annual Reporting of the Audit Committee of the Board of Directors, the Measures for the Annual Reporting of Independent Directors, the Working Rules for the Secretary of the Board of Directors, the Measures for the Accountability of Major Errors in the Disclosure of Information in Annual Reports, and the Management Measures for Investments in Major Projects, and revised the Articles of Association, the Measures for the Management of Independent Directors, the Work Rules for the Audit Committee of the Board of Directors, the Work Rules for the Nomination Committee of the Board of Directors, the Work Rules for the Strategic Development Committee of the Board of Directors, and the Measures for Internal Reporting of Material Information.

During the Reporting Period, the Bank further standardized the structure of the Board of Directors and the Board of Supervisors and completed the re-election of the Board of Directors and the Board of Supervisors. The special committees of the Board continued to improve the performance of their duties and exert their professional guiding role. The Board of Supervisors carried out performance appraisal, continuously enriched the means of supervision, and strengthened the supervisory role by a combination of means including attending important meetings of the Bank, conducting surveys and inspections, and issuing supervisory warnings. The independent non-executive Directors and external Supervisors earnestly conducted business surveys and expressed independent opinions. In doing so, the expertise and supervisory role of these external experts were put into play effectively. The Bank discloses information in a true, accurate, complete and timely manner in accordance with laws, regulations, the Articles of Association and the Bank's information disclosure measures, and ensures that all shareholders have equal access to such information. The Bank attaches great importance to the management of inside information, strictly controls the scope of insiders having access to inside information, and registers the list of personnel being aware of the Bank inside information in a timely manner. Currently, no insider has been found to have illegally used inside information to trade in the Bank's Shares.

The Bank will continue to review and strengthen corporate governance in order to ensure consistent compliance with the regulatory provisions and the listing rules of the SZSE and the Hong Kong Stock Exchange and meet higher expectations of shareholders and investors.

CHAPTER VII CORPORATE GOVERNANCE REPORT



The Bank's Independence from Shareholders Holding More Than 5% of the Bank's Shares in Terms of Operations, Staff, Assets, Organizational Structure and Finance

During the Reporting Period, the Bank did not have any controlling shareholder.

- (1) Operations: The Bank is operating independently from shareholders holding more than 5% of the Bank's Shares.
- (2) Staff: The Bank operates independently in terms of staff and salary management.
- (3) Assets: The Bank has an independent place of business and supporting facilities.
- (4) Organizational structure: The Bank has a well-established organizational structure where the Board of Directors, the Board of Supervisors and various functional departments operate independently with clear powers and functions and have no subordinate relations with the functional departments of corporate shareholders holding more than 5% of the Bank's Shares.
- (5) Finance: The Bank has set up an independent finance department and an audit department equipped with specialized financial and audit personnel, and established an independent accounting system and financial management system.

Horizontal Competition

The Bank does not have a controlling shareholder, so there is no horizontal competition with controlling shareholders, the de facto controller and other companies controlled by them.

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3 GENERAL MEETINGS

Number, session and type	Investor participation ratio	Date of convening	Date of disclosure	Disclosure index
2018 first extraordinary general meeting	66.19%	19 January 2018	19 January 2018	The website of the Hong Kong Stock Exchange (www.hkexnews.hk) The website of the Bank (www.zzbank.cn)
2017 AGM	62.24%	15 June 2018	15 June 2018	The website of the Hong Kong Stock Exchange (www.hkexnews.hk) The website of the Bank (www.zzbank.cn)

During the Reporting Period, the Bank held one annual general meeting and one extraordinary general meeting, the particulars of which are as follows:

- (1) On 19 January 2018, the Bank held the 2018 first extraordinary general meeting in Zhengzhou, Henan Province. In the meeting, two resolutions regarding the status report on the use of previously raised proceeds and the appointment of external Supervisor were considered and approved; and
- (2) On 15 June 2018, the Bank held the 2017 AGM in Zhengzhou, Henan Province. In the meeting, 19 resolutions regarding, among other things, the Board of Directors' report, the Board of Supervisors' report, the proposal of financial budget, the profit distribution plan, the amendments to the Articles of Association, and the re-election and election of Directors and Supervisors were considered and approved.

The convening of the above general meetings, the notices, the holding and voting procedures were in line with the relevant provisions of the relevant laws and regulations and the Articles of Association.

CHAPTER VII CORPORATE GOVERNANCE REPORT



4 BOARD OF DIRECTORS

4.1 Responsibilities of the Board of Directors

As the decision-making body of the Bank, the Board of Directors is accountable to the general meeting and responsible for implementing the resolutions of the general meeting. The Board of Directors mainly exercises the following powers and rights: convening general meetings and implementing the resolutions adopted at general meetings; deciding on the business development strategies, business plans and investment proposals of the Bank; formulating annual budgets, final accounts, profit distribution plans and loss recovery plans; deciding on external investment, acquisition and disposal of assets, pledge of assets, external guarantee, entrustment of wealth management and other matters of the Bank within the scope of authorization of the general meeting; reviewing and approving the related party transactions which require review and approval by the Board of Directors as stipulated by relevant requirements; deciding on the establishment of the Bank's internal management departments; appointing or dismissing the Bank's President and secretary to the Board of Directors; deciding to appoint or dismiss the Bank's senior management personnel and determining their remuneration, reward and punishment; formulating the basic management systems and amendment proposals for amendments to the Articles of Association, the rules of procedures of general meetings and Board meetings of the Bank, deciding on the policies on risk management, internal control and compliance policy of the Bank; proposing at a general meeting the appointment, dismissal or discontinuance of appointment of accounting firms; supervising the performance of the senior management, receiving the President's work report and examining the President's work; managing the information disclosure of the Bank and taking ultimate responsibility for the completeness and accuracy of the Bank's accounting and financial reporting systems; reviewing any material capital expenditure, contract and commitment which exceeds the expenditure limit for senior management set by the Board of Directors; and other powers and rights required by laws, administrative regulations, departmental rules or the Articles of Association, and those authorized by the general meeting.

As the administrative body of the Board of Directors, the Board Office is responsible for the preparation of general meetings and the meetings of the Board of Directors and special committees of the Board of Directors, information disclosure, investor relations management and other daily affairs.

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4.2 Operating Model of the Board of Directors

The Board of Directors shall hold at least four regular meetings a year, and convene extraordinary meetings when necessary. The meetings of the Board of Directors shall be held in the form of physical meetings or by way of telecommunication. The notices of meeting and the materials of the meeting shall be sent to each Director at least ten days and five days before the relevant meeting is convened, respectively, in accordance with the related corporate governance requirements under the regulatory provisions and the listing rules of the SZSE and the Hong Kong Stock Exchange and the Articles of Association. The detailed minutes of the meetings of the Board of Directors will be provided to all attending Directors for their review subsequent to the meetings, and shall be signed by all Directors for confirmation after proposing amendments. A good communication and reporting mechanism has been established among the Board of Directors, the Directors and senior management of the Bank. Senior management provides sufficient information for the Board and its special committees to make decisions. All Directors may seek independent professional opinions with the cost borne by the Bank. The President of the Bank regularly reports to the Board and is subject to its supervision. Relevant members of senior management are invited to participate in meetings of the Board and its special committees from time to time to provide explanations or answers to inquiries. At the meetings of the Board of Directors, all Directors can present their opinions freely, and decisions on important matters should only be made after a detailed discussion.

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4.3 Members of the Board and the Board Diversity Policy

The Bank believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. In designing the Board's composition, Board diversity has been considered from a number of aspects, including (but not limited to) gender, qualifications, regional and industry experience, skills, knowledge and educational background. All Board appointments will be determined based on both capability and integrity, and candidates will be considered against objective criteria, with due regard given to the benefits of diversity to the Board.

The Nomination Committee of the Board will review and assess this policy, as appropriate, and consider the structuring, size and composition of the Board on an annual basis as well as discuss measurable goals based on certain specific circumstances, to ensure the effective implementation of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Nomination Committee will select director candidates based on a series of diversified criteria with reference to the Bank's business model and specific needs. For nomination policy and selection procedures related to Directors, please refer to the paragraphs headed "Nomination Policy and Procedures for Selection of Directors" of this chapter.

As at the end of the Reporting Period, the Board of Directors consisted of a total of 12 members (including 2 female Directors), among them, it includes 3 executive Directors: Mr. WANG Tianyu (王天宇) (Chairman), Mr. SHEN Xueqing (申學清) (President) and Mr. FENG Tao (馮濤) (Vice Chairman); 5 non-executive Directors: Mr. FAN Yutao (樊玉濤), Mr. ZHANG Jingguo (張敬國), Mr. JI Hongjun (姬宏俊), Mr. LIANG Songwei (梁嵩巍) and Mr. WANG Shihao (王世豪); and 4 independent non-executive Directors: Mr. XIE Taifeng (謝太峰), Mr. WU Ge (吳革), Ms. CHAN Mei Bo Mabel (陳美寶) and Ms. LI Yanyan (李燕燕). The percentage of our independent non-executive Directors accounts for one-third of the total number of the members of the Board. Each of the incumbent executive Directors of the Bank has been engaged in banking operation and management over a long period, and is familiar with the operation and management of the Bank. All our non-executive Directors have relevant work experience in the economic, financial or business sector, with profound professional knowledge and management experiences. As for our independent non-executive Directors, they are all professionals in finance, law or accounting, each with relatively higher achievements in their respective fields.

For details of each Director's term of office and changes of Directors during the Reporting Period and after the Reporting Period, please refer to the chapter headed "Directors, Supervisors, Senior Management, Staff and Institutions" of this Annual Report.

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4.4 Chairman and President

The roles and duties of the Chairman of the Board of Directors and President are taken up by different individuals. There is a clear division of responsibilities in compliance with the requirements and recommendations of the regulatory provisions and the listing rules of the SZSE and the Hong Kong Stock Exchange.

Mr. WANG Tianyu, as the Chairman of the Board of Directors, is mainly in charge of chairing general meetings, convening and chairing meetings of the Board of Directors; supervising and reviewing the implementation of resolutions of the Board of Directors; signing important documents of the Board of Directors and other documents required to be signed by the legal representative of the Bank; and proposing to the Board of Directors candidates of the special committees and secretary to the Board.

Mr. SHEN Xueqing, as the President of the Bank, is mainly in charge of the management of daily operation and the implementation of relevant resolutions of the Board of Directors, as well as work report to the Board of Directors.

4.5 Responsibilities of Directors

During the Reporting Period, all Directors carefully, earnestly and diligently attended relevant meetings as specified and required by relevant laws and regulations and the Articles of Association, where they exercised their rights regarding the operation of the Board and resolutions of the meeting of the Board, and duly considered and voted on its resolutions and actively offered responsible suggestions and advice, which facilitated the Bank's sound and sustainable development and perfectly completed the tasks and objectives of the Board. While properly exercising their rights as Directors, they were performing their corresponding obligations to fully protect the rights of Shareholders and investors. Directors acknowledge their responsibilities for preparing the financial statements of the Bank for the year ended 31 December 2018.

The Board of Supervisors conducted evaluation of the performance of duties of the Directors during the Reporting Period, and reported the results of the evaluation to the general meeting.

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4.6 Particulars of Meetings of the Board of Directors and Directors' Attendance

During the Reporting period, the Bank held 12 meetings of the Board of Directors, considering and approving 79 major resolutions including the Annual Work Report of the Board of Directors, financial budget report, annual profit distribution plan, resolutions relating to the issuance of the A Shares, amendments to the Articles of Association and related party transactions.

Particulars of the Meetings

Number and session	Date of convening	Form of convening
The 2018 first extraordinary meeting of the fifth session of the Board	19 January 2018	On-site meeting
The thirteenth meeting of the fifth session of the Board	22 March 2018	On-site meeting
The fourteenth meeting of the fifth session of the Board	25 April 2018	On-site meeting
The 2018 second extraordinary meeting of the fifth session of the Board	30 May 2018	By correspondence
The first meeting of the sixth session of the Board	15 June 2018	On-site meeting
The 2018 first extraordinary meeting of the sixth session of the Board	3 July 2018	By correspondence
The 2018 second extraordinary meeting of the sixth session of the Board	18 July 2018	By correspondence
The 2018 third extraordinary meeting of the sixth session of the Board	6 August 2018	By correspondence
The second meeting of the sixth session of the Board	18 August 2018	On-site meeting
The 2018 fourth extraordinary meeting of the sixth session of the Board	9 October 2018	On-site meeting
The third meeting of the sixth session of the Board	19 October 2018	On-site meeting
The 2018 fifth extraordinary meeting of the sixth session of the Board	20 November 2018	By correspondence

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Directors' Attendance

Director		2018 first extraordinary general meeting	2017 AGM	Special Committees of the Board							
				Board of Directors	Strategic Development Committee	Related Party Risk Transactions		Audit Committee	Nomination Committee	Remuneration and Assessment Committee ⁽⁸⁾	Consumer Rights Protection Committee
						Management Committee ⁽⁸⁾	Control Committee ⁽⁷⁾				
Actual/required attendance (times) ⁽¹⁾											
Executive Directors	WANG Tianyu	✓	✓	12/12	2/2						3/3
	SHEN Xueqing	✓	✓	12/12	2/2						3/3
	FENG Tao	✓	✓	12/12	2/2						3/3
Non-executive Directors	FAN Yutao	✓	✓	11/12 ⁽¹⁾					6/6		
	ZHANG Jingguo	✓	✓	12/12						4/4	
	JI Hongjun	✓	✓	12/12				7/7			
	LIANG Songwei			12/12		4/4	7/7				
	WANG Shihao ⁽²⁾			6/6		2/2					
	MA Jinwei ⁽³⁾	✓	✓	4/4		1/1					
	XU Jingnan ⁽³⁾	✓		4/4							
Independent Non-executive Directors	YU Zhanglin ⁽³⁾			4/4			3/3				
	WANG Shihao ⁽²⁾		✓	4/4		1/1				2/2	
	LI Huaizhen ⁽⁴⁾			10/10						4/4	
	XIE Taifeng		✓	12/12		3/3	3/3	7/7			0/0
	WU Ge		✓	11/12 ⁽¹⁾			10/10		6/6		
	CHAN Mei Bo Mabel			12/12				7/7	6/6		
	LI Yanyan ⁽³⁾			6/6			5/5			1/1	

Note:

- (1) The actual attendance being lower than the required attendance represents proxy attendance on their behalf when the above Directors are absent from Board meetings in person.
- (2) Mr. WANG Shihao was an independent non-executive Director of the fifth session of the Board of Directors of the Bank before 15 June 2018, and he should attend the meetings of the Board of Directors four times as an independent non-executive Director during the Reporting Period. On 15 June 2018, Mr. WANG Shihao was elected as a non-executive Director of the sixth session of the Board of Directors of the Bank at the 2017 AGM of the Bank. He was approved to perform his duties on 5 July 2018 and should attend the meetings of the Board of Directors six times as a non-executive Director during the Reporting Period.
- (3) The term of office of Mr. MA Jinwei, Ms. XU Jingnan and Mr. YU Zhanglin as non-executive Directors of the fifth session of the Board of Directors of the Bank expired on 15 June 2018, and they should attend the meetings of the Board of Directors four times during the Reporting Period.
- (4) Mr. LI Huaizhen resigned as an independent non-executive Director of the Bank on 19 October 2018, and he should attend the meetings of the Board of Directors ten times during the Reporting Period.

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- (5) Ms. LI Yanyan was elected as an independent non-executive Director of the sixth session of the Board of Directors of the Bank at the 2017 AGM of the Bank on 15 June 2018, and she was approved to perform her duties on 5 July 2018 and should attend the meetings of the Board of Directors six times During the Reporting Period.
- (6) Members of the Risk Management Committee of the fifth session of the Board of Directors were independent non-executive Director, Mr. WANG Shihao, and non-executive Directors, Mr. MA Jinwei and Mr. LIANG Songwei, the committee held a total of one meeting in 2018; members of the Risk Management Committee of the sixth session of the Board of Directors are non-executive directors, Mr. WANG Shihao and Mr. LIANG Songwei, and independent non-executive Director, Mr. XIE Taifeng, the committee held a total of three meetings in 2018, of which, non-executive Director, Mr. WANG Shihao, was approved to perform his duties on 5 July 2018 and should attend the meetings two times.
- (7) Members of the Related Party Transaction Control Committee of the fifth session of the Board of Directors were independent non-executive Directors, Mr. WU Ge and Mr. XIE Taifeng, and non-executive Director, Mr. YU Zhanglin, the committee held a total of three meetings in 2018; members of the Related Party Transaction Control Committee of the sixth session of the Board of Directors are independent non-executive Directors, Mr. WU Ge and Ms. LI Yanyan, and non-executive Director, Mr. LIANG Songwei, the committee held a total of seven meetings in 2018, of which, independent non-executive Director, Ms. LI Yanyan, was approved to perform her duties on 5 July 2018 and should attend the meetings five times.
- (8) Members of the Remuneration and Assessment Committee of the fifth session of the Board of Directors were independent non-executive Directors, Mr. LI Huaizhen and Mr. WANG Shihao, and non-executive Director, Mr. ZHANG Jingguo, the committee held a total of two meetings in 2018; members of the Remuneration and Assessment Committee of the sixth session of the Board of Directors are independent non-executive Directors, Mr. LI Huaizhen and Ms. LI Yanyan, and non-executive Director, Mr. ZHANG Jingguo, the committee held a total of two meetings in 2018; of which, independent non-executive Director, Ms. LI Yanyan, was approved to perform her duties on 5 July 2018 and should attend the meetings one time. On 19 October 2018, Mr. LI Huaizhen resigned as independent non-executive Director and member of the Remuneration and Assessment Committee of the sixth session of the Board of Directors, independent non-executive Director, Mr. XIE Taifeng, was appointed as a member of the Remuneration and Assessment Committee of the sixth session of the Board of Directors.

During the Reporting Period, none of the Directors, including independent non-executive Directors, failed to attend the meetings of the Board of Directors in person for two consecutive times.

During the Reporting Period, the Chairman and non-executive Directors held meetings without the presence of executive Directors.

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4.7 Independence and Performance of Duties of Independent Non-executive Directors

4.7.1 Confirmation of the Independence for Independent Non-executive Directors

At present, the Board consists of four independent non-executive Directors and the qualification, number and percentage of independent non-executive Directors satisfy the relevant requirements of the regulatory provisions and the listing rules of the SZSE and the Hong Kong Stock Exchange. All of the independent non-executive Directors are not involved in any conflict with the independence issue described in Rule 3.13 of the Stock Exchange Listing Rules. The Bank had already received letters of confirmation on independence as required by the Stock Exchange Listing Rules submitted by each independent non-executive Director, and believes that all independent non-executive Directors are independent and in compliance with relevant guidelines provided by Rule 3.13 of the Stock Exchange Listing Rules.

The independent non-executive Directors neither have any business or financial interests in the Bank nor hold any management position in the Bank. All the incumbent independent non-executive Directors were elected for a term of three years. They may continue to serve for three years after the expiration of the term.

The independent non-executive Directors account for the majority of seats in and act as chairmen of the Related Party Transactions Control Committee, the Audit Committee, the Nomination Committee and the Remuneration and Assessment Committee of the Board.

4.7.2 Performance of Duties of Independent Non-executive Directors

Independent Non-executive Directors' Attendance of Board Meetings and Annual General Meeting

Name	Times of required attendance for Board meetings	Attendance in person	Attend by telecommunication	Times of attendance by proxy	Times of absence	Failed to attend meetings in person for 2 consecutive times
XIE Taifeng	12	5	7	0	0	No
WU Ge	12	3	8	1	0	No
CHAN Mei Bo Mabel	12	2	10	0	0	No
LI Yanyan	6	2	4	0	0	No
WANG Shihao	4	2	2	0	0	No
LI Huaizhen	10	1	9	0	0	No
Attendance of independent non-executive Directors at Annual General Meeting			Mr. WANG Shihao, Mr. XIE Taifeng and Mr. WU Ge attended the 2017 AGM of the Bank as observers.			

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During the Reporting Period, none of the independent non-executive Directors failed to attend board meetings in person for two consecutive times.

Dissenting Opinions of Independent Non-executive Directors on Relevant Matters of the Bank

During the Reporting Period, none of the independent non-executive Directors had any objection to relevant matters of the Bank.

Other Explanations on Independent Non-executive Directors' Performance of their Duties

During the Reporting Period, the Bank's independent non-executive Directors performed their duties diligently and faithfully with a responsible attitude towards the Bank and investors, and the duties performed were in strict accordance with the Company Law, the Securities Law, the Guidelines for the Standardized Operation of Listed Companies on the SME Board of the SZSE, the Stock Exchange Listing Rules and other laws and regulations as well as the Articles of Association, the Work Rules for Independent Directors and other relevant requirements. They actively attended Board meetings, general meetings and meetings of relevant committees, conducted on-site inspections of the Bank to learn about the Bank's operations, internal control mechanism and the implementation of resolutions of the Board meetings, and expressed independent opinions on major related party transactions, internal control, profit distribution, re-appointment of audit agency and other matters of the Bank, earnestly safeguarding the rights and interests of shareholders, especially those of the public shareholders.

During the Reporting Period, the Bank's independent non-executive Directors expressed independent opinions on relevant issues considered by the Board. During Board meetings and inspections of the Bank, they put forward an array of opinions and suggestions, all of which were adopted or responded to by the Bank.

Time of disclosure	Subject matter	Type of opinion
10 October 2018	Independent Opinions on the Distribution of Offshore Preference Shares Dividends	Agree
22 October 2018	Independent Opinions on the Bank's Derivatives Investment and Risk Control	Agree
14 November 2018	Independent Opinions on Related Party Transactions	Agree
21 November 2018	Independent Opinions on Related Party Transactions	Agree

Note: Set out in the above table are the independent opinions of independent non-executive Directors on relevant matters from 19 September 2018, the day which the Bank was listed on the SZSE until the end of the Reporting Period.

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5 THE SPECIAL COMMITTEES OF THE BOARD

5.1 Strategic Development Committee

The Strategic Development Committee of the Bank currently consists of three executive Directors (Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao). The Strategic Development Committee is chaired by executive Director Mr. WANG Tianyu.

The Strategic Development Committee is mainly responsible for researching the Bank's long-term development strategy and significant investment decisions, setting business and management objectives and long-term development strategy for the Bank, making recommendations for the Bank's significant investment decisions, supervising and checking the implementation of annual business plans and investment plans, communicating regularly with the senior management and heads of departments in relation to the operations and risks of the Bank, and providing advice and suggestions and other matters authorized by the Board.

During the Reporting Period, the Strategic Development Committee held a total of two meetings, in which they considered and approved a number of resolutions such as amendments to the working rules of the Strategic Development Committee, 2017 work report of the Strategic Development Committee and election of the chairman of the Strategic Development Committee.

5.2 Risk Management Committee

The Risk Management Committee of the Bank currently consists of two non-executive Directors, Mr. LIANG Songwei and Mr. WANG Shihao, and one independent non-executive Director, Mr. XIE Taifeng. The Risk Management Committee is chaired by the non-executive Director Mr. WANG Shihao.

The Risk Management Committee is mainly responsible for controlling, managing, monitoring and assessing risks of the Bank, reviewing risk control principles, objectives and policies of the Bank and reporting them to the Board of Directors for deliberation and approval, reviewing risk management measures of the Bank, examining and supervising the risk management work carried out by the senior management in all aspects, conducting surveys and evaluations on risk policies, management status and risk tolerance levels of the Bank on a regular basis and reporting to the Board of Directors, providing recommendations on improving risk management and internal control of the Bank, and formulating authorization management plan for the Bank and reporting to the Board of Directors and Annual General Meeting for deliberation and approval.

During the Reporting Period, the Risk Management Committee held a total of four meetings to consider and approve the resolutions in relation to the annual compliance management report, the annual comprehensive risk management report and the annual authorization proposal of the Board, etc.

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5.3 Related Party Transactions Control Committee

The Related Party Transactions Control Committee of the Bank consists of one non-executive Director (Mr. LIANG Songwei) and two independent non-executive Directors (Mr. WU Ge and Ms. LI Yanyan). The Related Party Transactions Control Committee is chaired by independent non-executive Director Mr. WU Ge.

The Related Party Transactions Control Committee is mainly responsible for the management, review and approval, as authorized by the Board of Directors, of related party transactions, and controlling the risk of related party transactions, formulating rules and management framework relating to related party transactions of the Bank, identifying related parties of the Bank and reporting them to the Board of Directors and the Board of Supervisors and announcing identified related parties to relevant staff of the Bank timely, reviewing and supervising the control of related party transactions of the Bank, reviewing materials about related party transactions and subsequently submitting the same to the Board of Directors for approval and reporting to the Board of Supervisors as well as the banking regulatory authorities within ten days from the date of approval by the Board of Directors, and reporting to the Board of Supervisors on the related party transactions that relate to the Directors and senior management personnel of the Bank within ten working days from the date of approval.

During the Reporting Period, the Related Party Transactions Control Committee held a total of ten meetings to consider and approve a number of resolutions such as the Specific Report on Annual Related Party Transactions, the 2017 work report of the Related Party Transactions Control Committee, election of the chairman of the Related Party Transactions Control Committee and business cooperation with related parties which satisfies relevant policy requirements.

5.4 Audit Committee

The Audit Committee of the Bank consists of one non-executive Director (Mr. JI Hongjun) and two independent non-executive Directors (Mr. XIE Taifeng and Ms. CHAN Mei Bo Mabel). The Audit Committee is chaired by independent non-executive Director Mr. XIE Taifeng.

The Audit Committee is mainly responsible for reviewing the risks and compliance status, internal control management system, accounting policies, auditing basic management system, financial reporting procedures and financial position of the Bank, auditing the financial information of the Bank, preparing a report on audited financial statements and submitting it to the Board for consideration; making recommendations on the appointment and change of external audit agency, coordinating the communications between internal audit departments and external auditors; taking charge of the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations, reviewing, evaluating and reporting to the Board of Directors on the internal audit on a regular basis.

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During the Reporting Period, the Audit Committee held a total of seven meetings to consider and approve resolutions such as the 2017 Annual Report of the Bank, changes in accounting policies, the 2017 Annual Internal Audit Report, appointment of external auditors for 2018 and the 2018 Interim Report of the Bank.

5.5 Nomination Committee

The Nomination Committee of the Bank consists of one non-executive Director and two independent non-executive Directors. The non-executive Director is Mr. FAN Yutao, and the two independent non-executive Directors are Mr. WU Ge and Ms. CHAN Mei Bo Mabel. The Nomination Committee is chaired by independent non-executive Director Ms. CHAN Mei Bo Mabel.

The Nomination Committee is responsible for reviewing the structure, size and composition (including skills, know-how, experience and diversity) of the Board and the management every year, and advising the Board on proposed changes to the Board based on the strategy of the Bank; developing the criteria and procedures for selecting Directors and senior management personnel, and formulating or revising the Board Diversity Policy; searching for qualified candidates for directors and submitting nominations to the Board; assessing the independence of independent non-executive Directors; conducting preliminary review of the qualifications of candidates for directors and senior management personnel, and making recommendations to the Board; and widely searching for qualified candidates for directors and senior management personnel.

During the Reporting Period, the Nomination Committee held a total of six meetings to deliberate and approve a number of resolutions such as the 2017 work report of the Nomination Committee, the nomination of candidates for directors of the sixth session of the Board of Directors, the nomination of members and chairman of the special committees of the Board of Directors.

Nomination Policy and Procedures for Selection of Directors

In order to ensure that the Board of Directors have a balance of skills, experience and diversity of perspectives appropriate to the Bank's business, the Nomination Committee of the Board of Directors shall recommend nominations of directors to the Board of Directors in accordance with the principles of the Board Diversity Policy and the Bank's Nomination Policy. The main criteria and principles of the Bank's Nomination Policy include: (1) reviewing the structure, size and composition (including skills, knowledge, experience and diversity) of the Board of Directors and the management every year according to the operations, management, asset scale and equity structure of the Bank, and providing suggestions to the Board in relation to possible changes of the Board of Directors based on the strategy of the Bank; (2) formulating the criteria and procedures for selecting Directors and members of senior management, and providing suggestions to the Board; formulating or revising the Board Diversity Policy and developing the diversity of the Board of Directors in the process of personnel selection, taking into account, among other things, gender, age, culture, perspective, educational background and professional experience; (3) searching for qualified candidates for directors and proposing nominations to the Board of Directors after due consideration of the Board Diversity Policy of the Bank, the requirements for being a director of the Bank under the Articles of Association of the Bank, the Stock Exchange Listing Rules and

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applicable laws and regulations, as well as the contributions that relevant candidates can make to the Board of Directors in terms of qualifications, skills, experience, independence and gender diversity; and (4) assessing the independence of independent non-executive Directors according to the factors set out in Rule 3.13 of the Stock Exchange Listing Rules and any other factors as may be considered appropriate by the Nomination Committee or the Board of Directors; where a proposed independent non-executive Director is proposed to serve as a director of five (or more) listed companies, whether he/she can devote enough time to the Board of Directors will be assessed.

The main procedures for selection of Directors of the Bank are as follows: (1) The General office of the Board and the Nomination Committee of the Board of Directors shall actively communicate with relevant departments of the Bank to study the Bank's demand for appointment and election/re-election of Directors and senior management personnel and prepare relevant written documents; (2) the Nomination Committee of the Board of Directors may extensively search for candidates for directors and senior management personnel within the Bank and its controlled companies; (3) the Nomination Committee of the Board of Directors shall, after due consideration of relevant requirements, including but not limited to the Nomination Policy and the Board Diversity Policy, identify persons who are eligible to become Board members, and assess the independence of independent non-executive Directors as appropriate; the Nomination Committee of the Board of Directors shall collect and understand information on the candidates including their occupations, educational background, professional titles, detailed work experience, and full-time and part-time job experience, and formulate relevant written materials; (4) the Nomination Committee shall solicit the nominees' written consent to their nominations, otherwise they may not be put on the list of candidates for Directors, general manager and other senior management personnel; (5) the Nomination Committee shall convene a meeting to review the qualifications of proposed candidates according to the job qualifications required for Directors, general manager and other senior management personnel; (6) the Nomination Committee shall make recommendations and submit relevant materials to the Board of Directors on candidates for Directors and senior management personnel within a reasonable time prior to the election and re-election of Directors and appointment of senior management personnel; and (7) the Nomination Committee shall follow up other matters according to the decisions and feedback of the Board of Directors.

5.6 Remuneration and Assessment Committee

The Remuneration and Assessment Committee of the Bank consists of one non-executive Director and two independent non-executive Directors. The non-executive Director is Mr. ZHANG Jingguo, and the two independent non-executive Directors are Mr. XIE Taifeng and Ms. LI Yanyan. The Remuneration and Assessment Committee is chaired by independent non-executive Director Ms. Li Yanyan.

The Remuneration and Assessment Committee is mainly responsible for reviewing the remuneration management system and policies of the Bank, studying the criteria for appraising Directors and senior management personnel, and conducting the appraisal and making proposals; making proposals to the Board in respect of the remuneration policies and structures for Directors and senior management of the Bank and the formulated remuneration policies with a view to establishing a set of formal and transparent procedures, supervising and modifying the implementation of the Bank's remuneration policies; reviewing the performance of duties of Directors and senior management personnel and conducting annual performance appraisal on them.

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During the Reporting Period, the Remuneration and Assessment Committee held a total of four meetings to deliberate and approve a number of resolutions such as the 2017 Annual Work Report of the Remuneration and Assessment Committee, the Measures for Compensation and Performance Management of Senior Management Personnel, the 2017 Performance Appraisal Results on Executive Directors and Senior Management Personnel, and election of chairman of the Remuneration and Assessment Committee.

5.7 Consumer Rights Protection Committee

The Consumer Rights Protection Committee of the Bank consists of three executive Directors (Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao). The Consumer Rights Protection Committee is chaired by executive Director Mr. WANG Tianyu.

The Consumer Rights Protection Committee is mainly responsible for formulating the Bank's development goals, strategies and plans for the protection of consumer rights, deploying and coordinating for the protection of consumer rights and conducting research on major issues concerning consumer rights protection, regularly communicating with the senior management and heads of departments about consumer rights protection of the Bank and giving comments and suggestions, supervising and inspecting the implementation of the annual work plan and other issues authorized by the Board of Directors.

During the Reporting Period, the Consumer Rights Protection Committee held a total of three meetings to consider and approve a number of resolutions such as the 2017 Report of Consumer Rights Protection, Amending Report of Consumer Rights Protection and election of chairman of the Consumer Rights Protection Committee.

6 CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for establishing sound corporate governance practices and procedures of the Bank. During the Reporting Period, the Board performed the following duties within its terms of reference:

- formulating and reviewing the Bank's corporate governance policies and practices, and making recommendations;
- reviewing and monitoring the training and continuous professional development of Directors, Supervisors and senior management;
- reviewing and monitoring the Bank's policies and practices in respect of compliance with laws and regulatory requirements;
- formulating, reviewing and monitoring the codes of conduct for Directors, Supervisors and employees; and
- reviewing compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report.

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7 BOARD OF SUPERVISORS

7.1 Responsibilities of the Board of Supervisors

The Board of Supervisors, as the supervisory body of the Bank, aims to protect the legitimate rights of the Bank, Shareholders, staff, depositors and other stakeholders. It is accountable to the general meeting. The duties of the Board of Supervisors include: to supervise the performance and due diligence of the Board of Directors, senior management and its members; to question the Directors, the Board of Directors and senior management; to conduct exit audits towards the Directors and senior management personnel, and supervise and audit the business decision-making, risk management and internal control of the Bank, if necessary; to require the Directors and senior management personnel to rectify their acts which are detrimental to the interests of the Bank, and propose dismissal or initiate legal proceedings against the Directors and senior management personnel who violate laws, administrative regulations, the Articles of Association or resolutions of the general meeting; to propose the convening of extraordinary general meetings and extraordinary Board meetings, convene and preside over the general meeting in the event that the Board of Directors has failed to fulfil its duty as stipulated by the Company Law to convene and preside over the general meeting, and propose resolutions to a general meeting; to review the Bank's financial reports prepared by the Board of Directors and express comments thereon in writing; to examine and supervise the Bank's financial activities and verify financial information such as financial reports, business reports and profit distribution plans to be proposed at the general meeting by the Board of Directors; to make arrangements for remuneration (or allowance) for the Supervisors; and to exercise other powers and rights conferred by applicable laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association or those authorized by the general meeting.

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7.2 Operating Model of the Board of Supervisors

This includes convening regular meetings of the Board of Supervisors, attending general meetings, attending the Board meetings and certain meetings of its special committees, attending the relevant meetings of the senior management, reviewing various documents and materials from the senior management, receiving the work report and project report of the senior management, evaluating the annual performance of Directors and the senior management, facilitating communications among the Directors and the senior management, conducting exit audits of the executive Directors and the senior management, conducting investigation and research on branch institutions, carrying out a variety of special investigations, etc. Through the above work, the Board of Supervisors monitors and evaluates the Bank's operation and management, risk management and internal control, as well as the performance of duties of Directors and the senior management personnel. During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by Directors and the senior management. They also performed audit on the executive Directors and the senior management personnel as required. They reviewed and supervised the financial activities, risk management and internal control of the Bank, and investigated any abnormal operating activities. The Board of Supervisors of the Bank supervised the 2017 annual performance of the Board of Directors of the Bank, Directors, the senior management and its members and Supervisors, and gave feedback to the Board of Directors and the senior management.

7.3 Members of the Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors consisted of a total of six Supervisors, including three employee Supervisors: Ms. ZHAO Lijuan (趙麗娟), Ms. CHENG Jie (成潔) and Mr. LI Huaibin (李懷斌); one shareholder Supervisor: Mr. ZHU Zhihui (朱志暉); and two external Supervisors: Mr. MA Baojun (馬寶軍) and Mr. SONG Ke (宋科). The composition of the Board of Supervisors of the Bank is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role.

For details of the Supervisors and changes of Supervisors, please refer to the chapter headed "Directors, Supervisors, Senior Management, Staff and Institutions" of this Annual Report.

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7.4 Particulars of Meetings of the Board of Supervisors and Supervisor's Attendance

In 2018, the Bank held a total of six Board of Supervisors meetings to consider 19 major resolutions including the 2017 Board of Supervisors' Annual Work Report, the 2017 Annual Final Accounts Report, Resolution on Disclosure of 2017 Annual Report and Results Announcement and Resolution on the 2017 Profit Distribution Plan.

Convening of the Meeting

Session of the Meeting	Date of convening	Form of convening
The thirteenth meeting of the fifth session of the Board of Supervisors	22 March 2018	On-site meeting
The fourteenth meeting of the fifth session of the Board of Supervisors	25 April 2018	On-site meeting
The 2018 first extraordinary meeting of the fifth session of the Board of Supervisors	30 May 2018	By correspondence
The first meeting of the sixth session of the Board of Supervisors	15 June 2018	On-site meeting
The second meeting of the sixth session of the Board of Supervisors	18 August 2018	On-site meeting
The third meeting of the sixth session of the Board of Supervisors	19 October 2018	On-site meeting

Attendance of Supervisors at Meetings of the Board of Supervisors during the Reporting Period

Supervisor		Required attendance	Attendance in person	Attendance by proxy
Employee Supervisor	ZHAO Lijuan	6	6	0
	CHENG Jie	3	3	0
	LI Huaibin	3	3	0
Shareholder Supervisor	ZHU Zhihui	6	6	0
External Supervisor	SONG Ke	6	6	0
	MA Baojun	5	4	1

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Attendance at General Meetings During the Reporting Period

During the Reporting Period, all Supervisors attended the AGM and the extraordinary general meeting and supervised the legal compliance of the procedures of meetings and the voting process on-site.

Attendance at the Meetings of the Board and the Senior Management During the Reporting Period

During the Reporting Period, the Supervisors attended on-site meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors. The Board of Supervisors also sent representatives to attend the relevant meetings of the senior management and supervised the execution of resolutions of the Board of Directors by the senior management and the business conducted by the senior management according to the Articles of Association and the authorization by the Board of Directors.

7.5 Operation of Special Committees of the Board of Supervisors

Special Committees of the Board of Supervisors	Chairman	Members
Nomination Committee	MA Baojun	ZHAO Lijuan, CHENG Jie
Supervision Committee	SONG Ke	ZHU Zhihui, LI Huaibin

The Nomination Committee of the Board of Supervisors

Primary duties of the Nomination Committee of the Board of Supervisors include: formulating the selection procedures and standards of Supervisors, preliminarily reviewing the qualifications of candidates for supervisors and making recommendations to the Board of Supervisors; supervising the process of election and appointment of Directors; conducting overall assessment on the performance of duties by the Directors, Supervisors and senior management personnel and submitting reports to the Board of Supervisors; supervising the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration proposal for its senior management members; and any other matters authorized by the Board of Supervisors.

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During the Reporting Period, the Nomination Committee of the Board of Supervisors held a total of four meetings to consider and approve a number of resolutions including Board of Supervisors' 2017 Annual Supervision and Assessment Report on the Duties performed by the Board and its members, Board of Supervisors and its members and senior management and its members, change of the Board of Supervisors and nominating candidates for the sixth session of the Board of Supervisors.

Supervision Committee of the Board of Supervisors

The primary duties of the Supervision Committee of the Board of Supervisors include: formulating plans for supervision of financial activities of the Bank and implementing relevant inspections; supervising the Board of Directors to establish and adhere to prudent business philosophy and value standards and formulating development strategies that align with the actual situations of the Bank; monitoring and reviewing the business decision making, risk management and internal control of the Bank; and any other matters as authorized by the Board of Supervisors. The Supervision Committee of the Board of Supervisors may conduct investigation on special affairs of the Bank, and the results of the investigation shall be reported to both the Board of Supervisors and the Board of Directors.

During the Reporting Period, the Supervision Committee of the Board of Supervisors held a total of one meeting to consider and approve the resolution on Nominating the Chairman of the Supervision Committee of the sixth session Board of Supervision.

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8 MANAGEMENT

8.1 Duties and Powers

The management, as the executive body of the Bank, is responsible to the Board of Directors and subject to the supervision of the Board of Supervisors. The division of authority and powers between the management and the Board is determined in accordance with the Articles of Association and other corporate governance documents.

The Bank has one President and several vice presidents who shall be appointed or removed by the Board. The President is responsible to the Board. Approved and delegated by the Board of Directors, the President of the Bank exercises the following powers and rights: to take charge of the operations management of the Bank, organize the implementation of the resolutions of the meetings of the Board of Directors and report the work to the Board of Directors; to submit annual business plans and investment proposals to the Board of Directors and organize the implementation upon approval by the Board of Directors; to draft proposals on the establishment of the internal management departments, basic management systems and specific regulations of the Bank; to propose to the Board of Directors to appoint or dismiss the vice presidents, assistants to the President, financial officers and other senior management personnel; to decide to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be appointed or dismissed by the Board of Directors, and determine their salaries, benefits, reward and punishment according to the remuneration reward and punishment scheme set up by the Board of Directors; to authorize senior management members and persons in charge of internal departments and branches to conduct operational activities; to decide on the appointment and dismissal of the Bank's staff, and on matters relating to wages, benefits, reward and punishment; to adopt emergency measures when any material emergency occurs in the Bank and report them to the banking regulatory and administrative authorities under the State Council, the Board of Directors and the Board of Supervisors immediately; and to exercise other powers and rights conferred by applicable laws, administrative regulations, departmental rules, regulatory documents, regulations of the relevant regulatory authorities and the Articles of Association as well as those authorized by the Board of Directors.

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8.2 Appraisal and Incentives

The Board of Directors determines the remuneration of senior management personnel of the Bank, deliberates and approves the remuneration packages for senior management personnel, and authorizes the Remuneration and Assessment Committee of the Board to formulate remuneration packages for senior management personnel and carry out performance appraisal for final determination of remuneration. The Bank determines the total annual remuneration of each senior management member based on the annual appraisal results on senior management in accordance with the relevant provisions of the Measures for Compensation and Performance Management of Senior Management Personnel.

9 JOINT COMPANY SECRETARIES

Mr. FU Chunqiao and Ms. LEUNG Wing Han Sharon, vice president of SWCS Corporate Services Group (Hong Kong) Limited, have been appointed by the Bank as its joint company secretaries. Ms. LEUNG Wing Han Sharon's main contact person at the Bank is Mr. FU Chunqiao, another joint company secretary. During the Reporting Period, both Ms. LEUNG Wing Han Sharon and Mr. FU Chunqiao have received not less than 15 hours of relevant professional training in accordance with the provisions under Rule 3.29 of the Stock Exchange Listing Rules.

10 SHAREHOLDERS' RIGHTS

10.1 Convening of General Meetings

Pursuant to the Articles of Association and the Rules of Procedure of General Meetings, a shareholders' class meeting or extraordinary general meeting shall be convened within two months upon request in writing by shareholders holding individually or collectively 10% or more of the voting shares of the Bank (the "**Requesting Shareholders**").

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General meetings shall be convened by the Board. If the Board of Directors or the Board of Supervisors is unable to or unwilling to fulfil its duties in convening a general meeting, shareholders individually or collectively holding more than 10% of the Bank's Shares for more than 90 consecutive days (the "**Convening Shareholders**") may convene and preside over the meeting on a unilateral basis.

Any proposal to the Board of Directors for the convening of a general meeting shall be made in writing. The Board of Directors shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of the meeting within ten days after receiving such proposal.

In the event that the Board of Directors agrees to convene a meeting, the notice of meeting shall be issued within five days after the passing of the relevant resolution at the meeting of the Board of Directors. Any changes to the original proposal made in the notice require prior approval of the shareholders concerned.

If the Board of Directors does not agree to convene a meeting or does not furnish any reply within ten days after receiving such proposal, shareholders individually or collectively holding more than 10% of the Bank's Shares shall have the right to propose to the Board of Supervisors for the convening of such meeting, provided that such proposal shall be made in writing.

In the event that the Board of Supervisors agrees to convene the meeting, the notice of meeting shall be issued within five days after receiving such request. Any changes to the original proposal made in the notice shall require prior approval of the shareholders concerned.

Failure of the Board of Supervisors to issue the notice of meeting within the required period shall be deemed a failure of the Board of Supervisors to convene and preside over it, and shareholders individually or collectively holding more than 10% of the Bank's Shares for more than 90 consecutive days may convene and preside over the meeting on a unilateral basis.

10.2 Putting Forward Proposals at General Meetings

Shareholders collectively holding 3% or more of the voting shares (the "**Proposing Shareholders**") have the right to put forward proposals in writing to the Bank. The Proposing Shareholders may submit provisional proposals in writing to the convener ten days before the general meeting is convened. The convener shall issue a supplementary notice of the general meeting within two days after receiving the provisional proposals.

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10.3 Convening of Extraordinary Board Meeting

The Chairman of the Board shall convene and preside over an extraordinary board meeting within ten days upon receipt of the proposal from shareholders representing more than one tenth voting rights.

10.4 Making Inquiries to the Board

Shareholders are entitled to supervise the business activities of the Bank, and make recommendations or inquiries.

Shareholders are entitled to access relevant information in accordance with the laws, administrative regulations, departmental rules, regulatory documents, relevant regulations of the securities regulatory authorities of the places where the Shares of the Bank are listed, and the Articles of Association, including:

1. obtaining a copy of the Articles of Association upon payment of the costs thereof;
2. inspecting, free of charge, and photocopying, after paying a reasonable fee, the following documents:
 - (1) all parts of the register of shareholders;
 - (2) personal information of Directors, Supervisors, the President and other senior management personnel of the Bank;
 - (3) the Bank's share capital;
 - (4) a report showing the total nominal value, quantity, highest and lowest prices of each class of Shares repurchased by the Bank since the previous fiscal year and all costs paid by the Bank in this regard;
 - (5) minutes of shareholders' general meetings;
 - (6) special resolutions of the Bank;
 - (7) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors; and

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- (8) a copy of the latest annual return filed with the China State Administration for Industry and Commerce or other competent authorities.

A shareholder who requests to inspect any such information or obtain relevant data shall provide written documentation to the Bank certifying the class and quantity of Shares held by him/her in the Bank. After verifying the identity of the shareholder, the Bank shall provide the shareholder with the relevant information as requested.

11 COMMUNICATION WITH SHAREHOLDERS

Investor Relations

The Bank attaches importance to communication with shareholders, and seeks to improve mutual understanding and communication with shareholders through various channels including general meetings, roadshows and press conferences and enhance engagement with shareholders via the Bank's website, e-mail and telephone.

For enquiries to the Board, investors may contact: the General Office of Board of Directors of Bank of Zhengzhou Co., Ltd.

Address: 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan, PRC

Tel: +86-371-67009199 Fax: +86-371-67009898

Email: ir@zzbank.cn

Information Disclosure

The Board of Directors and senior management of the Bank place great importance on information disclosure. They rely on good corporate governance and sound internal control to ensure that investors have access to information in a timely and accurate manner.

In accordance with the Administrative Measures for Information Disclosure of Listed Companies, the Measures for Information Disclosure of Commercial Banks and the listing rules of the SZSE and the Hong Kong Stock Exchange, the Bank continuously improves the timeliness, accuracy and completeness of the information disclosed. During the Reporting Period, the Bank published relevant announcements and circulars on the website of the Hong Kong Stock Exchange, CNINFO (cninfo.com.cn) (巨潮資訊網), China Securities Journal 《中國證券報》, Shanghai Securities News (上海證券報), Securities Times (證券時報) and Securities Daily (證券日報) from time to time. Meanwhile, the full texts of the Bank's announcements, circulars, and financial reports such as annual reports and interim reports are made available on the website of the Bank, and the annual reports and interim reports are available for inspection by investors and stakeholders in the General Office of the Board of Directors and main outlets of the Bank.

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12 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL

The Directors, Supervisors and senior management personnel (including the Chairman and the President) of the Bank do not have any relationship, including financial, business, family and other material relations.

13 SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

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

The Bank is not aware of any Director, Supervisor and senior management personnel violating the restrictive share trading requirements under the Guidelines for the Standardized Operation of Listed Companies on the SME Board of the SZSE and other standard documents.

14 TRAINING AND RESEARCH OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

Training and Research of Directors

All Directors of the Bank have honored their duties, complied with the principles of integrity, developed and updated their knowledge and skills through continuous professional learning in various ways. During the Reporting Period, all Directors attended the talk on standardized operation of A-share listed companies held by the Bank, the first lecture on integrity held by the SZSE and other training sessions, and conducted surveys and inspections on some branches of the Bank. Independent non-executive Directors WU Ge and LI Yanyan participated in the training of independent directors held by the SZSE and obtained the qualification certificate of independent director issued by the SZSE. All Directors of the Bank have actively studied relevant regulations and books in respect of corporate governance and the standardized operation of listed companies.

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Training of and Research of Supervisors

During the Reporting Period, all Supervisors of the Bank continued their professional learning and participated in relevant business training to improve their overall quality and ability to perform their duties. The Bank's employee Supervisors ZHAO Lijuan, CHENG Jie and LI Huaibin, external Supervisors SONG Ke and MA Baojun, and shareholder Supervisor ZHU Zhihui participated in the training on standardized operation of listed companies held by the Bank and the first lecture on integrity held by the SZSE, and conducted surveys and inspections on some departments of the head office, some branches, Jiuding Financial Leasing Company and seven county banks including Zhongmu Zhengyin County Bank. During the surveys and inspections, the Supervisors had in-depth communication with the relevant persons in charge and employees. All Supervisors of the Bank have actively studied relevant regulations and books in respect of corporate governance and the standardized operation of listed companies.

15 EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

At the 2017 AGM held on 15 June 2018, the Bank considered and approved the re-appointment of KPMG Huazhen LLP and KPMG as its domestic and overseas auditors respectively for a term until the 2018 annual general meeting of the Bank. The two accounting firms have provided audit services for the Bank for seven and four consecutive years respectively. The Bank did not change its auditors in the past three years. In 2018, the certified public accountants who signed the auditor's report of the financial statements, which was prepared in accordance with the PRC GAAP by the Bank, were HE Qi and HUANG Menglin, who had provided audit services for the Bank continuously for four years and two years respectively; the certified public accountant who signed the auditor's report of the financial statements, which was prepared in accordance with the IFRS by the Bank, was Liang Mingda, who had provided audit services for the Bank continuously for four years.

During the Reporting Period, the Bank paid a total of RMB7.05 million as remuneration to KPMG Huazhen LLP and KPMG for their review of the Bank's interim financial statements and audit of the Bank's annual financial statements and A-share listing filings, and paid internal control audit fees for 2018 of RMB0.8 million to KPMG Huazhen LLP. KPMG Huazhen LLP's and KPMG's responsibility statements on the financial reports were set out in the audit reports of the Annual Reports of A Shares and H Shares respectively.

The Board and the Audit Committee under the Board agreed on the selection and appointment of the external auditors of the Bank without any disagreement.

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16 RISK MANAGEMENT AND INTERNAL CONTROL

16.1 Procedures for Identification, Assessment and Management of Material Risks

In order to handle major emergencies in the Bank in a timely and proper manner, effectively prevent and resolve risks, and maintain financial order and social stability, the Bank continuously optimized its risk management system, strengthened its risk management policies and system construction, and improved the operational mechanisms of the Risk Management Committee of the Board and the Risk Management Committee of the senior management to play their role in the decision-making on major risks and internal control matters, while improving the system for comprehensive assessment of risk management of branches. The Bank has formulated a series of management measures including the Management for the Reporting of Major Emergencies and the Measures for the Internal Reporting of Material Information which provide that major emergencies shall be classified by nature and business type and be reported, filed and managed by different departments accordingly in a timely, accuracy, true and comprehensive manner.

16.2 Risk Management Responsibility of the Board

The Board of Directors is well aware of its responsibility for implementing risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable but not absolute guarantee against material misstatements or losses. In accordance with relevant laws and regulations including the Comprehensive Risk Management Guidelines for Commercial Banks, the Guidelines for Internal Control of Commercial Banks, and Code Provisions C.2.1 and C.2.2 of the Corporate Governance Code, the Board has formulated the Basic Rules for Comprehensive Risk Management, the Measures for Risk Appetite Management, the Measures for Management of Risk Limits, and has established and implemented risk management and internal control systems. The Board is also responsible for timely reviewing the effectiveness of such measures and systems, reviewing risk control principles, objectives and policies of the Bank, determining the acceptable risk exposure, ensuring that the senior management takes necessary risk control measures, and supervising the senior management's monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems. The Bank reviews the effectiveness of the risk management and internal control systems of the Bank and its subsidiaries at least once a year. For the Reporting Period, the Board of Directors believes that the risk management and internal control systems developed and implemented by the Bank were adequate and effective.

16.3 Characteristics of the Risk Management System

The Bank has initially established a comprehensive risk management system, and conducted self-assessment of the comprehensive risk management system through a sound self-discipline mechanism to ensure effective implementation of the system. We combine qualitative and quantitative methods to identify, measure, evaluate, monitor, report, control or mitigate various risks such as credit risk, market risk, liquidity risk, operational risk, reputation risk and information technology risk, while considering the correlation among risks and carefully evaluating the interaction between various risks. The bank's risk management system comprises the following elements: risk management framework, risk management strategy, risk appetite and risk limits, risk management policies and procedures, management information system, data quality control mechanism, internal control and audit systems, etc.

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16.4 Characteristics of the Internal Control System

Overview of Internal Control

In accordance with the Company Law, the Law on Commercial Banks, the Basic Rules for Internal Control of Enterprises, the Guidelines for Internal Control of Commercial Banks and other laws, regulations and regulatory rules and guided by the principles of full coverage, checks and balances, prudence and matching, the Bank has established an internal control system covering internal control environment, risk assessment, internal control measures, information and communication, and internal supervision, and developed a corporate governance organizational structure with the general meeting, the Board of Directors, the Board of Supervisors and senior management each performing their respective functions, realizing an operational mechanism where ownership and operational rights, management rights and supervision rights are separated with checks and balances.

The Bank has established a three-level internal control system consisting of the Articles of Association/basic rules, management measures, operating procedures/plans/rules according to the Guidelines for Internal Control of Commercial Banks and its own business characteristics. Based on its management structure, the Bank has developed business line-based internal control measures that basically cover all business and management activities of the Bank, including corporate business, retail business, intermediate business, interbank business, asset management, operation management, channel management, risk management, financial management, security assurance, human resources, supervision and inspection. The Bank continued to streamline and optimize the relevant measures and procedures. During the Reporting Period, 96 internal control rules were added and 171 were revised.

The Bank put emphasis on internal control cultural development and spared no effort in creating a sound internal control environment characterized by honesty, integrity and compliance. The Bank continued to enrich and improve various risk management and internal control measures, strengthen comprehensive and special risk management by enhancing the identification, measurement, control and monitoring of various risks such as credit risk, market risk, liquidity risk, operational risk and information technology risk, reinforce internal control in respect of credit business, finance and accounting, capital business, intermediary business and related party transactions, and improve the scientific and forward-looking management of risks to guarantee stable business operations.

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The Bank is keenly aware of the important role of information systems in improving business operation efficiency and risk management results, and actively promotes information system construction. The Bank has established and improved relevant policies and procedures, and has expressly provided for the workflows for information system research and development, system launch, system operation and maintenance, system emergency response and system flow to prevent information technology risks. In addition, the Bank continuously improves the information communication and reporting mechanism and has made clear requirements on the duties and procedures for information transmission and reporting to ensure the effective communication of information within the Bank and between the Bank and the outside world, thus forming a complete information submission and reporting system.

The Bank has established a sound internal control assessment system. The Board of Directors, the Board of Supervisors and the senior management perform their respective duties in supervising and assessing the operation and management activities of all levels and business lines. The Audit Committee of the Board guides the internal audit office to conduct risk-based internal audit on a continuous basis, improve the supervisory role of audit, and make internal control assessment according to the internal audit results; the Board of Supervisors keeps improving the supervision mechanism, exerting the functions of the special committees of the Board of Supervisors, and procures the Board and the senior management of the Bank to fulfil their internal control responsibilities; The Legal & Compliance Department, the Risk Management Department and the functional departments of various business lines supervise the internal control and compliance management through day-to-day and special inspections, issue risk warnings, and facilitate the improvement of internal control measures.

16.5 Internal Control Assessment

16.5.1 Particulars of Major Internal Control Defects Discovered During the Reporting Period

During the Reporting Period, no major defects in the internal control of the Bank were found.

16.5.2 Self-assessment Report on Internal Control

Date of disclosure of internal control assessment report	29 March 2019
Websites for full-text disclosure of internal control assessment report	CNINFO (www.cninfo.com.cn) Website of the Bank (www.zzbk.com.cn)
The proportion of the total assets of entities covered by the assessment in the total assets in the consolidated financial statements of the Bank	100.00%
The proportion of operating of entities covered by the assessment in the operating income in the consolidated financial statements of the Bank	100.00%

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Defect recognition criteria		
Category	Financial reports	Non-financial reports
Qualitative criteria	<p>Qualitative criteria for identifying a material weakness: a deficiency, or a combination of deficiencies, in internal control of financial reporting, such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented or detected and corrected on a timely basis. Signs of material weaknesses include but are not limited to: directors, supervisors or senior management personnel commit fraud or other malpractices; there are material misstatements in the published financial statements; material or significant weaknesses in internal control of financial reporting have not been rectified; the supervision over internal control of financial reporting is ineffective.</p>	<p>Qualitative criteria for identify a material weakness: a deficiency or a combination of deficiencies that has a material negative impact on legal compliance, asset safety, improvement of operating efficiency and effectiveness, realization of development strategies and other internal control objectives. Signs of material weaknesses include but are not limited to: material decision-making mistakes; serious violations of national laws and regulations and consequent severe penalties; frequent and extensive negative news in the media; overall ineffective control systems for important business activities.</p>
	<p>Qualitative criteria for identifying a significant weakness: a deficiency, or a combination of deficiencies, in internal control of financial reporting, such that there is a reasonable possibility that a misstatement of financial statements, which is not material but important enough to merit attention by the board of directors and the management, will not be prevented or detected and corrected on a timely basis. Signs of important weaknesses include but are not limited to: failure to select and apply accounting policies in accordance with generally accepted accounting standards, no anti-fraud procedures and control measures have been established; for the accounting treatment of unconventional or special transactions, the corresponding control mechanisms have yet to be established or implemented and there is a lack of remedial control measures; there are one or more deficiencies in the control of the financial reporting process at the end of each reporting period and there is no reasonable assurance that financial statements will be prepared in a true and complete manner</p>	<p>Qualitative criteria for identifying a significant weakness: a deficiency or a combination of deficiencies that has a significant negative impact on legal compliance, asset safety, improvement of operating efficiency and effectiveness, realization of development strategies and other internal control objectives. Signs of important weaknesses include but are not limited to: significant decision-making mistakes; serious losses arising from violation of internal rules and regulations; negative news in the media with limited impact; significant mistakes in the design and control of systems for important business activities.</p>

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	Qualitative criteria for identifying a general weakness: any other weakness in internal control of financial reporting that does not constitute a material or significant weakness.	Qualitative criteria for identifying a general weakness: any other weakness in internal control over non-financial reporting activities that does not constitute a material or significant weakness.
Quantitative criteria	Quantitative criteria for identify a material weakness: The amount of misstatement in the financial statements that may be caused by the underlying internal control weakness meets the following criteria: amount of misstatement \geq 5% of the total profit before tax in the consolidated income statement for the current year.	Quantitative criteria for identify a material weakness: The direct property loss that may be caused by the underlying internal control weakness meets the following criteria: direct property loss \geq 5% of the total profit before tax in the consolidated income statement for the current year.
	Quantitative criteria for identifying a significant weakness: The amount of misstatement in the financial statements that may be caused by the underlying internal control weakness meets the following criteria: 0.25% of the total profit before tax in the consolidated income statement for the current year \leq amount of misstatement $<$ 5% of the total profit before tax in the consolidated income statement for the current year.	Quantitative criteria for identifying a significant weakness: The direct property loss that may be caused by the underlying internal control weakness meets the following criteria: 0.25% of the total profit before tax in the consolidated income statement for the current year \leq direct property loss $<$ 5% of the total profit before tax in the consolidated income statement for the current year.
	Quantitative criteria for identifying a general weakness: The amount of misstatement in the financial statements that may be caused by the underlying internal control weakness meets the following criteria: amount of misstatement $<$ 0.25% of the total profit before tax in the consolidated income statement for the current year.	Quantitative criteria for identifying a general weakness: The direct property loss that may be caused by the underlying internal control weakness meets the following criteria: direct property loss $<$ 0.25% of the total profit before tax in the consolidated income statement for the current year.
Number of major defects in financial reports		0
Number of major defects in non-financial reports		0
Number of important defects in financial reports		0
Number of important defects in non-financial reports		0

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16.6 Audit Report on Internal Control

Review opinions in the audit report on internal control

We believe that as of 31 December 2018, Zhengzhou Bank Co., Ltd. had maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Rules for Internal Control of Enterprises and other relevant regulations.

Disclosure of the audit report on internal control	Disclosable
Date of full-text disclosure of the audit report on internal control	29 March 2019
Websites for full-text disclosure of the audit report on internal control	CNINFO (www.cninfo.com.cn) Website of the Bank (www.zzbank.cn)
Type of opinion in the audit report on internal control	Standard unqualified opinion
Whether there are major defects in non-financial reports	No

The audit report on internal control issued by the accounting firm is consistent with the self-assessment report of the Board.

17 INTERNAL AUDIT

Pursuant to the requirements of the Guidelines for Internal Audit of Commercial Banks and the Guidelines for Internal Control of Commercial Banks, the Bank has established an independent and vertical internal audit management system where the internal audit office as the executive body of the internal audit of the Bank is subordinate to the Board and works under the specific guidance of the Audit Committee of the Board. In accordance with regulatory requirements and relevant rules and regulations, the internal audit office conscientiously performs its duties, regularly reports to the Board of Directors and the Board of Supervisors on the audit work, and timely submits audit reports and informs the senior management.

Adhering to the principles of independence, objectivity and significance, the internal audit department of the Bank formulates the master plan and annual work plan for internal audit of the Bank, organizes the audit of the Bank's business activities, operations and economic responsibilities of key personnel during their term of service, inspects and assesses the implementation of laws, regulations and rules, and makes improvement suggestions to the management.

During the Reporting Period, the internal audit department of the Bank adhered to the principle of risk-based auditing, innovated and optimized the auditing methods, expanded the coverage of audit, strengthened audit supervision, improved the quality and efficiency of audit, objectively reflected the business and management situation of the Bank, and effectively facilitated the improvement of internal control and management measures of the Bank.

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18 INSIDE INFORMATION MANAGEMENT

The Board is responsible for disclosing information of the Bank, which includes enacting standard procedures and methods in relation thereto and reviewing information to be disclosed, and it also assumes liabilities for the truthfulness, accuracy and completeness of the information disclosed. The information disclosure of the Bank is subject to the supervision of regulators and the Board of Supervisors. The Chairman of the Board is the primary person responsible for implementing the management measures for information disclosure, while the Secretary of the Board is in charge of its execution and the General Office of the Board deals with the daily work thereof.

To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Management System for Information Disclosure Affairs in Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司信息披露事務管理制度) based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law (公司法), the Securities Law (證券法), Measures for Information Disclosure of Commercial Banks (商業銀行信息披露辦法), and the SZSE Listing Rules and the Stock Exchange Listing Rules.

The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Management System for Information Disclosure Affairs, which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc.

During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.

19 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, in order to completely implement the relevant requirements of superior party committee and regulatory authorities on the inclusion of party building work content into the articles of association, and pursuant to the procedures and requirements for the election of employee representative directors and supervisors as stipulated in the Company Law, taking into consideration the actual situation of the Bank, the Bank has amended some provisions of the Articles of Association. The proposal regarding the amendments to the Articles of Association was considered and approved at the 2017 AGM and the amendments was approved by the former CBRC Henan Office on 7 September 2018. For details of the amendments, please refer to the Bank's circular dated 18 May 2018 and announcements dated 22 March 2018, 25 April 2018, 15 June 2018 respectively published on the website of Hong Kong Stock Exchange. During the Reporting Period, the A Shares of the Bank were listed on the SME Board of the SZSE on 19 September 2018, and the A Share Articles of the Bank came into force on the same day. For the amendments, please refer to the Bank's circulars dated 13 August 2016, 26 April 2017 and 18 May 2018 respectively as well as the announcements dated 27 September 2016, 19 May 2017 and 15 June 2018 respectively.

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20 PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, the Bank has conscientiously implemented the requirements from the regulatory authorities such as the CBIRC and the PBoC and fully utilized the coordination mechanism of various departments and carried out the protection of consumer rights in an orderly manner.

20.1 Strengthening the Construction of the Consumer Rights Protection System

During the Reporting Period, the Bank optimized and supplemented various consumer rights protection systems, strengthened the guarantee of consumer rights protection systems. The Bank continued to improve various reporting and complaint systems, added more than 20 relevant systems regarding consumer rights protection, and adjusted and amended multiple systems involving RMB cash business, foreign currency business, banking card business, individual credit business, wealth management business based on the Bank's new core system upgrade and work requirements. Meanwhile, the Bank established a center for reporting, complaint and customer rights protection (信訪投訴及消費者權益保護中心) as a leading department for consumer rights protection.

20.2 Improving Financial Services and Providing Better Services for Financial Consumers

First, we truthfully and clearly disclosed product parameters and the prices of products and services in the marketing and service process to ensure that the legitimate rights and interests of consumers are not infringed upon. Second, we continuously enriched and improved our products and standardized our operating procedures. During the Reporting Period, we developed and improved a range of special products and services such as intelligent investment advisory services, personalized self-service card making machines, Xinxinying (薪薪盈), personal structured deposits, dream savings (夢想儲蓄) and NAV-based wealth management products to meet the diverse financial needs of consumers. Third, in order to improve cardholders' card-using experience, we optimized the system to introduce the service of replacing some magnetic stripe debit cards with financial IC cards. Fourth, to serve customers throughout the country, we upgraded mobile banking to support SMS verification codes all over the country and activated the short number 95097 as our national service hotline while reserving the original service hotline 4000-967585 for transition. Fifth, we carried out the screening of proof issues for banking services to eliminate "peculiar proof", circular proof and repeated proof, and optimized business procedures to reduce customer burden and improve customer satisfaction. Sixth, we printed and circulated the Service Etiquette Manual of Bank of Zhengzhou and the Sign Language Manual for Customer Service of Business Outlets to improve our service quality and provide special services for special groups. Seventh, we launched a disaster preparedness project for the Bank's customer service system to guarantee and enhance the high availability of the Bank's customer service system and reduce the risk of the customer service system being disabled due to unexpected events.

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20.3 Strengthening Publicity of Financial Knowledge and Raising Public Awareness of Financial Security

During the Reporting Period, the Bank carried out a number of publicity activities, including the publicity of telecom fraud prevention, prevention of illegal fund-raising, 3.15 Consumer Rights Day (3.15消費者權益日宣傳), financial knowledge popularization month (金融知識普及月), financial knowledge for every family (金融知識進萬家), and financial knowledge long march (金融知識萬里行). We used our website, official WeChat account, LED displays and other means to spread financial knowledge to financial consumers. On the basis of publicity in common places and outlets, we energetically entered communities, business districts and campuses to carry out special publicity activities, and through means such as micro videos, movies to the countryside, rural financial knowledge service stations, and university students' practice bases, so as to move closer to financial consumers and their real life and improve the educational results of financial consumers and enhance the effectiveness of publicity.

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS

1 PRINCIPAL BUSINESS AND BUSINESS REVIEW

The Bank is primarily engaged in the PRC banking and related financial services, including corporate banking, personal banking, treasury operation and other businesses.

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong), including the key risks and uncertainties faced by the Group, the possible future development plan of the Group's business and the Bank's compliance with laws and regulations, are set out in the sections headed "Highlights of Accounting Data and Major Financial Indicators", "Management Discussion and Analysis", "Significant Events" and "Report of the Board of Supervisors" of this Annual Report. Such discussions form an integral part of this "Report of the Board of Directors".

2 PROFIT DISTRIBUTION

2.1 Formulation, Implementation or Adjustment of Profit Distribution Policy for Ordinary Shares During the Reporting Period

According to the current Articles of Association, the Bank will give preference to cash dividend distribution after taking into account the continuous profitability, compliance with regulatory requirements, and the normal operation and long-term development of the Bank. The Bank shall not distribute profits to holders of Ordinary Shares until it has paid the agreed dividends to offshore preference shareholders in full. Subject to the conditions for dividend distribution as stipulated by laws and regulations, the profit distributed to ordinary shareholders in cash every year after the A-share listing of the Bank shall not be less than 30% of the distributable profit attributable to ordinary shareholders of the Bank for the current year. Where the Bank is to adjust its profit distribution policy, the Board shall make a special discussion on that, elaborate on the reasons for the adjustment, formulate a written demonstration report and submit it to the general meeting for approval after it is reviewed by independent non-executive Directors. The adoption of the underlying resolution is subject to affirmative votes representing at least two-thirds of the voting rights held by the shareholders present at the general meeting. The Bank shall make Internet voting accessible to shareholders.

The formulation and implementation of the Bank's cash dividend policy were in compliance with the provisions of the Articles of Association and the resolutions of the general meeting. The policy has clearly defined criteria and proportion of dividend distribution and is underpinned by well-established decision-making procedures and mechanisms where independent non-executive Directors have performed their duties in good faith and played their due role. Minority shareholders have been given the opportunity to fully express their opinions and demands, and their legitimate rights and interests have been fully protected. During the Reporting Period, the Bank's cash dividend policy was not adjusted or changed.

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2.2 Proposal for Profit Distribution and Transfer of Capital Reserve to Share Capital for the Reporting Period

Number of bonus shares per 10 shares	–
Cash dividend per 10 Shares (RMB) (inclusive of tax)	1.50
Number of Shares transferred per 10 Shares	–
Share capital base for the distribution proposal (Shares)	5,921,931,900
Total cash dividends (RMB'000) (inclusive of tax)	888,290
Distributable profit (RMB'000)	9,518,012
Cash dividends as a percentage of total distributable profit (%)	100

Particulars of the cash dividend distribution

For details, please refer to “Section XVI Dividend Distribution Policy” of the (A-Share) Initial Public Offering Prospectus of the Bank disclosed on the website of CNINFO (www.cninfo.com.cn) on 30 August 2018.

Particulars of the proposal for profit distribution or transfer of capital reserve to share capital

In 2018, the total audited profit of the Bank amounted to RMB3,809,906,000, the net profit amounted to RMB3,058,831,000, and the net profit attributable to parent company amounted to RMB3,014,583,000. Under the Accounting Standards for Business Enterprises and according to the Articles of Association and considering the regulatory requirements on capital adequacy ratio, the profit distribution plan of the Bank for 2018 are as follows:

- I. 10% of the net profit, equivalent to RMB301,458,000, was transferred to the statutory surplus reserve;
- II. RMB350,000,000 was appropriated to the general risk reserves;
- III. It is proposed that the cash dividend of RMB1.50 (tax inclusive) will be made for every 10 Shares based on the total number of Ordinary Shares the share registration date when the distribution plan is implemented in the future.

The dividend distribution plan shall be implemented after being submitted to the 2018 annual general meeting for consideration and approval. The dividend distribution date is expected to be around Monday, 15 July 2019. For the date and the details of dividend distribution, please refer to the announcement to be made by the Bank and the circular of the 2018 annual general meeting distributed to the shareholders.

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2.3 Proposal for Profit Distribution and Transfer of Capital Reserve to Share Capital for the Past Three Years (Including the Reporting Period)

The cash dividends for Ordinary Shares of the Bank for the last three years (including the Reporting Period) are as follows:

Year of dividends	Cash dividend per 10 shares (inclusive of tax) (RMB/Share)	Cash dividends (inclusive of tax) (RMB'000)	Net profit attributable to ordinary shareholders of the Bank in the consolidated financial statements for the year of dividends (RMB'000)	Percentage of the net profit attributable to ordinary shareholders of the Bank in the consolidated financial statements (%)	Amount of cash dividends distributed by other means	Percentage of cash dividends distributed by other means (%)
2018	1.50	888,290	2,556,488	34.75	-	-
2017	-	-	4,280,024	-	-	-
2016	2.20	1,170,825	3,998,768	29.28	-	-

Note: Pursuant to relevant provisions required by the CSRC, due to the Bank's initial public offering of A Shares, the 2017 final dividend was not distributed to all shareholders as approved by the 2017 AGM of the Bank.

The Bank has no proposal (plan) for bonus shares and transfer of capital reserve to share capital for the past three years (including the Reporting Period).

For details of the profit distribution of Offshore Preference Shares, please refer to the chapter headed "Issuance of Preference Shares".

2.4 Dividend Tax

Holders of A Shares

For individual shareholders, according to the provisions of the Circular on Issues Concerning the implementation of Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui [2012] No. 85) and the Circular on Issues Concerning Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui [2015] No. 101) issued by the MOF, the State Administration of Taxation and the CSRC, where an individual acquires the shares of a listed company from public offering of the company or from the stock market, for a holding period of not more than one month (inclusive), the dividends and bonuses paid on such shares shall be included into his taxable income in full amount; for a holding period of more than one month but not more than one year (inclusive), 50% of the dividends and bonuses paid on such shares shall be included into his taxable income; for a holding period of more than one year, the dividends and bonuses paid on such shares are temporarily exempted from individual income tax. The above income is subject to a uniform 20% tax rate for individual income tax. For shareholders being securities investment funds, their dividend income shall also be subject to the above provisions.

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For shareholders being resident enterprises, according to the provisions of paragraph (2) of Article 26 of the Corporate Income Tax Law, dividends, bonuses and other equity investment income between eligible resident enterprises are tax-free income. According to the provisions of Article 83 of the Regulations on the Implementation of the Corporate Income Tax Law, the “dividends, bonuses and other equity investment income between eligible resident enterprises” as mentioned in the provisions of paragraph (2) of Article 26 of the Corporate Income Tax Law refer to equity investment income such as dividends and bonuses from a resident enterprise’s direct investment in other eligible resident enterprises, excluding the investment income obtained by continuously holding shares publicly issued and listed by resident enterprises for less than 12 months.

For non-resident enterprise shareholders, according to the provisions of the Corporate Income Tax Law” and the Regulations on the Implementation of the Corporate Income Tax Law, the dividend income obtained by non-resident enterprises shall be taxed at a reduced rate of 10%.

For Qualified Foreign Institutional Investors (QFIIs), according to the Circular of the State Administration of Taxation on Issues Concerning the Withholding and Payment of Corporate Income Tax on Dividends, Bonus and Interest Paid by PRC Resident Enterprises to QFIIs (Guo Shui Han [2009] No. 47), listed companies shall withhold and remit corporate income tax for QFIIs at a rate of 10%. QFII shareholders who wish to enjoy tax treaty (arrangement) benefits may apply to the competent tax authority for tax benefits in accordance with the relevant provisions of the tax treaty, and the competent tax authority shall follow such provisions after verification thereof. Where tax refund is involved, an application for tax refund may be made to the competent tax authority in a timely manner after dividends and bonuses are obtained.

Holders of H Shares

For overseas non-resident enterprise shareholders, pursuant to the applicable provisions of the Corporate Income Tax Law of the People’s Republic of China and its implementing regulations and the Notice of the State Administration of Taxation on Issues Concerning the Withholding of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Offshore Non-resident Enterprise Holders of H Shares (Guo Shui Han [2008] No. 897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)), the Bank shall withhold and remit corporate income tax at a rate of 10% when distributing final dividends to non-resident enterprise holders of H Shares (including H Shares registered in the name of HKSCC Nominees Limited).

For overseas non-resident individual shareholders, pursuant to the applicable provisions of the Individual Income Tax Law of the People’s Republic of China and its implementing regulations as well as the Notice of the State Administration of Taxation on Issues Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[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 overseas resident individual shareholders of a domestic non-foreign-invested enterprise which issued stocks in Hong Kong are entitled to relevant preferential tax treatments in accordance with the tax treaties entered into by and between the countries they are from and China as well as the taxation arrangement between the Mainland China and Hong Kong (Macau). An individual income tax shall be withheld at a preferential tax rate of 10% generally for dividends paid to overseas resident individual shareholders by the domestic non-foreign-invested enterprise which issued stocks in Hong Kong, unless otherwise required by the regulations of relevant tax laws and tax conventions.

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Generally, the Bank will withhold and remit individual income tax for holders of H Shares in accordance with the above arrangements, but if the tax authorities require otherwise, the Bank will follow their requirements.

For tax issues concerning Shenzhen-Hong Kong Stock Connect, the provisions of the Circular on Taxation Policies Concerning the Pilot Program of a Mechanism for Mutual Stock Market Access Between Shenzhen and Hong Kong (Cai Shui [2016] No. 127) issued by the MOF, the State Administration of Taxation and the CSRC shall apply.

Offshore Preference Shareholders

Pursuant to the PRC tax laws and regulations, the Bank is required to withhold and remit corporate income tax at a rate of 10% when distributing dividends on Offshore Preference Shares to overseas non-resident enterprise shareholders. Pursuant to the regulations of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends on Offshore Preference Shares paid by the Bank.

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.

3 CLOSURE OF REGISTER OF MEMBERS OF H SHARES

In order to determine the eligibility of holders of H Shares of the Bank to vote at the forthcoming annual general meeting, the register of members of H Shares will be closed accordingly. For details, please refer to the announcement to be published by the Bank and the circular of the 2018 annual general meeting to be despatched to the Shareholders.

4 SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

For details of the share capital and substantial Shareholders of the Bank, please refer to the chapter headed "Changes in Share Capital and Information on Shareholders".

5 ISSUANCE OF DEBT SECURITIES

For details of the issuance of debt securities of the Bank, please refer to the chapter headed "Significant Events".

6 USE OF PROCEEDS

For details of the use of proceeds of the Bank, please refer to the chapter headed "Management Discussion and Analysis".

7 RESERVES

Details of movements in the reserves of the Bank for the Reporting Period are set out in the consolidated statement of changes in equity.

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8 PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Bank are set out in Note 22 to the financial statements of the independent auditor's report of this Annual Report.

9 CONNECTED TRANSACTIONS

In the ordinary and usual course of business, the Bank offers commercial banking services and products to the public in China, including certain connected persons of the Bank such as the Shareholders, Directors, Supervisors, President and/or their respective associates. Pursuant to the Stock Exchange Listing Rules, such transactions, being conducted on normal commercial terms in the ordinary and usual course of the business of the Bank, shall be exempt from the reporting, annual review, disclosure and independent Shareholders' approval requirements under Chapter 14A of the Stock Exchange 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 of the Stock Exchange.

The definition of connected persons under Chapter 14A of the Stock Exchange Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Some of the related party transactions set out in Note 38 to the financial statements of the independent auditor's report of this Annual Report also constitute connected transactions or continuing connected transactions as defined under the Stock Exchange Listing Rules, but none of them constitutes a disclosable connected transaction as defined under the Stock Exchange Listing Rules.

10 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details regarding the Directors, Supervisors and senior management of the Bank are set out in the chapter headed "Directors, Supervisors, Senior Management, Staff and Institutions" of this Annual Report.

11 INTERESTS OF DIRECTORS AND SUPERVISORS IN BUSINESS IN COMPETITION WITH THE BANK

None of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.

12 REMUNERATION OF THE DIRECTORS AND SUPERVISORS, RETIREMENT BENEFITS AND REMUNERATION OF THE TOP FIVE HIGHEST-PAID INDIVIDUALS

Details of the remuneration of the Directors and Supervisors are set out in the chapter headed "Directors, Supervisors, Senior Management, Staff and Institutions" of this Annual Report and in Note 9 to the financial statements of the independent auditor's report of this Annual Report. Retirement benefits offered by the Bank to employees are set out in Note 32 to the financial statements of the independent auditor's report of this Annual Report. Details of the remuneration of the top five highest-paid individuals are set out in Note 10 to the financial statements of the independent auditor's report of this Annual Report.

13 SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, none of the Directors or Supervisors entered into a service contract with the Bank which was not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS

14 INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 31 December 2018, the interests of Directors, Supervisors and chief executive officer 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 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 Companies in Appendix 10 to the Listing Rules of the Stock Exchange were set out as follows:

Name	Position	Class of Shares	Nature	Number of Shares held directly or indirectly (Shares) (Long position)	Percentage of the relevant class of Shares in issue (%)	Percentage of all ordinary Shares in issue (%)
WANG Tianyu	Director	A Shares	Beneficial owner	25,003	0.00057	0.00042
ZHU Zhihui	Supervisor	A Shares	Interest of controlled corporation	199,046,474	4.52	3.36
CHENG Jie	Supervisor	A Shares	Beneficial owner	6,309	0.00014	0.00011

Save as disclosed above, none of the Directors, Supervisors or chief executive 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.

15 MATERIAL INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Reporting Period, neither the Bank nor any of its subsidiaries entered into any significant transaction, arrangement or contract in which the Directors or Supervisors or entity connected with the Directors or Supervisors directly or indirectly had a material interest.

16 THE BANK'S LOANS TO ENTITIES

During the Reporting Period, the Bank did not provide any entity with loans that shall be disclosed under Rule 13.13 of the Stock Exchange Listing Rules.

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS



17 ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period, was the Bank or any of its subsidiaries a party to any arrangement to enable the Directors and Supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

18 MANAGEMENT CONTRACTS

No management or administration contract in relation to all or substantial parts of the business of the Bank was entered into during the Reporting Period.

19 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OR REDEEMABLE SECURITIES OF THE BANK

During the Reporting Period, the Bank and its subsidiaries had not purchased, sold or redeemed any listed securities or redeemable securities of the Bank.

20 CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

As of the end of the Reporting Period, the Bank had not issued or granted any convertible securities, options, warrants or other similar rights, and there had been no exercise of conversion or subscription rights over the convertible securities, options, warrants or other similar rights issued or granted by the Bank at any time.

21 LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE BANK

During the Reporting Period, the Bank did not provide any of its affiliated companies with any financial assistance or guarantees required to be disclosed under Rule 13.16 of the Stock Exchange Listing Rules. The Bank does not have a controlling shareholder or ultimate controller, nor has it entered into any loan agreement with covenants relating to specific performance of the controlling shareholder or breached the terms of any loan agreement.

22 PRE-EMPTIVE RIGHTS

During the Reporting Period, the Bank did not have provisions in respect of pre-emptive rights under the Articles of Association and according to the relevant provisions of the PRC laws and regulations.

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS

23 DONATIONS

During the Reporting Period, the Bank made charitable and other donations in an aggregate sum of approximately RMB2,924,600.

24 EQUITY-LINKED AGREEMENTS

During the Reporting Period, other than Offshore Preference Shares, the Bank had not entered into any equity-linked agreements.

Upon approval by the former CBRC Henan Office and the CSRC, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,191 million on 18 October 2017 through a private offering on the overseas market. Pursuant to regulations including the Measures on Capital Management of Commercial Banks (Trial) and the Trial Administrative Measures on Preference Shares, a commercial bank shall set up the provisions of coercive conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such trigger event happens when the common equity tier 1 capital adequacy ratio has decreased to 5.125% (or below) and when the CBIRC determines that the bank will not be able to exist if shares of the bank are not transferred or written down, or when relevant regulators determine that the bank will not be able to exist if there is no capital injection from public sectors or supports with coordinative effects. The Bank, according to relevant regulations, has formulated provisions of trigger events under which Offshore Preference Shares shall be coercively converted into H Shares. If such trigger events happen to the Bank and all Offshore Preference Shares need to be coercively converted into H Shares in accordance with their initial conversion price, the total amount of the Offshore Preference Shares which would be converted into H Shares will not exceed 1,719,533,921 H Shares. During the Reporting Period, the Bank did not experience any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

25 RELATIONS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Bank treats its employees as the most valuable asset of the Bank and pays great attention to safeguarding the legitimate rights and interests of its employees, striving to establish a harmonious and stable employment relationship. The Bank enters into “labor contracts” with its employees in accordance with the relevant laws, and continuously improves the relevant labor employment system and employee security system. By conscientiously implementing the national policies and regulations on salary and welfare, the Bank has developed the “Administrative Measures on Salary and Welfare”, under which it pays employees full salaries on time, contributes various social insurance and housing provident fund and built a multi-level pension and medical security system. The Bank also keeps helping employees to enhance their value through enhancing position system for smooth career development path and providing them with a wide range of professional training.

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS

The Bank adheres to a customer-oriented approach, actively promotes 6S management of service outlets and strengthens the promotion of service standards at outlets to improve customer service levels. To protect consumer rights, the Bank integrated the concept and requirements of consumer protection into its systems and established a consumer rights protection system involving consumer services, information privacy, education on financial knowledge, and customer complaints handling. The Bank pays attention to communication with customers, keeping in touch with customers through letters, telephone, fax, direct visits, the internet and other forms of communication channels and provides customers with round-the-clock telephone banking services in China through the unified customer service telephone line.

Adhering to the principles of openness, fairness and impartiality, the Bank selects suppliers by means of bidding and other similar forms, and maintains good communication and cooperation with various suppliers.

26 PUBLIC FLOAT

As at the Latest Practicable Date, according to the data publicly available to the Bank and the Directors have been aware of, the Bank has complied with the public float requirements under the Stock Exchange Listing Rules.

27 CORPORATE GOVERNANCE

The Bank is committed to maintaining a high standard of corporate governance. During the Reporting Period, the Bank strictly abided by the code provisions in the Corporate Governance Code and the relevant Stock Exchange Listing Rules on disclosure of inside information. Details of corporate governance of the Bank are set out in the chapter headed “Corporate Governance Report” of this Annual Report.

28 MAJOR DEPOSITORS AND BORROWERS

The Bank is not dependent on a single major depositor/borrower. As at the end of the Reporting Period, the deposits balance of the five largest depositors and loan balance of the five largest borrowers of the Bank represented no more than 30% of the total deposits balance, gross loans and advances of the Bank. The Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares do not have any interest in the aforementioned five largest depositors/borrowers.

29 PERMITTED INDEMNITY PROVISION

According to provision A.1.8 of the Corporate Governance Code, the Bank shall maintain appropriate insurance to cover the potential litigation initiated against the Directors. According to the Articles of Association, unless Directors, Supervisors and senior management personnel are proved to have failed to perform their duties honestly or in good faith, the Bank shall, to the fullest extent permitted by laws and administrative regulations or to the extent not prohibited by laws and administrative regulations, assume civil liabilities incurred by Directors, Supervisors and senior management personnel during their performance of duties. The Bank has purchased appropriate liability insurance for the Directors and provided them with an indemnity for liabilities incurred during the operations of the Bank for the Reporting Period.

CHAPTER VIII REPORT OF THE BOARD OF DIRECTORS

30 CHANGE OF PRINCIPAL PLACE OF BUSINESS

The Bank's principal place of business in Hong Kong has been changed to 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from 30 July 2018.

31 OTHER MATTERS

As far as the Board is aware, the Bank has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank. In the meantime, the Bank is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Bank endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

During the Reporting Period, the Bank was not aware of any Shareholders having waived or agreed to any arrangement to waive dividends.

During the Reporting Period, the Directors of the Bank did not waive or agreed to waive relevant remuneration arrangement.

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

During the Reporting Period, the Bank had no controlling shareholder or ultimate controller. As a result, the Bank did not have any controlling shareholder pledging the Bank's shares to secure the Bank's debts or to secure guarantees or other support of the Bank's obligations.

As at the Latest Practicable Date, there were no significant subsequent events of the Bank requiring disclosure.

By order of the Board
Bank of Zhengzhou Co., Ltd.
WANG Tianyu
Chairman

28 March 2019

CHAPTER IX REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Bank was dedicated to fulfilling its duties diligently based on its responsibility to the Shareholders and employees in accordance with the Company Law, the Guidelines on the Corporate Governance of Commercial Banks, the Articles of Association and the requirements of the rules and regulations to the Board of Supervisors, and formed a relatively complete supervisory system covering the supervision over meetings, strategies, financial affairs and performance assessment, which was a positive driving force for steady business development, enhancement of risk control and improvement of the corporate governance structure of the Bank. The foregoing promoted standard operation and sound development of corporate governance.

1 MAJOR WORK OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors attended all the meetings and activities of the “three Boards and one Management” of the Bank. The Board of Supervisors convened six meetings and four special committee meetings of the Board of Supervisors in total to consider 14 resolutions concerning business operation, internal control, risk management, corporate governance and performance assessment of the Directors and the Supervisors and review 19 reports concerning internal audit, connected transactions and quality of assets. During the Reporting Period, members of the Board of Supervisors attended the general meetings and were present at all the on-site meetings of the Board, and supervised the compliance with laws and regulations in relation to the convening of the general meetings and Board meetings, voting procedures, and the Directors’ attendance, opinions expressed and voting at the general meetings and Board meetings. During the Reporting Period, attendance and presence at various meetings and activities of the members of the Board of Supervisors furnished the Board of Supervisors with access to information on the operations management of the Bank in all aspects in a timely manner, thereby substantially consolidating its supervision functions. The Board of Supervisors had no objection to the supervisory affairs during the Reporting Period.

During the Reporting Period, the institutional structure of the Board of Supervisors was refined and adjusted, and the sixth session of the Board of Supervisors was formed by election at the 2017 AGM convened on 15 June 2018. The Supervisory Committee and the Nomination Committee were established pursuant to law. The sixth session of the Board of Supervisors consists of six Supervisors (three employee Supervisors, one shareholder Supervisor and two external Supervisors). Each of the committees has three members and is chaired by an external Supervisor, thus satisfying the regulatory requirements of the composition and proportion of members of the Board of Supervisors.

During the Reporting Period, the external Supervisors actively acquainted themselves with the operations management of the Bank, and gave opinions or suggestions on significant matters by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, being present at the Board meetings, participating in investigations and surveys conducted by the Board of Supervisors (on a collective or separate basis) at the branch level. During the adjournment of the Board of Directors and the Board of Supervisors, the external Supervisors were able to review various documents and reports of the Bank and exchange opinions with the Board of Directors and management on any problems found in a timely manner, playing an active role in performing the supervisory duties of the Board of Supervisors.

CHAPTER IX REPORT OF THE BOARD OF SUPERVISORS

2 INDEPENDENT OPINIONS ON RELEVANT MATTERS

Performance of duties by the Board of Directors and Senior Management and Its Members

During the Reporting Period, the Board of Supervisors completed the 2017 report of performance assessment of the Board of Directors, senior management and their members as required and reported the performance assessment results to the general meetings and regulatory authorities. The Board of Supervisors was of the view that the Board of Directors and senior management performed their duties according to the Guidelines on the Corporate Governance of Commercial Banks and the Articles of Association; in promoting the listing of the Bank and major business decisions, they displayed solidarity, vision, prudence and steady progress, leading the Bank to achieve a new leap in development. The senior management continued to improve their capability of implementing strategic decisions, established and finalised various measures, ensuring the completion of various jobs throughout the year.

Compliance with laws and regulations in operations

During the Reporting Period, the operating activities of the Bank complied with the requirements of the Company Law, the Law on Commercial Banks and the Articles of Association, and the decision-making process was legitimate and effective. The Directors and senior management were honest, trustworthy, diligent and conscientious. No acts in violation of laws and regulations and the Articles of Association or detrimental to the interests of the Bank and Shareholders were found in the performance of duties by the Directors and senior management of the Bank during the year.

Truthfulness of financial report

During the Reporting Period, upon careful review of the 2017 annual report of the Bank by all Supervisors in a practical and responsible manner to all Shareholders, the Board of Supervisors was of the view that procedures for the preparation of the 2017 annual report by the Board complied with the laws, administrative regulations and requirements of the CSRC; the contents of the report truthfully, accurately and completely reflected the actual situation of the Bank; and there were no false representations, misleading statements or material omissions contained therein.

Use of proceeds

During the Reporting Period, after deducting the offering expenses, all proceeds from the Bank's initial public offering of A Shares were used to replenish the core tier I capital of the Bank, which was consistent with the promised use of the proceeds.

Related party transactions

During the Reporting Period, the Board of Supervisors supervised the related party transactions, and considered that the prices of the related party transactions of the Bank were fair and reasonable and no acts detrimental to the interests of the Bank and Shareholders were found by the Board of Supervisors.

CHAPTER IX REPORT OF THE BOARD OF SUPERVISORS



Internal control

During the Reporting Period, the Board of Supervisors considered that the Bank had established a relatively comprehensive corporate governance structure, formulated relatively complete management systems relating to corporate governance and internal control, and was capable of improving the foregoing in accordance with the actual situation of the Bank and regulatory requirements. The internal control system of the Bank had been carried out smoothly, complied with the relevant standard requirements of laws and regulations on the management of corporate internal control systems, and completely, truthfully and objectively reflected the establishment and operation of the internal control system of the Bank. The Board of Supervisors reviewed the 2017 Internal Control Evaluation Report of the Bank and had no objection to its contents.

Implementation of resolutions of general meetings

During the Reporting Period, the Board of Supervisors supervised the implementation of the resolutions of general meetings, and considered that the Board was capable of earnestly implementing the relevant resolutions of general meetings and did not take any action detrimental to the interests of Shareholders.

Profit distribution plan

The Board of Supervisors reviewed the 2017 Profit Distribution Plan of the Bank, and considered that the profit distribution plan complied with the relevant requirements of laws, regulations and the Articles of Association and was in the interests of all Shareholders and beneficial to the long-term development of the Bank.

Dividend distribution plan for preference shares

During the Reporting Period, the dividend distribution plan for preference shares of the Bank complied with the relevant requirements of laws, regulations, the Articles of Association and the issuance terms or provisions of preference shares.

Changes in accounting policies

During the Reporting Period, changes in accounting policies of the Bank were reasonably made in accordance with the requirements of the relevant documents issued by International Accounting Standards Board (IASB) and the MoF, compiled with the relevant requirements of IASB, the MoF, CSRC, SZSE, the Hong Kong Stock Exchange and other regulatory authorities, was able to reflect the financial position and operating results of the Bank in a more objective and fair manner, and was in the interests of the Bank and its Shareholders.

Save as disclosed above, the Board of Supervisors had no objection to other supervisory affairs during the Reporting Period.

By order of the Board of Supervisors
Bank of Zhengzhou Co., Ltd.
ZHAO Lijuan
Chairwoman of the Board of Supervisors

28 March 2019

CHAPTER X SIGNIFICANT EVENTS

1 ISSUANCE AND REPURCHASE OF BONDS

The Bank issued financial bonds in 2013 with aggregate principal of RMB5 billion, and are divided into two types, namely (1) 3-year term with a fixed interest rate of 4.58%, which matured on 20 May 2016 and was settled by the Bank; and (2) 5-year term with a fixed interest rate of 4.80%, which matured on 20 May 2018 and was settled by the Bank.

The Bank issued 10-year tier II capital bonds in 2014, with aggregate principal of RMB2 billion and interest rate per annum of 5.73%. Such bonds will be due on 15 December 2024.

The Bank issued the first tranche of the tier II capital bonds in an amount of RMB3 billion in the national interbank bond market on 19 December 2016, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.10%.

The Bank issued the second tranche of the tier II capital bonds in an amount of RMB2 billion in the national interbank market on 30 March 2017, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.80%.

The Bank issued green financial bonds (Bonds code: 1720065) in an amount of RMB3 billion on 5 September 2017, for a maturity term of three years and a coupon rate of 4.7%. The proceeds from the issuance of the bonds was specially used for green industry projects as defined in the List of Projects Supported by Green Financial Bonds (《綠色金融債券支持項目目錄》) formulated by the Green Finance Committee of China Society of Finance & Banking (中國金融學會綠色金融專業委員會). As at the end of the Reporting Period, the Bank used RMB2,564 million out of the proceeds raised from the issuance of green financial bonds in total, covering five major areas of the List of Projects Supported by Green Bonds (2015 edition), including clean transportation, energy-saving, ecological protection and adaption to climate change, pollution prevention and resources conservation and recycling.

2 SIGNIFICANT LITIGATION AND ARBITRATION

The Bank was involved in several litigations and arbitrations arising from the ordinary course of business such as calling in borrowings and expected these litigations and arbitrations would not have significant adverse impacts on its financial position or business operation results. As at the end of the Reporting Period, the Bank, as a plaintiff or an applicant, had an amount of RMB2,265 million in total for unsettled litigations and arbitrations; the Bank, as a defendant or a respondent, had an amount of RMB16 million in total for unsettled litigations and arbitrations.

CHAPTER X SIGNIFICANT EVENTS

3 SIGNIFICANT RELATED PARTY TRANSACTIONS

In accordance with the Administrative Measures for Related Party Transactions Between Commercial Banks and Insiders or Shareholders issued by the Former CBRC, the SZSE Listing Rules, the Accounting Standards for Business Enterprises, and other laws, administrative rules, departmental regulations, regulatory documents as well as the relevant provisions of the Articles of Association, the Bank continuously improved its management mechanism of related party transactions through its daily operations, relentlessly pushed for standard management of related party transactions, regularly updated its list of related parties and prudently approved related party transactions. During the Reporting Period, related party transactions between the Bank and its related parties are conducted in the ordinary course of its business with terms and prices agreed in accordance with the principles of good faith and fairness as well as on conditions no better than non-related party transactions of the same type. Such related party transactions had no significant impact on the operation results and financial conditions of the Bank and the indicators on the control of related party transactions were in compliance with related regulations of regulatory authorities.

3.1 Related Corporations Directly or Indirectly Holding 5% or more Shares of the Bank

Name of the related party	Relationship with the related party	Place of registration	Organisation type	Registered capital	Legal representative	Principal business	Change(s) in the Reporting Period
Zhengzhou Finance Bureau (鄭州市財政局)	Shareholder	N/A	Government departments	N/A	N/A	N/A	Nil
Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Shareholder	Zhengzhou, Henan	Company with limited liability (wholly state-owned)	RMB12 billion	LIU Xinyong	Investment management, investment in construction projects, industrial production information and machinery and equipment required for construction projects, sale of raw materials of products for investment projects (other than those subject to national specific regulations); housing lease (For any of the above-mentioned businesses which are subject to approval, the company is not allowed to operate such business before obtaining approval.)	The legal representative was changed from ZHU Lianchang to LIU Xinyong

CHAPTER X SIGNIFICANT EVENTS

3.2 Implementations of General Related Party Transactions and Significant Related Party Transactions

In accordance with the relevant requirements of the Administrative Measures for Related Party Transactions Between Commercial Banks and Insiders or Shareholders issued by the Former CBRC and the Administrative Measures for Related Party Transactions of the Bank:

A general related party transaction shall refer to a transaction between the Bank and a single related party with an amount of no more than 1% of the net capital of the Bank and the balance of the transactions between the Bank and the related party after such transaction constituting no more than 5% of the net capital of the Bank.

A significant related party transaction shall refer to a transaction between the Bank and a single related party with an amount of more than 1% of the net capital of the Bank or the balance of the transactions between the Bank and the related party after such transaction constituting more than 5% of the net capital of the Bank.

If the transaction is non-credit-grant-type, the transaction amount mentioned herein shall be the cumulative amount of all relevant transaction balances between the Bank and the same related party continuously within 12 months; if the transaction is credit-grant-type, the transaction amount mentioned herein shall be the credit balance between the Bank and the same related party; if the transaction involves both non-credit-grant-type and credit-grant-type, the transaction amount shall be summarised and calculated in accordance with the provisions of this article.

In calculating the amount of transactions between a natural person related party and the Bank, the transactions between the person's close relatives and the Bank shall be aggregated; in calculating the amount of transactions between a legal person related party or other organisations and the Bank, the transactions between the legal persons or other organisations constituting a group client together with the legal person related party and the Bank shall be aggregated.

3.2.1 *Related party transactions of natural person related party*

During the Reporting Period, the Bank had no significant related party transaction with natural person related party.

CHAPTER X SIGNIFICANT EVENTS



3.2.2 Related party transactions of legal person related party

During the Reporting Period, the significant related party transactions between the Bank and legal person related party are set out below:

Unit: RMB100 million

Number	Related legal persons	Transaction amount	Approved amount	Business types	
1	Zhengzhou Construction Investment Group Co., Ltd. (鄭州市建設投資集團有限公司) and its related parties	Zhengzhou Highway Engineering Company (鄭州市公路工程公司)	1.99	5.22	Credit grant
		Zhengzhou Road and Bridge Construction Investment Group Co., Ltd. (鄭州路橋建設投資集團有限公司)	1.90	6.50	Credit grant
		Zhengzhou Construction Investment Group Co., Ltd. (鄭州市建設投資集團有限公司)	0.00	5.00	Credit grant
2	Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) and its related parties	Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司)	1.37	3.00	Credit grant
		Henan Kanghui Cement Products Co., Ltd. (河南康暉水泥製品有限公司)	1.20	1.50	Credit grant
3	China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) and its related parties	Beijing Zhongmin Assets Management Co., Ltd. (北京中民資產管理有限公司)	10.00	16.00	Credit grant
		Zhongmintou Health Industry Financial Leasing Co., Ltd. (中民投健康產業融資租賃有限公司)	0.09	3.00	Credit grant

CHAPTER X SIGNIFICANT EVENTS

Number	Related legal persons	Transaction amount	Approved amount	Business types	
4	Henan Zhengyang Construction Engineering Group Co., Ltd. (河南正陽建設工程集團有限公司)and its related parties	Henan Zhengyang Construction Engineering Group Co., Ltd. (河南正陽建設工程集團有限公司)	4.20	4.20	Credit grant
		Henan Hongguang Zensun Property Co., Ltd. (河南宏光正商置業有限公司)	2.80	2.80	Credit grant
		Henan Zensun Property Management Co., Ltd. (河南正商物業管理有限公司)	2.10	2.10	Credit grant
		Zhengzhou Airport Economic Comprehensive Experimental Zone Zhenghui Micro-credit Ltd. (鄭州航空港經濟綜合實驗區正輝小額貸款有限公司)	0.40	0.50	Credit grant
		ZH International Holdings Limited (正恒國際控股有限公司)	1.00(USD)	1.00(USD)	Credit grant
5	Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	Zhengzhou Guotou Industry Development Fund (Limited Partnership) (鄭州國投產業發展基金(有限合夥))	4.00	8.00	Credit grant
		Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	3.30	5.00	Credit grant
		Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	2.50	20.00	Underwriting
6	Zhongmu Zhengyin Country Bank (中牟鄭銀村鎮銀行)	-	21.00	50.00	Wealth management

CHAPTER X SIGNIFICANT EVENTS

Index for details of significant related party transactions disclosed in the provisional reports:

Name of preliminary announcement	Disclosure date of preliminary announcement	Name of preliminary announcement disclosure website
Announcement on Related Party Transactions of Bank of Zhengzhou Co., Ltd.	14 November 2018	CNINFO Website (www.cninfo.com.cn) Website of the Bank (www.zzbank.cn)
Announcement on Related Party Transactions of Bank of Zhengzhou Co., Ltd.	21 November 2018	CNINFO Website (www.cninfo.com.cn) Website of the Bank (www.zzbank.cn)

4 PUNISHMENT AND REMEDIAL ACTIONS OF THE BANK AND THE DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OF THE BANK AND SHAREHOLDERS HOLDING MORE THAN 5% OF THE BANK'S SHARES

During the Reporting Period, none of the Bank, the current and former Directors, Supervisors, senior management personnel of the Bank or Shareholders with shareholding of more than 5% was subject to investigation by competent authorities, enforcement actions by judiciary authorities or disciplinary departments, or brought before relevant judiciary authorities or being investigated for criminal responsibilities, investigations or administrative punishments by the CSRC or prohibitions against entry into or being identified as an inappropriate person for the securities markets, punishment by administrative authorities or publicly reprimands by any stock exchange.

5 INTEGRITY OF THE BANK AND ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As at the end of the Reporting Period, the Bank had no controlling shareholders or de facto controllers. During the Reporting Period, the Bank and its biggest shareholder had no failure to execute an effective court judgment, or any large amount of due outstanding debts.

CHAPTER X SIGNIFICANT EVENTS

6 PERFORMANCE OF UNDERTAKINGS

6.1 Undertakings Fully Performed by the Bank's de facto Controller, Shareholders, Related Parties, Purchasers and the Bank During the Reporting Period and Undertakings Not Fully Performed as at the End of the Reporting Period

Undertakings	Undertaking party	Undertaking type	Details of the undertaking	Date of undertakings	Term of undertakings	Performance
Undertakings made in initial public offering of A Shares	Zhengzhou Finance Bureau (鄭州市財政局)	Undertaking on shares with selling restrictions	<p>Within the 36 months since the date of the initial public offering of the Bank's A shares on the SZSE, Zhengzhou Finance Bureau shall not transfer or entrust others to manage the issued shares of the Bank held by it before this round of issue, and shall not allow the Bank to repurchase such shares; if the closing price of the shares issued in this round by the Bank is lower than the issue price for 20 consecutive trading days within six months, or the closing price is lower than the issue price as at the end of the six-month period upon the listing, the lockup period for the Bank's shares held by Zhengzhou Finance Bureau shall be automatically extended by 6 months.</p> <p>If it intends to reduce its shareholdings within two years after the expiry of the share lockup period, the annual reduced shareholdings shall be no more than 5% of the number of shares held by it; if it intends to reduce its shareholdings two years after the expiry of the share lockup period, the number of reduced shareholdings will be announced three trading days before it reduces its shareholding, the selling price shall be no less than the issue price of the initial public offering of the Bank's A shares (if there is any dividend distribution, bonus issue of shares, capitalisation of capital reserve, share placing, share subdivision and other ex-rights and ex-dividend events of the Company's shares, the selling price will be adjusted accordingly by ex-rights and ex-dividend).</p>	19 September 2018	Refer to the details of the undertakings	During the course of performance
Undertakings made in initial public offering of A Shares	Shareholders in aggregate holding more than 51% of the Shares (Zhengzhou Finance Bureau excluded) (please refer to the relevant content of the Prospectus of the Shares (A shares) of the IPO of the Bank for detailed list)	Undertaking on shares with selling restrictions	<p>Within 36 months since the date of the initial public offering of the Bank's A shares on the SZSE, these shareholders shall not transfer or entrust others to manage the issued shares of the Bank held by them directly or indirectly before this round of issue, and shall not allow the Bank to repurchase such shares.</p>	19 September 2018	Refer to the details of the undertakings	During the course of performance

CHAPTER X SIGNIFICANT EVENTS



Undertakings	Undertaking party	Undertaking type	Details of the undertaking	Date of undertakings	Term of undertakings	Performance
Undertakings made in initial public offering of A Shares	Directors, Supervisors and senior management personnel of the Bank	Undertaking on shares with selling restrictions	<p>Within the 36 months since the date of the initial public offering of the Bank's A shares on the SZSE, they shall not transfer or entrust others to manage the issued shares of the Bank held by them before this round of issue, and shall not allow the Bank to repurchase such shares;</p> <p>After the expiry of the lockup period, they shall transfer no more than 15% of the total number of the shares held by them annually during the term of office, and no more than 50% of the total number of the shares held by them within five years, they shall not repurchase in six months after selling their shares or resell in six months after purchasing shares; they shall not transfer the shares of the Bank held by them within six months after they leave office.</p>	19 September 2018	Refer to the details of the undertakings	During the course of performance
Undertakings made in initial public offering of A Shares	Directors, senior management personnel of the Bank	Undertaking on shares with selling restrictions	<p>If the closing price of the A shares of the initial public offering of the Bank on the SZSE is lower than the issue price for 20 consecutive trading days within six months, or the closing price is lower than the issue price as at the end of the six-month period upon the listing, the lockup period for the Bank's shares held by them shall be automatically extended by six months. During the lockup period, they shall not transfer or entrust others to manage the issued shares of the Bank held by them before this round of issue, and shall not allow the Bank to repurchase such shares;</p> <p>If the shares are reduced within two years after the expiry of the lockup period, the selling price shall be no less than the issue price of the initial public offering of the Bank's A shares.</p>	19 September 2018	Refer to the details of the undertakings	During the course of performance
Undertakings made in initial public offering of A Shares	Individuals of the Bank holding more than 50,000 internal staff shares	Undertaking on shares with selling restrictions	<p>After the expiry of the above-mentioned shares transfer lockup period, they shall transfer no more than 15% of the total number of the shares held by them annually, and no more than 50% of the total number of the shares held by them within five years.</p>	19 September 2018	Refer to the details of the undertakings	During the course of performance

CHAPTER X SIGNIFICANT EVENTS

Undertakings	Undertaking party	Undertaking type	Details of the undertaking	Date of undertakings	Term of undertakings	Performance
Undertakings made in initial public offering of A Shares	Additional shareholders of the Bank During the Reporting Period	Undertaking on shares with selling restrictions	Within the 36 months since the date of the initial public offering of the Bank's A shares on the SZSE, these shareholders shall not transfer or entrust others to manage the issued shares of the Bank held by them directly or indirectly before this round of issue, and shall not allow the Bank to repurchase such shares.	19 September 2018	Refer to the details of the undertakings	During the course of performance
Undertakings made in initial public offering of A Shares	The Bank, Zhengzhou Finance Bureau, all Directors (independent non-executive Directors excluded) of the Bank and senior management personnel	Undertakings on the price stabilisation	They will strictly observe and execute the "Price Stabilisation Plan for A Shares" considered and approved at the general meeting of the Bank and perform the obligations of stabilising the share price of the Bank according to the requirements of such plan. Please refer to the relevant content of the prospectus of the Shares (A shares) of the initial public offering of the Bank for the conditions triggering the implementation of the price stabilisation measures and specific measures to stabilise share price.	19 September 2018	Refer to the details of the undertakings	During the course of performance
Undertakings made in initial public offering of A Shares	Zhengzhou Finance Bureau (郑州市财政局)	Undertakings on avoiding horizontal competition	During the period for being a major shareholder of the Bank, its subsidiary enterprises (including wholly-owned, controlled subsidiaries and effectively-controlled enterprises) will not engage in, directly or indirectly, any forms of business activities that will compete or likely to compete with the Bank's principal business. Zhengzhou Finance Bureau will supervise its subsidiary enterprises in accordance with this undertaking and exercise necessary rights to ensure them to comply with this undertaking.	19 September 2018	Refer to the details of the undertakings	During the course of performance
Whether the undertakings are performed on time			Zhengzhou Finance Bureau will strictly comply with the relevant laws and regulations of the CSRC and the stock exchanges where the Bank's shares are listed and the requirements of company management policies such as the Article of Association and management policies on related party transactions of the Bank, exercise the shareholder's rights and perform the shareholder's obligations as equally as other shareholders, and neither seek unfair interest by use of the position of major shareholder, nor impair the legal interests of the Bank and other shareholders.			Yes
If the undertakings are not performed when overdue, explanations on reasons and working plans for the next step shall be stated in details						Not applicable

CHAPTER X SIGNIFICANT EVENTS

6.2 Existence of the Profit Forecast about Assets or Projects, and the Reporting Period Was Still in the Forecast Period, the Bank's Explanation on Whether the Profit of Assets or Projects Reached the Goal and the Reasons

There was no existence of the profit forecast about assets or projects nor the Reporting Period was still in the forecast period for the Bank.

7 SIGNIFICANT CONTRACTS AND INFORMATION ON THEIR PERFORMANCE

7.1 Entrustment, Contracting and Leasing Matters

During the Reporting Period, the Bank had no significant contracts on significant entrustment, contracting and leasing matters.

7.2 Significant Guarantees

During the Reporting Period, the Bank did not have any material guarantee that needed to be disclosed save for the financial guarantees within the business scope as approved by the PBoC and the CBIRC.

7.3 Entrust Others to Manage Cash Assets

(1) *Entrusted wealth management*

During the Reporting Period, there was no event in respect of entrusted wealth management beyond the Bank's normal business.

(2) *Entrusted Loans*

During the Reporting Period, the Bank had no entrusted loans beyond its normal business scope.

7.4 Other Significant Contracts

During the Reporting Period, the Bank had no other significant contractual matters requiring disclosure, other than those disclosed in this Annual Report, other announcements and circulars of the Bank.

CHAPTER X SIGNIFICANT EVENTS

8 OCCUPATION OF CAPITAL BY THE CONTROLLING SHAREHOLDERS AND OTHER RELATED PARTIES OF THE BANK FOR NON-OPERATING PURPOSES

There was no occupation of capital of the Bank by the controlling shareholder or other related parties of the Bank.

9 SPECIAL STATEMENT AND INDEPENDENT OPINION OF INDEPENDENT NON-EXECUTIVE DIRECTORS ON EXTERNAL GUARANTEES OF THE BANK AND CAPITAL OCCUPATION BY THE CONTROLLING SHAREHOLDERS AND OTHER RELATED PARTIES OF THE BANK

Guarantee business is one of the regular banking businesses of the Bank, which is approved by the PBoC and CBIRC. The Bank attached great importance to the risk management of this business, strictly implemented relevant operation processes and approval procedures and effectively controlled the risk of external guarantee business. During the Reporting Period, the Bank meticulously implemented the relevant requirements of notice Zhengjianfa [2003] No.56 issued by the CSRC and had no unlawful guarantees.

As at the end of the Reporting Period, there was no capital occupation by the controlling shareholder or other related parties of the Bank.

10 AUDIT REVIEW

The financial statements for the year ended 31 December 2018 were prepared by the Bank according to the PRC GAAP/IFRS and were audited by KPMG Huazhen LLP/KPMG, Certified Public Accountants respectively, which issued a standard unqualified audit report/independent auditor's report. The Annual Report was reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

11 SHARE OPTION SCHEME, EMPLOYEE SHARE OWNERSHIP SCHEME AND OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPLEMENTATIONS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not implement any form of share option scheme, employee share ownership scheme or other employee incentive measures.

CHAPTER X SIGNIFICANT EVENTS



12 SIGNIFICANT ACQUISITION, DISPOSAL OR ABSORPTION OF ASSETS AND EQUITY

During the Reporting Period, the Bank had no significant acquisition, disposal or absorption of assets and equity.

13 EXPLANATION ON OTHER SIGNIFICANT EVENTS

During the Reporting Period, the Bank had no other significant events, other than those disclosed in this Annual Report, other announcements and circulars of the Bank.

14 SIGNIFICANT EVENTS OF THE BANK'S SUBSIDIARIES

During the Reporting Period, the Bank's subsidiaries had no significant events.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

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

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

INTRODUCTION

We have audited the consolidated financial statements of Bank of Zhengzhou Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 205 to 356, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 OF 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 People's Republic of China, 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.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Impairment of loans and receivables, finance lease receivables and financial investments measured at amortised cost	
<i>Refer to note 18, 19(c) and 20 to the consolidated financial statements and the accounting policies in note 2(7).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group has adopted International Financial Reporting Standard 9 Financial Instruments (“IFRS 9”) since 1 January 2018 and developed a new impairment model for financial assets.</p> <p>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.</p> <p>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, finance lease receivables and financial investments measured at amortised cost 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.</p>	<p>Our audit procedures to assess loss allowances of loans and receivables, finance lease receivables and financial investments measured at amortised cost included the following:</p> <ul style="list-style-type: none"> • 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 receivables, finance lease receivables and financial investments measured at amortised cost, the credit grading process and the measurement of provisions for impairment; • 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, and assessing the reasonableness of key management judgement;

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Impairment of loans and receivables, finance lease receivables and financial investments measured at amortised cost (continued)	
<i>Refer to note 18, 19(c) and 20 to the consolidated financial statements and the accounting policies in note 2(7).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>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. 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.</p> <p>We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.</p>	<ul style="list-style-type: none"> • 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 management'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 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. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information of loans and financial investments measured at amortised cost;

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Impairment of loans and receivables, finance lease receivables and financial investments measured at amortised cost (continued)	
<p><i>Refer to note 18, 19(c) and 20 to the consolidated financial statements and the accounting policies in note 2(7).</i></p>	
The Key Audit Matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • evaluating the validity of management's assessment on whether the credit risk of the loans and receivables, finance lease receivables and financial investments measured at amortised cost has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk and checking the overdue information of loans and receivables, finance lease receivables and financial investments measured at amortised cost, 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 receivables, finance lease receivables and financial investments measured at amortised cost that are credit-impaired, assessing the reasonableness of possibility of default. We also evaluated management's assessment of the value of collaterals and the forecast cash flows, evaluated the viability of the Group's recovery plans, compared market price of collaterals with management's assessment of the value. We also evaluated the timing and means of realisation of collateral and evaluated other credit enhancements that are integral to the contract terms; • recalculating the amount of credit loss allowance using the expected credit loss model for samples of loans and receivables, finance lease receivables and financial investments measured at amortised cost, to verify the calculation accuracy of the credit loss allowance; and • evaluating whether the disclosures on impairment of loans and receivables, finance lease receivables and financial investments measured at amortised cost meet the disclosure requirements of the prevailing accounting standards.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Fair value of financial instruments	
<p>Refer to note 19(a), 19(b) and 41 to the consolidated financial statements and the accounting policies in note 2(7).</p>	
The Key Audit Matter	How the matter was addressed in our audit
<p>Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income.</p> <p>The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data. For level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where one or more significant inputs are unobservable in the valuation techniques, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement.</p> <p>The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"> • 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; • assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data; • involving our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing management valuation with our valuation method, developing parallel models, obtaining inputs independently and verifying the inputs; and • assessing whether the financial statement disclosures appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Consolidation of structured entities	
<i>Refer to note 43 to the consolidated financial statements and the accounting policies in note 2(4) and 2(19).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. 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, or act as an investor to a structured entity through investing in an asset management plan, a trust plan or an asset-backed security.</p> <p>In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. These factors are not purely quantitative and need to be considered collectively.</p> <p>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 RMB133,564 million whilst (31 December 2017: RMB140,553 million), the amounts of assets held by structured entities sponsored by the Group which the Group did not consolidate but in which it held a non-equity interest was RMB36,372 million (31 December 2017: RMB37,501 million).</p> <p>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 financial statements and relevant regulatory capital requirements could be significant.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> • Understanding and assessing design and implementation of key internal controls over the consolidation of structured entities; • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: <ul style="list-style-type: none"> – 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; and – assessing management's judgement over whether the structured entity should be consolidated or not; and • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Adjustments and disclosures in relation to transition to the International Financial Reporting Standard 9 Financial instruments	
<i>Refer to "Note 2. (3) to the Financial Statements: Change in accounting policies".</i>	
The key audit matter	How the matter was addressed in our audit
<p>The Group has applied International Financial Reporting Standard 9 Financial instruments ("IFRS 9") since 1 January 2018.</p> <p>IFRS 9 revised the requirements for the classification and measurement of financial instruments previously adopted, 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.</p> <p>We identified the adjustments and disclosures in relation to the transition to the IFRS 9 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 treatments, and application of new system data; also, management judgment was applied.</p>	<p>Our audit procedures relating to the transition to IFRS 9 included the following:</p> <ul style="list-style-type: none"> • assessing the key internal controls of the financial reporting process related to the transition to the IFRS 9; • assessing the logic and accuracy of the classification of financial instruments, including obtaining a list of financial instruments classified by the management as at 1 January 2018, selecting samples to check the contractual cash flow terms, and reviewing relevant documents about business model evaluation; • 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 with the involvement of our internal valuation specialists; • assessing 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; • obtaining journal entries relating to adjustments made on transition to IFRS9 and compared 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 treatments were in compliance with the prevailing accounting standards;

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Adjustments and disclosures in relation to transition to the International Financial Reporting Standard 9 Financial instruments (continued)	
<i>Refer to "Note 2. (3) to the Financial Statements: Change in accounting policies".</i>	
The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none">selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balances at the date of initial application (i.e. 1 January 2018); andassessing 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 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.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors 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.

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.

CHAPTER XI INDEPENDENT AUDITOR'S REPORT

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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

28 March 2019

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Interest income		18,992,970	18,466,751
Interest expense		(12,350,287)	(10,360,709)
Net interest income	3	6,642,683	8,106,042
Fee and commission income		1,987,506	1,935,084
Fee and commission expense		(113,187)	(69,951)
Net fee and commission income	4	1,874,319	1,865,133
Net trading gain/(losses)	5	365,364	(474,716)
Net gains arising from investments	6	2,190,324	546,473
Other operating income	7	60,965	170,053
Operating income		11,133,655	10,212,985
Operating expenses	8	(3,215,750)	(2,753,108)
Impairment losses on assets	11	(4,160,169)	(1,956,950)
Operating profit		3,757,736	5,502,927
Share of profits of associates	21	52,170	44,333
Profit before taxation		3,809,906	5,547,260
Income tax expense	12	(708,450)	(1,213,723)
Profit for the year		3,101,456	4,333,537
Net profit attributable to:			
Equity shareholders of the Bank		3,058,831	4,280,024
Non-controlling interests		42,625	53,513
		3,101,456	4,333,537

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2018 (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Profit for the year		3,101,456	4,333,537
Other comprehensive income:			
Other comprehensive income net of tax attributable to equity shareholders of the Bank			
Items that may be reclassified subsequently to profit or loss			
– Net gains from debt instruments measured at fair value through other comprehensive income		62,523	–
– Available-for-sale financial assets: net movement in the fair value reserve		–	(25,508)
Item that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability		8,122	(355)
Non-controlling interests		548	–
Other comprehensive income net of tax		71,193	(25,863)
Total comprehensive income		3,172,649	4,307,674
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,129,476	4,254,161
Non-controlling interests		43,173	53,513
		3,172,649	4,307,674
Basic and diluted earnings per share (in RMB)	13	0.47	0.80

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Financial Position

at 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Assets			
Cash and deposits with central bank	14	46,224,453	45,635,132
Deposits with banks and other financial institutions	15	2,156,931	4,723,649
Placements with banks and other financial institutions	16	3,768,759	15,297,528
Derivative financial assets	28	231,551	–
Financial assets held under resale agreements	17	3,452,125	4,407,476
Loans and advances to customers	18	153,999,381	124,455,942
Financial investments:			
Financial investments at fair value through profit or loss	19	60,032,975	11,849,297
Financial investments at fair value through other comprehensive income	19	8,175,758	–
Financial investments measured at amortised cost	19	167,830,054	–
Available-for-sale financial assets	19	–	35,086,298
Held-to-maturity investments	19	–	59,267,821
Loans and receivables	19	–	116,470,830
Finance lease receivables	20	13,710,666	10,490,994
Interest in associates	21	321,081	280,191
Property and equipment	22	2,081,350	1,813,326
Deferred tax assets	23	1,947,787	1,270,416
Other assets	24	2,209,547	4,779,987
Total assets		466,142,418	435,828,887
Liabilities			
Due to central bank	25	4,196,194	1,599,550
Deposits from banks and other financial institutions	26	27,398,665	28,934,366
Placements from banks and other financial institutions	27	13,652,888	22,348,389
Derivative financial liabilities	28	38,501	32,310
Financial assets sold under repurchase agreements	29	18,956,133	14,085,500
Deposits from customers	30	267,758,206	255,407,398
Tax payable		428,752	666,138
Debt securities issued	31	93,649,019	73,170,060
Other liabilities	32	2,200,561	6,145,811
Total liabilities		428,278,919	402,389,522

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Financial Position

at 31 December 2018 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Equity			
Share capital	33	5,921,932	5,321,932
Other equity instruments			
Include: preference shares	36	7,825,508	7,825,508
Capital reserve	34	5,163,655	3,054,869
Surplus reserve	34	2,356,214	2,054,756
General reserve	34	5,870,320	5,520,320
Fair value reserve	34	38,590	(22,667)
Remeasurement of net defined benefit liability	34	(44,492)	(52,614)
Retained earnings	35	9,518,012	8,503,783
<hr/>			
Total equity attributable to equity shareholders of the Bank		36,649,739	32,205,887
Non-controlling interests		1,213,760	1,233,478
<hr/>			
Total equity		37,863,499	33,439,365
<hr/>			
Total liabilities and equity		466,142,418	435,828,887

Approved and authorised for issue by the board of directors on March 28, 2019.

Wang Tianyu
Chairman of the Board of Directors
Executive Director

Shen Xueqing
President
Executive Director

Mao Yuezhen
Chief accountant

Zhang Zhiyong
*General Manager of the Planning and
Finance Department*

(Company chop)

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank										
		Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2018		5,321,932	7,825,508	3,054,869	2,054,756	5,520,320	(22,667)	(52,614)	8,503,783	32,205,887	1,233,478	33,439,365
Changes in accounting policies		-	-	-	-	(1,266)	-	-	(890,801)	(892,067)	(62,891)	(954,958)
Balance at 1 January 2018 adjusted		5,321,932	7,825,508	3,054,869	2,054,756	5,520,320	(23,933)	(52,614)	7,612,982	31,313,820	1,170,587	32,484,407
Profit for the year		-	-	-	-	-	-	-	3,058,831	3,058,831	42,825	3,101,456
Other comprehensive income	34(d)(e)	-	-	-	-	-	62,523	8,122	-	70,645	548	71,193
Total comprehensive income		-	-	-	-	-	62,523	8,122	3,058,831	3,129,476	43,173	3,172,649
Share capital invested by shareholders		600,000	-	2,108,786	-	-	-	-	-	2,708,786	-	2,708,786
Share capital invested by A-share holders		-	-	-	-	-	-	-	-	-	-	-
Appropriation of profit:		-	-	-	-	-	-	-	-	-	-	-
Appropriation to surplus reserve	34(b)	-	-	-	301,458	-	-	-	(301,458)	-	-	-
Appropriation to general reserve	34(c)	-	-	-	-	350,000	-	-	(350,000)	-	-	-
Cash dividends on preference shares	35	-	-	-	-	-	-	-	(502,343)	(502,343)	-	(502,343)
Sub-total		-	-	-	301,458	350,000	-	-	(1,153,801)	(502,343)	-	(502,343)
Balance at 31 December 2018		5,921,932	7,825,508	5,163,655	2,356,214	5,870,320	38,590	(44,492)	9,518,012	36,649,739	1,213,760	37,863,499

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

Attributable to equity shareholders of the Bank												
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2017		5,321,932	-	3,054,204	1,632,893	4,527,789	2,841	(52,259)	6,808,978	21,296,378	564,997	21,861,375
Profit for the year		-	-	-	-	-	-	-	4,280,024	4,280,024	53,513	4,333,537
Other comprehensive income	34(d)(e)	-	-	-	-	-	(25,508)	(355)	-	(25,863)	-	(25,863)
Total comprehensive income		-	-	-	-	-	(25,508)	(355)	4,280,024	4,254,161	53,513	4,307,674
Share capital invested by shareholders												
- Share capital invested by other equity instrument holders	36	-	7,825,508	-	-	-	-	-	-	7,825,508	-	7,825,508
- Non-controlling interests from the acquisition of subsidiary		-	-	-	-	-	-	-	-	-	62,160	62,160
- Non-controlling interests from the establishment of subsidiary		-	-	-	-	-	-	-	-	-	49,000	49,000
- Share capital invested by non-controlling interests holders		-	-	-	-	-	-	-	-	-	503,750	503,750
- Others		-	-	665	-	-	-	-	-	665	58	723
Sub-total		-	7,825,508	665	-	-	-	-	-	7,826,173	614,968	8,441,141

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank										Total equity	
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total		Non-controlling interests
Appropriation of profit:												
- Appropriation to surplus reserve	34(b)	-	-	-	421,863	-	-	-	(421,863)	-	-	-
- Appropriation to general reserve	34(c)	-	-	-	-	992,531	-	-	(992,531)	-	-	-
- Cash dividends	35	-	-	-	-	-	-	-	(1,170,825)	(1,170,825)	-	(1,170,825)
Sub-total		-	-	-	421,863	992,531	-	-	(2,685,219)	(1,170,825)	-	(1,170,825)
Balance at 31 December 2017		5,321,932	7,825,508	3,054,869	2,054,756	5,520,320	(22,667)	(52,614)	8,503,783	32,205,887	1,233,478	33,439,365

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Cash Flow Statement

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

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		3,809,906	5,547,260
<i>Adjustments for:</i>			
Impairment losses on assets		4,160,169	1,956,950
Depreciation and amortisation		301,903	261,677
Unwinding of discount		-	(55,551)
Unrealised foreign exchange (gains)/losses		(546,835)	285,992
Net gains from disposal of long-term assets		(130)	(6,489)
Net trading (gains)/losses of financial investments at fair value through profit or loss		(187,702)	125,275
Net gains arising from investments		(2,190,324)	(546,473)
Share of profits of associates		(52,170)	(44,333)
Interest expense on debt securities issued		3,469,399	2,760,789
Interest income on financial investments		(9,003,837)	(9,295,463)
		(239,621)	989,634
<hr style="border-top: 1px dashed black;"/>			
<i>Changes in operating assets</i>			
Net decrease/(increase) in deposits with central bank		3,972,139	(4,939,350)
Net decrease/(increase) in deposits and placements with banks and other financial institutions		12,809,684	(1,826,199)
Net increase in financial investments at fair value through profit or loss		(12,380,709)	(2,996,165)
Net increase in loans and advances to customers		(33,021,362)	(17,953,685)
Net decrease in financial assets held under resale agreements		958,125	712,092
Net increase in finance lease receivables		(2,939,745)	(2,995,580)
Net decrease/(increase) in other operating assets		556,445	(358,042)
		(30,045,423)	(30,356,929)
<hr style="border-top: 1px dashed black;"/>			
<i>Changes in operating liabilities</i>			
Net increase in amounts due to central bank		2,534,150	1,522,550
Net (decrease)/increase in deposits and placements from banks and other financial institutions		(10,715,581)	6,366,424
Net increase/(decrease) in financial assets sold under repurchase agreements		4,860,780	(19,165,870)
Net increase in deposits from customers		8,723,536	38,482,830
Net increase in other operating liabilities		673,806	1,766,890
		6,076,691	28,972,824
<hr style="border-top: 1px dashed black;"/>			
Cash used in operations		(24,208,353)	(394,471)
Income tax paid		(1,611,116)	(1,586,923)
Net cash flows used in operating activities		(25,819,469)	(1,981,394)

The notes on pages 214 to 356 form part of these financial reports.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		164,171,904	251,568,492
Proceeds from disposal of property and equipment and other assets		24,598	4,663
Payments on acquisition of investments		(164,260,205)	(287,487,324)
Dividends and interest received		10,580,815	8,545,294
Net proceeds from acquisition of a subsidiary	37(b)	–	68,436
Payments on acquisition of property and equipment and other assets		(644,071)	(456,476)
Net cash flows generated from/(used in) investing activities		9,873,041	(27,756,915)
Cash flows from financing activities			
Proceeds received from issuance of A-share		2,708,786	–
Proceeds received from issuance of preference shares		–	7,825,508
Capital contribution by non-controlling interests		–	552,750
Proceeds received from debt securities issued		111,834,858	103,216,337
Repayment of debt securities issued		(91,548,208)	(75,408,883)
Interest paid on debt securities issued		(3,480,010)	(1,938,082)
Dividends paid		(502,343)	(1,169,346)
Net cash flows generated from financing activities		19,013,083	33,078,284
Net increase in cash and cash equivalents		3,066,655	3,339,975
Cash and cash equivalents as at 1 January		19,254,054	16,122,799
Effect of foreign exchange rate changes on cash and cash equivalents		200,405	(208,720)
Cash and cash equivalents as at 31 December	37(a)	22,521,114	19,254,054
Net cash flows generated from operating activities include:			
Interest received		10,952,564	9,584,322
Interest paid		(8,925,264)	(6,381,350)

The notes on pages 214 to 356 form part of these financial reports.

Notes to the Financial Statements

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

1 BACKGROUND INFORMATION

Bank of Zhengzhou Co., Ltd., formerly known as City Commercial Bank of Zhengzhou Co., Ltd., is a joint-stock commercial bank established with the approval of the People's Bank of China (the "PBOC") in accordance with the notice of JiyinFu [2000] No. 64. The Bank changed its name to Bank of Zhengzhou Co., Ltd. in October 2009. The registered address is No.22 Business Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province. The Bank operates in Henan Province of the PRC.

The Bank obtained its financial institution license No. B1036H241010001 from the former China Banking Regulatory Commission ("the former CBRC"), and obtained its business license No. 410000100052554 from the State Administration for Industry and Commerce of the People's Republic of China (the "PRC"). The Bank is regulated by the China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In December 2015, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 06196). In September 2018, the Bank's A-share was listed on the SME Board of the Shenzhen Stock Exchange (Stock code: 002936).

The principal activities of the Bank and its subsidiaries (collectively the "Group") includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting bills; issuing financial bonds; acting as the issuing agent, cashing agent and the underwriting of government bonds; trading government bonds; engaging in interbank borrowings; financial leasing; offering guarantees; providing safe-deposit box service; collecting and making payments as agent and acting as insurance agent; accepting entrusted loans and other businesses approved by the banking regulatory authorities under the State Council.

For subsidiaries of the Bank, refer to note 21 for more information.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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 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.

(2) Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Basis of preparation (Continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, 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 of making the judgement about the 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.

Judgements that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(25).

The measurement basis used in the preparation of the financial statements is the historical basis, except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, or derivative financial instruments (see Note 2(7)) are stated at their fair value as explained in the accounting policies.

The financial statements are presented in RMB, rounded to the nearest thousand, which is the functional currency of the Group.

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

(3) Change 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.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Change in accounting policies (Continued)

“IFRS 15, Revenue from contracts with customers” (Continued)

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.

The adoption of IFRS 15 has no material effect on the financial position and financial performance of the Group.

“IFRS 9, Financial instruments”

IFRS 9 sets out 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. Refer to Note 2(7) for the accounting policies under IFRS 9, and refer to Note 2 of the Group's financial statements for the year ended 31 December 2017 for the accounting policies under IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”).

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 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 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.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Change in accounting policies (Continued)

“IFRS 9, Financial instruments” (Continued)

Classification and measurement

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).

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 no longer be necessary for a loss event to occur before an impairment loss is recognised. 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 recognized the differences in the net assets at the beginning of 2018.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Change in accounting policies (Continued)

Transition (Continued)

Impacts of adopting the revised accounting standards of financial instruments on the Group as at 1 January 2018 are as follows:

	Carrying amount before the amendment	Reclassification	Remeasurement	Carrying amount after the amendment
Deposits with banks and other financial institutions	4,723,649	-	(513)	4,723,136
Placements with banks and other financial institutions	15,297,528	-	(2,121)	15,295,407
Financial assets purchased under resale agreements	4,407,476	-	(902)	4,406,574
Interests receivable	2,520,119	-	(425,295)	2,094,824
Finance lease receivables	10,490,994	-	(18,264)	10,472,730
Loans and advances to customers	124,455,942	-	(334,978)	124,120,964
Including:				
Less: Transfers out as loans and advances to customers measured at fair value through other comprehensive income	2,480,770	(2,480,770)	-	-
Less: Transfers out as loans and advances to customers measured at amortised cost	121,975,172	(121,975,172)	-	-
Add: Loans and advances to customers measured at fair value through other comprehensive income	-	2,480,770	(7,230)	2,473,540
Add: Loans and advances to customers measured at amortised cost	-	121,975,172	(327,748)	121,647,424
Financial investments				
Available-for-sale financial assets	35,086,298	(35,086,298)	-	-
Including:				
Less: Transfers out as financial investments at fair value through profit or loss	32,291,943	(32,291,943)	-	-
Less: Transfers out as financial investments at fair value through other comprehensive income	2,794,355	(2,794,355)	-	-
Held-to-maturity investments	59,267,821	(59,267,821)	-	-
Including:				
Less: Transfers out as financial investments at fair value through profit or loss	5,419,674	(5,419,674)	-	-
Less: Transfers out as financial investment measured at amortised cost	53,848,147	(53,848,147)	-	-

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Change in accounting policies (Continued)

Transition (Continued)

	Carrying amount before the amendment	Reclassification	Remeasurement	Carrying amount after the amendment
Loans and receivables	116,470,830	(116,470,830)	-	-
Including:				
Less: Transfers out as financial investments at fair value through profit or loss	10,164,316	(10,164,316)	-	-
Less: Transfers out as financial investments measured at amortised cost	106,306,514	(106,306,514)	-	-
Financial investments at fair value through profit or loss	11,849,297	47,875,933	265,070	59,990,300
Financial investments at fair value through other comprehensive income	-	2,794,355	-	2,794,355
Financial investments measured at amortised cost	-	160,154,661	(520,650)	159,634,011
Sub-total	384,569,954	-	(1,037,653)	383,532,301
Others	(59,417)	-	(197,236)	(256,653)
Deferred tax assets	1,270,416	-	279,931	1,550,347
Total	385,780,953	-	(954,958)	384,825,995

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(4) Consolidated financial statements

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

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Consolidated financial statements (Continued)

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item. When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

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

(5) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates 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 items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of financial assets measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) 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.

(7) 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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) 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

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) 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 meets 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.

– 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.

Notes to the Financial Statements

For the year ended 31 December 2018
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Financial instruments (Continued)

(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.

– Financial liabilities measured at amortised cost

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

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Financial instruments (Continued)

(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 (“ECL”) on:

- Financial assets measured at amortised cost;
- Debt instruments at FVOCI;
- Finance lease receivables;
- 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 ECL assessment.

Notes to the Financial Statements

For the year ended 31 December 2018
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) 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 40(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.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Financial instruments (Continued)

(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.

(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.*

Notes to the Financial Statements

For the year ended 31 December 2018
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Financial assets purchased under resale agreements and sold under repurchase agreements

The assets purchased under resale agreements are not recognised, and the payment is reported as a receivable in the balance sheet and is carried at amortised cost.

Financial assets sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with applicable accounting policies. The funds received are reported as liabilities in the balance sheet 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.

(9) Preference shares

Preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Interest and dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

Notes to the Financial Statements

For the year ended 31 December 2018

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) Fair value measurement

Unless otherwise specified, the Group measures fair value as follows:

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

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

(11) Long-term equity investments

(i) *Investment in subsidiaries*

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Bank's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period. The investments in subsidiaries are stated in the balance sheet at cost less impairment losses (see Note 2(15)).

(ii) *Investments in associates*

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

A long-term equity investment in an associate is accounted for using the equity method for subsequent measurement, unless the investment is classified as held for sale.

Notes to the Financial Statements

For the year ended 31 December 2018
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Long-term equity investments (Continued)

(ii) Investments in associates (Continued)

Under the equity method:

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

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

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

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

For the impairment of the investments in associates, refer to Note 2(15).

Notes to the Financial Statements

For the year ended 31 December 2018

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) Fixed assets and construction in progress

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

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(15)). Construction in progress is stated in the balance sheet at cost less impairment loss (Note 2(15)).

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

All direct and indirect costs that are related to the construction of the fixed assets and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

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

The cost of fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values and accumulated impairment losses (that is the cost of fixed assets (net of the estimated residual values) divided by the estimated useful lives). The estimated useful lives, estimated residual value rates and annual depreciation rates of each class of fixed assets are as follows:

	Estimated useful lives	Estimated net residual value rate	Depreciation rate
Premises	20–50 years	5%	1.90%–4.75%
Electronic equipment	5 years	5%	19.00%
Vehicles	5 years	5%	19.00%
Office equipment and others	5–10 years	5%	9.50%–19.00%

Estimated useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

Notes to the Financial Statements

For the year ended 31 December 2018
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) Leases

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. An operating lease is a lease other than a finance lease.

Assets acquired under operating leases

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

Assets leased out under finance leases

At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognises unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the aggregate of their present value is recognised as unearned finance income.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the balance sheet date, the Group's finance lease receivables, net of the unrecognised finance charges, are stated in the balance sheet as finance lease receivables.

The Group provides for impairment of the finance lease receivables (see Note 2(7)(v)).

(14) Intangible assets

Intangible assets are stated in the balance sheet at cost or share-based restructuring basis valuation less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(15)). The cost of intangible assets less estimated residual value and accumulated impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for such intangible assets are as follows:

Land use rights	30–50 years
Softwares	5–10 years

Notes to the Financial Statements

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- Fixed assets and construction in progress;
- Intangible assets;
- Long-term equity investments.

If any indication exists, the recoverable amount of the asset is estimated.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value less costs to sell and its present value of expected future cash flows. 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.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate, taking into account the expected future cash, useful life and discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Employee benefits

(i) *Short-term employee benefits*

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate. If the liability is not expected to be fully paid within 12 months after the end of the annual reporting period in which the employee provides the services, and the financial impact is significant, the liability is measured at the discounted amount.

(ii) *Post-employment benefits—defined contribution plans*

Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participates in a defined contribution basic pension insurance, unemployment insurance and annuity plans in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance and unemployment insurance plans based on the applicable benchmarks and rates stipulated by the government. The Group provides an annuity plan for eligible employees and makes contribution based on a certain percentage of the total salaries of the employees. The corresponding expenses incurred are recognised in profit or loss.

(iii) *Post-employment benefits—defined benefit plans*

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value. The resulting amount, net of the deficit or surplus arising from the fair value of the defined benefit assets (if any), is recognised as a net defined benefit liability/asset.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and net interest expense on the net defined benefit liability/asset are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of net defined benefit liability/asset are recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Employee benefits (Continued)

(iv) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(17) 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 balance sheet date, 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). The temporary difference arising from the initial recognition of goodwill does not give rise to deferred tax.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Income tax (Continued)

At the balance sheet date, 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 balance sheet date. 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.

At the balance sheet date, 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.

(18) Financial guarantees, 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(7)(v) for details of the expected credit loss model.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Financial guarantees, provisions and contingent liabilities (Continued)

(ii) *Other provisions*

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid- point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome;
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

(19) 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.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Revenue 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Revenue recognition (Continued)

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 year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest income from finance leases is recognised in profit or loss in the period of the lease using the effective interest method. Contingent rentals are recognised as income as incurred.

(ii) *Fee and commission income*

Fee and commission income is recognised 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.

(iii) *Other income*

Other income is recognised on an accrual basis.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Revenue recognition (Continued)

(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 attaching to the grant. Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised, or included in other income or non-operating income directly.

(21) Expense 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.

(22) Dividends

Dividends proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date are not recognised as a liability at the balance sheet date but disclosed separately in the notes to the financial statements.

(23) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(24) 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. Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

(25) Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below. Refer to Note 2 of the Group's financial statements for the year ended 31 December 2017 for the significant accounting judgements and estimates under IAS 39.

(i) *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortized 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 40(a) for the explanation of the assumptions and estimation used in measuring ECL.

(ii) *Income taxes*

Determining income tax provisions involves judgement 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 all changes in 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 judgement 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.

Notes to the Financial Statements

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) Significant accounting estimates and judgements (Continued)

(iii) *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 judgements are exercised over the asset's selling price, related operating 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 the selling price and related operating expenses based on reasonable and supportable assumption.

(iv) *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 this year. 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.

(v) *Determination of control over investees*

Management applies its judgement to determine whether the Group is acting as agent or principal in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2018	2017
Interest income arising from		
Deposits with central bank	522,573	495,022
Deposits and placements with banks and other financial institutions	291,729	460,061
Loans and advances to customers		
– Corporate loans and advances	5,571,888	5,006,845
– Personal loans and advances	2,324,463	1,681,426
– Discounted bills	277,764	79,700
Financial assets held under resale agreements	258,213	425,572
Financial investments	9,003,837	9,807,639
Finance lease receivables	742,503	510,486
Sub-total	18,992,970	18,466,751
Interest expense arising from		
Amounts due to central bank	(87,578)	(29,651)
Deposits and placements from banks and other financial institutions	(2,281,083)	(2,288,404)
Deposits from customers	(6,012,153)	(4,639,739)
Financial assets sold under repurchase agreements	(500,074)	(642,126)
Debt securities issued	(3,469,399)	(2,760,789)
Sub-total	(12,350,287)	(10,360,709)
Net interest income	6,642,683	8,106,042

Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.

Notes to the Financial Statements

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

4 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Agency and custody services fees	1,262,758	1,282,361
Underwriting and advisory fees	410,439	409,320
Acceptance and guarantee services fees	191,991	156,455
Bank card services fees	96,777	76,942
Others	25,541	10,006
Sub-total	1,987,506	1,935,084
Fee and commission expense	(113,187)	(69,951)
Net fee and commission income	1,874,319	1,865,133

5 NET TRADING GAINS/(LOSSES)

	Note	2018	2017
Net gains/(losses) from debt securities and investment funds	(a)	359,235	(257,707)
Net foreign exchange gains/(losses)	(b)	7,164	(217,009)
Net losses from interest rate swap		(1,035)	-
Total		365,364	(474,716)

- (a) Net gains/(losses) from debt securities and funds include losses arising from the buying and selling of, net gains arising from and changes in the fair value of financial assets held for trading.
- (b) Net foreign exchange gains/(losses) mainly included losses from purchase and sale of foreign currency spot, changes in the fair value of foreign currency derivatives, and translation of foreign currency monetary assets and liabilities into Renminbi.

6 NET GAINS ARISING FROM INVESTMENTS

	2018	2017
Net gains from other debt instruments	2,064,880	541,866
Net gains from debt securities at fair value through other comprehensive income	125,444	4,607
Total	2,190,324	546,473

Notes to the Financial Statements

For the year ended 31 December 2018

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7 OTHER OPERATING INCOME

	2018	2017
Rental income	11,631	14,910
Government grants	16,738	82,499
Net gains on disposal of property and equipment	130	6,489
Others	32,466	66,155
Total	60,965	170,053

8 OPERATING EXPENSES

	Note	2018	2017
Staff costs			
– Salaries, bonuses and allowance		1,160,730	931,365
– Social insurance and annuity		245,223	202,510
– Supplementary retirement benefits		13,890	5,811
– Staff welfare		189,085	167,610
– Housing allowance		73,057	60,143
– Others		49,759	40,333
Sub-total		1,731,744	1,407,772
Depreciation and amortisation		301,903	261,677
Rental and property management expenses		229,157	202,789
Office expenses		73,598	90,764
Tax and surcharges		91,522	79,186
Other general and administrative expenses	(1)	787,826	710,920
Total		3,215,750	2,753,108

(1) Auditor's remunerations were RMB5.35 million for the year ended 31 December 2018 (2017: RMB3.60 million).

Notes to the Financial Statements

For the year ended 31 December 2018
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9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' 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	Note	Year ended 31 December 2018				
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax
Executive directors						
Wang Tianyu		-	984	914	228	2,126
Shen Xueqing		-	935	868	220	2,023
Feng Tao		-	886	822	160	1,868
Non-executive directors						
Fan Yutao		-	-	-	-	-
Zhang Jingguo		36	-	-	-	36
Liang Songwei		-	-	-	-	-
Ji Hongjun		36	-	-	-	36
Wang Shihao	(1)	172	-	-	-	172
Independent non-executive directors						
Xie Taifeng		180	-	-	-	180
Wu Ge		180	-	-	-	180
Chan Mei Bo, Mabel		180	-	-	-	180
Li Yanyan	(1)	75	-	-	-	75
Supervisors						
Zhao Lijuan		-	886	822	210	1,918
Song Ke		150	-	-	-	150
Zhu Zhihui		36	-	-	-	36
Ma Baojun	(1)	138	-	-	-	138
Cheng Jie	(1)	-	148	1,376	111	1,635
Li Huaibin	(1)	-	148	1,108	115	1,371
Former Non-executive directors						
Xu jingnan	(1)	18	-	-	-	18
Ma Jinwei	(1)	18	-	-	-	18
Yu Zhanglin	(1)	18	-	-	-	18

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Name	Note	Year ended 31 December 2018				Total emoluments before tax
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	
Former Independent non-executive directors						
Li Huaizhen	(1)	150	-	-	-	150
Former Supervisors						
Tang Yunwei	(1)	75	-	-	-	75
Meng Jun	(1)	18	-	-	-	18
Duan Ping	(1)	-	202	643	117	962
Zhang Chungge	(1)	-	95	690	121	906
Cui Huarui	(1)	-	186	1,406	147	1,739
Total		1,480	4,470	8,649	1,429	16,028

Name	Note	Year ended 31 December 2017				Total emoluments before tax
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	
Executive directors						
Wang Tianyu		-	917	2,017	210	3,144
Shen Xueqing		-	871	1,917	203	2,991
Feng Tao		-	825	1,733	98	2,656
Non-executive directors						
Fan Yutao		-	-	-	-	-
Ma Jinwei		36	-	-	-	36
Zhang Jingguo		36	-	-	-	36
Liang Songwei		-	-	-	-	-
Ji Hongjun		36	-	-	-	36
Yu Zhanglin		36	-	-	-	36
Xu Jingnan	(2)	6	-	-	-	6

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9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Name	Note	Year ended 31 December 2017					Total emoluments before tax
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.		
Independent non-executive directors							
Wang Shihao		180	-	-	-	-	180
Li Huaizhen		180	-	-	-	-	180
Xie Taifeng		180	-	-	-	-	180
Wu Ge		180	-	-	-	-	180
Chan Mei Bo, Mabel		180	-	-	-	-	180
Supervisors							
Zhao Lijuan		-	825	1,816	190	-	2,831
Tang Yunwei		150	-	-	-	-	150
Meng Jun		36	-	-	-	-	36
Duan Ping		-	194	341	101	-	636
Zhang Chungge		-	117	270	139	-	526
Song Ke	(2)	92	-	-	-	-	92
Zhu Zhihui		36	-	-	-	-	36
Cui Huarui		-	163	852	154	-	1,169
Former Supervisors							
Liu Yuhui	(2)	75	-	-	-	-	75
Xu Changsheng	(2)	138	-	-	-	-	138
Total		1,577	3,912	8,946	1,095		15,530

- (1) At the Bank's 2017 General Meeting held on 15 June 2018, Mr. Wang Shihao resigned as independent non-executive directors of the Bank and was elected as non-executive directors of the Bank; Ms. Li Yanyan was elected as independent non-executive directors of the Bank; Ms. Xu Jingnan, Mr. Ma Jinwei and Mr. Yu Zhanglin resigned as non-executive directors of the Bank; Ms. Meng Jun and Mr. Tang Yunwei, resigned as supervisors of the Bank. At the Bank's Employees' Representative Meeting held on 8 April 2018, Ms. Cheng Jie and Mr. Li Huaibin were elected as supervisors of the Bank; Ms. Duan Ping, Mr. Zhang Chungge and Ms. Cui Huarui resigned as supervisors of the Bank. At the Bank's Extraordinary General Meeting held on 19 January 2018, Mr. Ma Baojun was elected as supervisors of the Bank. On 19 October 2018, Mr. Li Huaizhen resigned as independent non-executive director of the Bank.

Notes to the Financial Statements

For the year ended 31 December 2018

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9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

- (2) At the Bank's 2016 General Meeting held on 19 May 2017, Ms. Xu Jingnan was elected as non-executive director of the Bank; Mr. Song Ke was elected as supervisor of the Bank and Mr. Liu Yuhui and Mr. Xu Changsheng resigned as supervisors of the Bank.

During the year, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2017: Nil).

During the year, no emolument was paid by the Group to any of the directors or supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office (2017: Nil).

The total compensation packages (including discretionary bonus) for executive directors and supervisors for the year ended 31 December 2018 have not yet been finalised. The amount of the compensation not provided is not expected to have any significant impact on the Group's consolidated financial statements for the year ended 31 December 2018.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with highest emoluments include 3 directors and 1 supervisor (2017: 2 directors and 1 supervisor) of the Group, whose emoluments are disclosed in Note 9. The emoluments for the other highest paid individual is as follows:

	2018	2017
Salaries and other emoluments	886	1,605
Discretionary bonuses	823	3,531
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	213	385
Total	1,922	5,521

The individual's emoluments before individual income tax is within the following bands:

	2018	2017
RMB 2,500,001-3,000,000	–	2
RMB 1,500,001-2,000,000	1	–
Total	1	2

Notes to the Financial Statements

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11 IMPAIRMENT LOSSES ON ASSETS

	2018	2017
Loans and advances to customers	3,449,971	1,744,274
Financial investments classified as loans and receivables	–	120,000
Financial investments measured at amortised cost	565,957	–
Financial investments at fair value through other comprehensive income	(207)	–
Finance lease receivables	165,373	85,028
Financial assets held under resale agreements	1,063	–
Placements with banks and other financial institutions	(352)	–
Deposits with banks and other financial institutions	(1,805)	–
Off-balance sheet credit commitments	(19,831)	–
Others	–	7,648
Total	4,160,169	1,956,950

12 INCOME TAX EXPENSE

(a) Income tax for the year:

	Note	2018	2017
Current tax		1,185,384	1,495,786
Deferred tax	23	(420,987)	(292,139)
Adjustment for prior years		(55,947)	10,076
Total		708,450	1,213,723

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2018	2017
Profit before tax		3,809,906	5,547,260
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		952,477	1,386,815
Non-deductible expenses		3,508	6,710
Non-taxable income	(1)	(193,558)	(189,878)
Tax effect of unrecognised tax losses		1,970	–
Adjustment for prior years		(55,947)	10,076
Income tax		708,450	1,213,723

(1) Non-taxable income consists of interest income from the PRC government bonds and share of profits of associates, which are exempted from income tax under the PRC tax regulations.

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13 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share of the Group is based on the following:

	Note	2018	2017
Earnings:			
Net profit attributable to equity shareholders of the Bank		3,058,831	4,280,024
Less: Profit for the year attributable to other equity instruments holders of the Bank		(502,343)	–
Profit for the year attributable to ordinary shareholders of the Bank		2,556,488	4,280,024
Shares:			
Weighted average number of ordinary shares (in thousand shares)	(a)	5,471,932	5,321,932
Basic and diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB)		0.47	0.80

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 thousand shares)

	2018	2017
Number of ordinary shares as at 1 January	5,321,932	5,321,932
Increase in weighted average number of ordinary shares	150,000	–
Weighted average number of ordinary shares	5,471,932	5,321,932

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14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2018	31 December 2017
Cash on hand		663,758	768,348
Deposits with central bank			
– Statutory deposit reserves	(a)	28,057,980	32,333,148
– Surplus deposit reserves	(b)	16,788,883	12,122,850
– Fiscal deposits		713,815	410,786
– Interest accrued		17	–
Sub-total		45,560,695	44,866,784
Total		46,224,453	45,635,132

- (a) The Bank and its subsidiaries place statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the relevant period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2018	31 December 2017
Reserve ratio for RMB deposits	11.0%	13.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business.

The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

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15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	1,843,680	1,253,477
– Other financial institutions	6,902	3,955
Sub-total	1,850,582	1,257,432
Deposits outside mainland China		
– Banks	304,901	3,466,217
Sub-total	304,901	3,466,217
Total	2,155,483	4,723,649
Interest accrued	1,609	–
Less: provision for impairment losses	(161)	–
Total	2,156,931	4,723,649

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	2,078,177	15,290,028
– Other financial institutions	1,600,000	–
Placements outside mainland China		
– Banks	83,449	7,500
Total	3,761,626	15,297,528
Interest accrued	7,449	–
Less: provision for impairment losses	(316)	–
Total carrying amount	3,768,759	15,297,528

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17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	400,769	1,355,000
– Other financial institutions	3,048,582	3,052,476
Total	3,449,351	4,407,476
Interest accrued	4,739	–
Less: provision for impairment losses	(1,965)	–
Total	3,452,125	4,407,476

(b) Analysed by type of collateral

	31 December 2018	31 December 2017
Debt securities	3,449,351	4,407,476
Interest accrued	4,739	–
Less: provision for impairment losses	(1,965)	–
Total	3,452,125	4,407,476

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18 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2018
Loans and advances to customers measured at amortised cost	
Corporate loans and advances	103,257,436
Personal loans and advances	
– Personal business loans	16,645,672
– Residential mortgage	16,265,454
– Personal consumption loans	7,114,105
– Auto loans	1,993,253
– Credit card	1,900,727
Sub-total	43,919,211
Total amount of loans and advances to customers measured at amortised cost	147,176,647
Loans and advances to customers measured at fair value through other comprehensive income	
– Corporate loans and advances – Forfeiting	4,604,345
– Discounted bills	7,791,800
Sub-total	12,396,145
Gross loans and advances to customers	159,572,792
Interest accrued	489,560
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(6,062,971)
Net loans and advances to customers	153,999,381

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysed by nature (Continued)

	31 December 2017
Corporate loans and advances	92,248,887
Personal loans and advances	
– Personal business loans	12,851,941
– Residential mortgage	10,240,718
– Personal consumption loans	8,827,773
– Auto loans	1,065,127
– Credit card	1,127,711
– Others	3
Sub-total	34,113,273
Discounted bills	2,094,318
Gross loans and advances to customers	128,456,478
Less: Provision for impairment losses	
– Individually assessed	(640,455)
– Collectively assessed	(3,360,081)
Total provision for impairment losses	(4,000,536)
Net loans and advances to customers	124,455,942

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18 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	36,467,388	22.85%	17,140,067
Real estate	18,098,412	11.34%	11,576,934
Manufacturing	14,407,170	9.03%	3,456,366
Construction	10,518,173	6.59%	5,225,623
Water, environment and public facility management	8,119,439	5.09%	3,114,050
Leasing and commercial services	5,994,122	3.76%	3,569,398
Production and supply of electric and heating power, gas and water	2,312,929	1.45%	484,900
Transportation, storage and postal services	1,927,392	1.21%	599,355
Agriculture, forestry, animal husbandry and fishery	1,876,474	1.18%	698,136
Accommodation and catering	1,477,051	0.92%	1,289,970
Mining	361,158	0.23%	80,000
Culture, sports and entertainment	287,210	0.18%	215,700
Others	6,014,863	3.77%	1,451,798
Sub-total of corporate loans and advances	107,861,781	67.60%	48,902,297
Personal loans and advances	43,919,211	27.52%	31,391,695
Discounted bills	7,791,800	4.88%	5,644,495
Gross loans and advances to customers	159,572,792	100.00%	85,938,487

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For the year ended 31 December 2018
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18 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	32,436,168	25.25%	18,549,333
Manufacturing	13,678,950	10.65%	3,367,390
Construction	11,951,304	9.30%	6,662,124
Real estate	9,991,443	7.78%	8,153,900
Leasing and commercial services	7,641,811	5.96%	4,526,957
Water, environment and public facility management	3,676,164	2.86%	2,951,976
Transportation, storage and postal services	2,385,529	1.86%	432,572
Agriculture, forestry, animal husbandry and fishery	2,292,170	1.78%	1,075,030
Production and supply of electric and heating power, gas and water	1,764,514	1.37%	71,930
Accommodation and catering	1,075,419	0.84%	806,320
Culture, sports and entertainment	382,080	0.30%	299,060
Public administration, public security and social organisations	327,500	0.25%	327,500
Mining	223,274	0.17%	97,300
Others	4,422,561	3.44%	635,060
Sub-total of corporate loans and advances	92,248,887	71.81%	47,956,452
Personal loans and advances	34,113,273	26.56%	24,015,679
Discounted bills	2,094,318	1.63%	1,890,255
Gross loans and advances to customers	128,456,478	100.00%	73,862,386

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	31 December 2018
Unsecured loans	20,781,632
Guaranteed loans	52,852,673
Collateral loans	
– Loans secured by tangible assets other than monetary assets	54,390,463
– Loans secured by intangible assets or monetary assets	31,548,024
Gross loans and advances to customers	159,572,792
Interest accrued	489,560
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(6,062,971)
Net loans and advances to customers	153,999,381
	31 December 2017
Unsecured loans	15,453,740
Guaranteed loans	39,140,352
Loans secured by tangible assets other than monetary assets	43,574,227
Loans secured by intangible assets or monetary assets	30,288,159
Gross loans and advances to customers	128,456,478
Less: Provision for impairment losses	
– Individually assessed	(640,455)
– Collectively assessed	(3,360,081)
Total provision for impairment losses	(4,000,536)
Net loans and advances to customers	124,455,942

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

	31 December 2018				
	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	Total
Unsecured loans	159,795	60,911	10,980	–	231,686
Guaranteed loans	1,800,337	1,689,914	854,083	254,175	4,598,509
Loans secured by tangible assets other than monetary assets	771,614	241,671	441,872	76,623	1,531,780
Loans secured by intangible assets or monetary assets	562,573	95,198	6,098	23,500	687,369
Total	3,294,319	2,087,694	1,313,033	354,298	7,049,344
As a percentage of gross loans and advances to customers	2.07%	1.31%	0.82%	0.22%	4.42%

	31 December 2017				
	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	Total
Unsecured loans	17,010	9,981	1,951	–	28,942
Guaranteed loans	2,433,907	1,828,957	823,073	–	5,085,937
Loans secured by tangible assets other than monetary assets	1,062,519	330,350	214,624	55,955	1,663,448
Loans secured by intangible assets or monetary assets	68,335	7,084	20,000	3,500	98,919
Total	3,581,771	2,176,372	1,059,648	59,455	6,877,246
As a percentage of gross loans and advances to customers	2.79%	1.69%	0.82%	0.05%	5.35%

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances and provision for impairment losses

	31 December 2018			
	Loans and advances that are assessed for 12-month ECL	Not credit-impaired loans and advances that are assessed for lifetime ECL	Credit-impaired loans and advances that are assessed for lifetime ECL	Total
Total loans and advances to customers measured at amortised cost	138,222,545	4,828,422	4,125,680	147,176,647
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(1,971,808)	(1,244,144)	(2,847,019)	(6,062,971)
Carrying amount of loans and advances to customers measured at amortised cost (excluding accrued interest)	136,250,737	3,584,278	1,278,661	141,113,676
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income (excluding accrued interest)	12,396,145	-	-	12,396,145
Total carrying amount of loans and advances to customers (excluding accrued interest)	148,646,882	3,584,278	1,278,661	153,509,821

	31 December 2017			Total
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances for which provision are collectively assessed		
Gross loans and advances to customers	126,530,792	308,013	1,617,673	128,456,478
Less: Provision for impairment losses	(3,219,578)	(140,503)	(640,455)	(4,000,536)
Net loans and advances to customers	123,311,214	167,510	977,218	124,455,942

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses

- (i) Movements of provision for impairment losses on loans and advances to customers measured at amortised cost:

	Provision for impairment losses
31 December 2017	4,000,536
Changes in accounting policies	327,748
1 January 2018	4,328,284

	31 December 2018			Total
	12-months ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	
As at 1 January 2018	1,534,700	656,690	2,136,894	4,328,284
Transferred:				
– to 12-months ECL	1,368	(1,368)	-	-
– to lifetime ECL not credit-impaired	(52,196)	52,353	(157)	-
– to lifetime ECL credit-impaired	(33,449)	(79,449)	112,898	-
Charge for the year	521,385	615,918	2,282,974	3,420,277
Write-offs	-	-	(1,779,584)	(1,779,584)
Recoveries of loans previously written off	-	-	93,994	93,994
As at 31 December 2018	1,971,808	1,244,144	2,847,019	6,062,971

	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	which are individually assessed	
As at 1 January	2,821,668	100,701	536,463	3,458,832
Charge for the year	383,866	533,915	909,967	1,827,748
Release for the year	-	-	(83,474)	(83,474)
Recoveries	-	21,320	77,160	98,480
Write-offs	-	(522,220)	(750,538)	(1,272,758)
Unwinding of discount	-	-	(55,551)	(55,551)
Acquisition of subsidiaries	14,044	6,787	6,428	27,259
As at 31 December	3,219,578	140,503	640,455	4,000,536

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18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses (Continued)

- (ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	31 December 2018			
	12-months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
As at 1 January 2018	4,711	-	-	4,711
Charge for the year	29,694	-	-	29,694
As at 31 December 2018	34,405	-	-	34,405

Provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are recognized in other comprehensive income, while the impairment losses are recognized in profit or loss. Besides, the carrying amount of the financial assets presented in the balance sheet are not reduced.

19 FINANCIAL INVESTMENTS

	Note	31 December 2018	31 December 2017
Financial investments at fair value through profit or loss	(a)	60,032,975	11,849,297
Financial investments at fair value through other comprehensive income	(b)	8,002,724	-
Financial investments measured at amortised cost	(c)	166,402,921	-
Available-for-sale financial assets	(d)	-	35,086,298
Held-to-maturity investments	(e)	-	59,267,821
Loans and receivables	(f)	-	116,470,830
Interest accrued		1,600,167	-
Total		236,038,787	222,674,246

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19 FINANCIAL INVESTMENTS (CONTINUED)

(a) Financial investments at fair value through profit or loss:

	Note	2018	2017
Debt securities			
– Debt securities held for trading purpose	(1)	15,766,512	2,151,565
Investment funds and other investments			
– Investment funds held for trading purpose		8,421,637	3,755,820
– Investment management products designated at fair value through profit or loss		–	5,941,912
– Other financial investments at fair value through profit or loss (under IFRS 9)	(2)	35,844,826	–
Total		60,032,975	11,849,297

(1) Debt securities held for trading purpose

	2018	2017
Mainland China		
– Government	6,803,756	734,722
– Policy banks	7,762,646	1,062,048
– Banks and other financial institutions	355,515	29,439
– Corporate	844,595	325,356
Total	15,766,512	2,151,565
Debt securities analysed into		
– Listed outside Hong Kong	7,389,146	1,060,078
– Unlisted	8,377,366	1,091,487
Total	15,766,512	2,151,565

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19 FINANCIAL INVESTMENTS (CONTINUED)

(a) Financial investments at fair value through profit or loss: (Continued)

(2) Other financial investments at fair value through profit or loss (under IFRS 9)

	31 December 2018
Other financial investments at fair value through profit or loss (under IFRS 9)	
– Investment management products managed by securities companies	18,160,278
– Investment management products under trust scheme	11,291,672
– Wealth management products	500,314
– Others	5,892,562
Total	35,844,826

(b) Financial investments at fair value through other comprehensive income

	31 December 2018 The Group
Debt instruments	
– Government	3,050,827
– Bank and other financial institutions	4,629,504
– Corporate	313,993
– Interest accrued	173,034
Sub-total	8,167,358
Equity instruments	8,400
Total	8,175,758
Debt instrument investment by category	
– Listed outside Hong Kong	3,474,207
– Unlisted	4,520,117
– Interest accrued	173,034
	8,167,358
Equity instrument investment by category	
– Listed outside Hong Kong	–
– Unlisted	8,400
	8,400

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19 FINANCIAL INVESTMENTS (CONTINUED)

(b) Financial investments at fair value through other comprehensive income (Continued)

Movements of provision for impairment of financial investments measured at fair value through other comprehensive income during the period:

	12-months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at the beginning of the year	832	-	-	832
Reversals during the year	(207)	-	-	(207)
Balance at the end of the year	625	-	-	625

Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses/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.

(c) Financial investments measured at amortised cost:

	Note	31 December 2018
Debt securities	(1)	53,037,488
Investment management products under the trust scheme		65,671,484
Investment management products managed by securities companies		30,651,556
Other beneficial right transaction plans		11,517,013
Others		7,252,000
Sub-total		168,129,541
Interest accrued		1,427,133
Less: Provision for impairment losses	(2)	(1,726,620)
Total	(i)	167,830,054

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19 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial investments measured at amortised cost: (Continued)

(1) Debt securities:

	31 December 2018
Debt securities	
– Government	19,016,219
– Policy banks	24,536,776
– Banks and other financial institutions	2,381,980
– Corporate	7,102,513
– Interest accrued	1,052,662
Total	54,090,150
Debt securities analysed into:	
– Listed outside Hong Kong	20,906,644
– Unlisted	32,130,844
– Interest accrued	1,052,662
Total	54,090,150

(2) Movements of provision for impairment of financial investments measured at amortised cost during the year:

	12-months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at the beginning of the year	763,134	335,562	61,967	1,160,663
Transferred:				
– to 12-months ECL	213,005	(213,005)	–	–
– to lifetime ECL not credit-impaired	(24,218)	24,218	–	–
– to lifetime ECL credit-impaired	(8,280)	(122,557)	130,837	–
(Reversal)/charge for the year	(66,804)	395,782	236,979	565,957
Balance at the end of the year	876,837	420,000	429,783	1,726,620

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19 FINANCIAL INVESTMENTS (CONTINUED)

(d) Available-for-sale financial assets

	Note	31 December 2017
Debt securities at fair value		
– Banks and other financial institutions		2,582,533
– Corporate		217,298
Sub-total	(1)	2,799,831
Other debt investment		
– Unlisted	(2)	32,278,067
Equity investment at cost		
– Unlisted	(3)	8,400
Total		35,086,298

(1) All of debt securities are unlisted.

(2) Other unlisted debt investment mainly includes wealth management products issued by other banks, investment management products under trust scheme, investment management products issued by securities companies, etc.

(3) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment.

(e) Held-to-maturity investments

	Note	31 December 2017
Debt securities		
– Government		19,442,671
– Policy banks		29,191,123
– Banks and other financial institutions		3,671,284
– Corporate		6,962,743
Total		59,267,821
Debt securities analysed into:		
– Listed outside Hong Kong		22,274,859
– Unlisted		36,992,962
Total		59,267,821

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19 FINANCIAL INVESTMENTS (CONTINUED)

(f) Loans and receivables

	Note	31 December 2017
Investment management products under trust scheme		68,114,620
Investment management products managed by securities companies		31,714,643
Factoring and finance lease beneficial interest plan		14,484,280
Others		2,797,300
Sub-total		117,110,843
Less: Provision for impairment losses		
– Individually assessed		(81,561)
– Collectively assessed		(558,452)
Total provision for impairment losses	(1)	(640,013)
Total		116,470,830

(1) Movements of provision for impairment losses

	31 December 2017
As at January 1	520,013
Charge for the year	120,000
As at December 31	640,013

20 FINANCE LEASE RECEIVABLES

	31 December 2018	31 December 2017
Minimum finance lease receivables	15,336,631	11,877,206
Less: Unearned finance lease income	(1,382,456)	(1,226,451)
Present value of finance lease receivables	13,954,175	10,650,755
Interest accrued	105,345	–
Less: Provision for impairment losses	(348,854)	(159,761)
Total	13,710,666	10,490,994

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20 FINANCE LEASE RECEIVABLES (CONTINUED)

- (a) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2018			31 December 2017		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	6,165,509	(769,081)	5,396,428	3,573,591	(532,263)	3,041,328
1 year to 2 years	5,262,473	(406,557)	4,855,916	3,184,374	(366,442)	2,817,932
2 years to 3 years	3,004,304	(150,090)	2,854,214	2,807,206	(218,393)	2,588,813
3 years to 5 years	674,268	(44,829)	629,439	2,280,440	(102,727)	2,177,713
More than 5 years	230,077	(11,899)	218,178	31,595	(6,626)	24,969
	15,336,631	(1,382,456)	13,954,175	11,877,206	(1,226,451)	10,650,755

- (b) Movements of provision for impairment losses

	31 December 2018			
	12-months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
As at 31 December 2017	159,761	-	-	159,761
Change in accounting policy	18,264	-	-	18,264
As at 1 January 2018	178,025	-	-	178,025
Transferred:				
- to lifetime ECL not credit-impaired	(7,274)	7,274	-	-
Charge for the year	42,487	122,886	-	165,373
Transfer from other assets	5,456	-	-	5,456
As at 31 December 2018	218,694	130,160	-	348,854

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20 FINANCE LEASE RECEIVABLES (CONTINUED)

(b) Movements of provision for impairment losses (Continued)

	Year ended 31 December 2017			Total
	Provision for finance lease receivables which are collectively assessed	Provision for impaired finance lease receivables		
		which are collectively assessed	which are individually assessed	
As at 1 January 2017	57,789	–	–	57,789
Charge for the year	85,028	–	–	85,028
Transfer from other assets	16,944	–	–	16,944
As at 31 December 2017	159,761	–	–	159,761

21 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES

(a) Investment in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

Name	Percentage of equity interest		Voting rights 2018 %	Paid-in capital 2018	Amount invested by the Bank	Place of incorporation registration	Principal activity
	2018 %	2017 %					
Fugou Zhengyin County Bank Co., Ltd.	50.20	50.20	50.20	60,000.00	30,120.00	China	Banking
Xinmi Zhengyin County Bank Co., Ltd.	51.20	51.20	51.20	125,000.00	74,033.00	China	Banking
Henan Jiuding Financial Leasing Co., Ltd.	51.00	51.00	51.00	2,000,000.00	1,020,000.00	China	Leasing
Xunxian Zhengyin County Bank Co., Ltd.	51.00	51.00	51.00	50,000.00	25,500.00	China	Banking
Queshan Zhengyin County Bank Co., Ltd.	51.00	51.00	51.00	50,000.00	25,500.00	China	Banking

Fugou Zhengyin County Bank Co., Ltd. was incorporated on 3 December 2015. Henan Jiuding Financial Leasing Co., Ltd. was incorporated on 23 March 2016. Xunxian Zhengyin County Bank Co., Ltd. was incorporated on 6 November 2017. Queshan Zhengyin County Bank Co., Ltd. was incorporated on 14 November 2017. Xinmi Zhengyin County Bank Co., Ltd. became a subsidiary of the Bank since 1 January 2017, the Bank held 51.20% Xinmi Zhengyin County Bank Co., Ltd.'s equity interest. The five subsidiaries have no material non-controlling interest to the Group.

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21 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (CONTINUED)

(b) Interest in associates

	31 December 2018	31 December 2017
Interest in associates	321,081	280,191
Total	321,081	280,191

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price are not available:

Name	Note	Percentages of equity/ voting rights %		Place of incorporation/ registration	Business sector
		2018	2017		
Zhongmu Zhengyin County Bank Co., Ltd.	(1)	18.53	18.53	China	Banking
Yanling Zhengyin County Bank Co., Ltd.		30.00	30.00	China	Banking
Xinzheng Zhengyin County Bank Co., Ltd.		25.00	25.00	China	Banking

(1) The Group has representation on the board of directors of Zhongmu Zhengyin County Bank Co., Ltd., and has significant influence over it.

The following table illustrates the aggregate information of the Group's associates that are not individually material:

	31 December 2018	31 December 2017
Aggregate carrying amount of the individually immaterial associates in the consolidated statements of financial position of the Group	321,081	280,191
Aggregate amounts of the Group's share of results of the associates		
– Profit from continuing operations	52,170	44,333
– Other comprehensive income	–	–
– Total comprehensive income	52,170	44,333

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22 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at 1 January 2017	1,407,600	465,734	14,383	200,280	136,074	2,224,071
Additions	167,425	84,344	920	39,462	10,950	303,101
Disposals	-	(6,434)	(2,193)	(5,010)	-	(13,637)
As at 31 December 2017	1,575,025	543,644	13,110	234,732	147,024	2,513,535
Additions	317,856	93,372	2,251	28,876	30,043	472,398
Disposals	-	(7,102)	(1,255)	(797)	-	(9,154)
As at 31 December 2018	1,892,881	629,914	14,106	262,811	177,067	2,976,779
Accumulated depreciation						
As at 1 January 2017	(165,345)	(240,314)	(11,373)	(104,045)	-	(521,077)
Additions	(44,065)	(92,186)	(1,674)	(50,026)	-	(187,951)
Disposals	-	6,097	2,084	4,642	-	12,823
As at 31 December 2017	(209,410)	(326,403)	(10,963)	(149,429)	-	(696,205)
Additions	(50,000)	(104,581)	(747)	(48,355)	-	(203,683)
Disposals	-	6,541	1,193	729	-	8,463
As at 31 December 2018	(259,410)	(424,443)	(10,517)	(197,055)	-	(891,425)
Impairment						
As at 1 January 2017/ 31 December 2017/31						
December 2018	(1,355)	(1,893)	-	(756)	-	(4,004)
Net book value						
As at 31 December 2017	1,364,260	215,348	2,147	84,547	147,024	1,813,326
As at 31 December 2018	1,632,116	203,578	3,589	65,000	177,067	2,081,350

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22 PROPERTY AND EQUIPMENT (CONTINUED)

The carrying amount of premises without title deeds as at 31 December 2018 was RMB122 million (31 December 2017: RMB127 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The Group expected that there would be no significant cost 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		
– Medium-term leases (10–50 years)	1,627,951	1,359,249
– Short-term leases (less than 10 years)	4,165	5,011
Total	1,632,116	1,364,260

23 DEFERRED TAX ASSETS

(a) Analysed by nature

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible temporary differences	Deferred income tax assets
Allowance for impairment losses	8,016,396	2,004,099	4,662,721	1,165,680
Accrued staff costs	184,780	46,195	201,222	50,306
Fair value changes in financial instruments	(565,980)	(141,495)	157,704	39,426
Provisions	236,820	59,205	59,417	14,854
Cumulative tax losses of the subsidiary	–	–	599	150
Others	(80,868)	(20,217)	–	–
Net deferred income tax assets	7,791,148	1,947,787	5,081,663	1,270,416

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23 DEFERRED TAX ASSETS (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
Allowance for impairment losses	1,165,680	190,566	1,356,246	647,853	-	2,004,099
Accrued staff costs	50,306	-	50,306	(1,405)	(2,706)	46,195
Fair value changes in financial instruments	39,426	40,056	79,482	(207,508)	(13,469)	(141,495)
Provisions	14,854	49,309	64,163	(4,958)	-	59,205
Cumulative tax losses of the subsidiary	150	-	150	(150)	-	-
Others	-	-	-	(20,217)	-	(20,217)
Net deferred income tax assets	1,270,416	279,931	1,550,347	413,615	(16,175)	1,947,787

	At 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2017
Allowance for impairment losses	900,510	265,170	-	1,165,680
Accrued staff costs	53,910	(3,721)	117	50,306
Fair value changes in financial instruments	(395)	31,319	8,502	39,426
Provisions	14,260	594	-	14,854
Cumulative tax losses of the subsidiary	1,373	(1,223)	-	150
Net deferred income tax assets	969,658	292,139	8,619	1,270,416

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24 OTHER ASSETS

	Note	31 December 2018	31 December 2017
Interest receivables	(a)	149,868	2,539,516
Prepayments		797,967	1,269,447
Intangible assets	(b)	739,542	537,171
Leasehold improvements		138,261	107,913
Other receivables		406,232	353,718
Sub-total		2,231,870	4,807,765
Less: allowance for impairment losses		(22,323)	(27,778)
Total		2,209,547	4,779,987

(a) Interest receivables

	31 December 2018	31 December 2017
Interest receivables arising from:		
– Investments	71,170	1,893,572
– Loans and advances to customers	57,318	338,886
– Others	21,380	307,058
Sub-total	149,868	2,539,516
Less: allowance for impairment losses	(19,397)	(19,397)
Total	130,471	2,520,119

As at 31 December 2018, Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

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24 OTHER ASSETS (CONTINUED)

(b) Intangible assets

	2018	2017
Cost		
As at 1 January	650,340	229,521
Additions	246,768	420,819
As at 31 December	897,108	650,340
Accumulated amortisation		
As at 1 January	(113,169)	(82,471)
Additions	(44,397)	(30,698)
As at 31 December	(157,566)	(113,169)
Impairment		
As at 1 January	(145)	(145)
As at 31 December	(145)	(145)
Net book value		
As at 1 January	537,026	146,905
As at 31 December	739,397	537,026

25 DUE TO CENTRAL BANK

	31 December 2018	31 December 2017
Due to central bank	4,133,700	1,599,550
Interest accrued	62,494	-
Total	4,196,194	1,599,550

Due to central bank mainly includes Medium-term Lending Facility.

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26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In mainland China		
– Banks	26,828,158	28,300,298
– Other financial institutions	290,226	634,068
– Interest accrued	280,281	–
Total	27,398,665	28,934,366

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In mainland China		
– Banks	12,878,309	22,348,389
– Other financial institutions	200,000	–
Outside mainland China		
– Banks	370,481	–
Interest accrued	204,098	–
Total	13,652,888	22,348,389

28 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative contracts mainly including currency swaps, options, interest rate swaps, and non-deliverable forwards.

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.

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28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional amount and fair value of unexpired derivative financial instruments held by the Group are set out in the following tables:

	31 December 2018		
	Notional amount	Fair value (assets)	Fair value (liabilities)
– Currency swap contracts	3,019,808	164,337	–
– Currency option contracts	3,431,600	–	(37,976)
– Interest rate swap contracts	200,000	–	(525)
– Non-deliverable forwards	10,294,800	67,214	–
Total	16,946,208	231,551	(38,501)

	31 December 2017		
	Notional amount	Fair value (assets)	Fair value (liabilities)
In mainland China			
– Currency swap contracts	653,420	–	(11,296)
– Currency option contracts	3,201,758	–	(21,014)
Total	3,855,178	–	(32,310)

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– PBOC	3,080,000	8,480,000
– Banks	15,866,280	5,605,500
– Interest accrued	9,853	–
Total	18,956,133	14,085,500

(b) Analysed by type of collateral

	31 December 2018	31 December 2017
Debt securities	18,946,280	14,085,500
Interest accrued	9,853	–
Total	18,956,133	14,085,500

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30 DEPOSITS FROM CUSTOMERS

	31 December 2018	31 December 2017
Demand deposits		
– Corporate deposits	82,621,581	88,514,651
– Personal deposits	19,547,870	19,805,658
Sub-total	102,169,451	108,320,309
Time deposits		
– Corporate deposits	83,458,939	79,850,838
– Personal deposits	60,168,717	47,757,459
Sub-total	143,627,656	127,608,297
Pledged deposits		
– Acceptances	13,733,716	16,095,350
– Letters of guarantees	1,164,076	1,365,111
– Letters of credit	1,892,027	674,149
– Others	1,081,482	1,024,677
Sub-total	17,871,301	19,159,287
Others	462,526	319,505
Sub-total	462,526	319,505
Interest accrued	3,627,272	–
Total	267,758,206	255,407,398

Deposits from customers are measured at amortised cost.

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31 DEBT SECURITIES ISSUED

	Note	31 December 2018	31 December 2017
Financial bonds	(a)	2,997,817	5,596,521
Tier-two capital bonds	(b)	6,997,739	6,997,457
Interbank deposits		83,527,505	60,576,082
Interest accrued		125,958	–
Total		93,649,019	73,170,060

(a) Financial bonds

Fixed rate green financial bonds of RMB3.0 billion with a term of three years was issued in September 2017. The coupon rate is 4.70% per annum.

(b) Tier-two capital bonds

Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in March 2017. The coupon rate is 4.80% per annum.

Fixed rate tier-two capital bonds of RMB3.0 billion with a term of ten years were issued in December 2016. The coupon rate is 4.10% per annum.

Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in December 2014. The coupon rate is 5.73% per annum.

32 OTHER LIABILITIES

	Note	31 December 2018	31 December 2017
Interest payable	(a)	–	4,434,703
Accrued staff costs	(b)	437,413	363,897
Finance lease payable		782,971	413,679
Dormant accounts		61,978	80,776
Payment and collection clearance accounts		182,678	52,357
Dividend payable		24,327	24,327
Expected credit losses of credit commitment	(c)	236,822	59,417
Others		474,372	716,655
Total		2,200,561	6,145,811

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32 OTHER LIABILITIES (CONTINUED)

(a) Interest payable

	31 December 2018	31 December 2017
Interest payable arising from:		
– Deposits from customers	–	3,401,054
– Deposits and placements from banks and other financial institutions	–	798,630
– Debt securities issued	–	202,918
– Financial assets sold under repurchase agreements	–	30,648
– Due to central bank	–	1,453
Total	–	4,434,703

As at 31 December 2018, Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Accrued staff costs

	Note	31 December 2018	31 December 2017
Salary, bonuses and allowances payable		250,318	159,969
Staff welfare		562	–
Social insurance and annuity payable		106	746
Housing allowances payable		19	61
Labor union fee, staff and workers' education fee		1,628	1,899
Supplementary retirement benefits payable	(1)	184,780	201,222
Total		437,413	363,897

(1) Supplementary retirement benefits ("SRB")

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits payments is provided 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 supplementary retirement plan is provided to the Group's eligible employees.

The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Mercer Consulting (China) Ltd.

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32 OTHER LIABILITIES (CONTINUED)

(b) Accrued staff costs (Continued)

(1) Supplementary retirement benefits ("SRB") (Continued)

(i) The balances of supplementary retirement benefits of the Group are as follows:

	31 December 2018	31 December 2017
Present value of early retirement plan	25,152	29,527
Present value of supplementary retirement plan	159,628	171,695
Total	184,780	201,222

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	2018	2017
As at 1 January	201,222	215,640
Benefits paid during the year	(19,504)	(20,701)
Defined benefit cost recognised in profit or loss	13,890	5,811
Defined benefit cost recognised in other comprehensive income	(10,828)	472
As at 31 December	184,780	201,222

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32 OTHER LIABILITIES (CONTINUED)

(b) Accrued staff costs (Continued)

(1) Supplementary retirement benefits ("SRB") (Continued)

(iii) Key actuarial assumptions of the Group are as follows:

Early retirement plan	31 December 2018	31 December 2017
Discount rate	2.70%	3.80%
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	8.00%	8.00%

Supplementary retirement plan	31 December 2018	31 December 2017
Discount rate	3.50%	4.20%
Retired age		
– Male	60	60
– Female	55	55

Death rate for age 20–105	31 December 2018	31 December 2017
– Male	0.0248%–100%	0.0248%–100%
– Female	0.012%–100%	0.012%–100%

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32 OTHER LIABILITIES (CONTINUED)

(c) Expected credit losses of credit commitment

As at 31 December 2018, movements of expected credit losses of credit commitment during the year are as follows:

	Expected credit losses of credit commitment
31 December 2017	59,417
Changes in accounting policies	197,236
1 January 2018	256,653

	31 December 2018			
	12-months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
As at 1 January 2018	255,378	123	1,152	256,653
Transferred:				
– to 12-months ECL	153	(49)	(104)	–
– to lifetime ECL not credit-impaired	(14)	14	–	–
– to lifetime ECL credit-impaired	(2)	(54)	56	–
Charge for the year	(29,589)	219	9,539	(19,831)
As at 31 December 2018	225,926	253	10,643	236,822

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33 SHARE CAPITAL

Authorised and issued share capital

	31 December 2018	31 December 2017
Ordinary shares in Mainland China	–	3,803,932
Ordinary shares listed in Mainland China (A-share)	4,403,932	–
Ordinary shares listed in Hong Kong (H-share)	1,518,000	1,518,000
Total	5,921,932	5,321,932

In December 2015, the Bank issued 1,200 million H-shares with a par value of RMB1 at an offering price of HKD3.85 per share (the “H-share offering”). The premium arising from the H-share offering amounting to RMB2,562 million was recorded in capital reserve. Immediately following the H-share offering, 120 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

In January 2016, the Bank issued 180 million H-shares (H-shares’ over-allotment option) with a par value of RMB1 at an offering price of HKD3.85 per share. The premium arising from the offering amounting to RMB392 million was recorded in capital reserve.

In September 2018, the Bank issued 600 million A-shares with a par value of RMB1 at an offering price of RMB4.59 per share (the “A-share offering”). The premium arising from the A-share offering amounting to RMB2,109 million was recorded in capital reserve.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited since 20 January 2016. The H-shares rank pari passu in all respects with the existing A-share listed in Mainland China including the right to receive all dividends and distributions declared or made.

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34 RESERVES

(a) Capital reserve

	31 December 2018	31 December 2017
Share premium	5,099,040	2,990,254
Others	64,615	64,615
Total	5,163,655	3,054,869

(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 of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP 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 appropriated an amount of RMB301 million to the statutory surplus reserve fund for the year of 2018 (2017: RMB422 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

With effect from 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The Bank and its subsidiaries appropriated an amount of RMB350 million to the general reserve fund for the year of 2018 (2017: RMB993 million).

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34 RESERVES (CONTINUED)

(d) Fair value reserve

	Fair value reserve	
31 December 2017		(22,667)
Changes in accounting policy		(1,266)
1 January 2018		(23,933)
	2018	2017
As at 1 January	(23,933)	2,841
Change in fair value recognised in other comprehensive income	87,000	(1,751)
Transfer to profit or loss upon disposal	(3,636)	(32,259)
Less: deferred income tax	(20,841)	8,502
Sub-total	62,523	(25,508)
As at 31 December	38,590	(22,667)

(e) Remeasurement of net defined benefit liability

Remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2018	2017
As at 1 January	(52,614)	(52,259)
Remeasurement of net defined benefit liability	10,828	(472)
Less: deferred income tax	(2,706)	117
Sub-total	8,122	(355)
As at 31 December	(44,492)	(52,614)

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34 RESERVES (CONTINUED)

(f) Movements in components of equity

The reconciliation between the opening and closing balances 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 year are set out below:

The Bank

Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2018	5,321,932	7,825,508	3,054,927	2,054,756	5,463,200	(22,667)	(52,614)	8,452,444	32,097,486
Changes in accounting policies	-	-	-	-	-	(1,266)	-	(824,826)	(826,092)
Balance at 1 January 2018 Adjusted	5,321,932	7,825,508	3,054,927	2,054,756	5,463,200	(23,933)	(52,614)	7,627,618	31,271,394
Profit for the year	-	-	-	-	-	-	-	3,014,583	3,014,583
Other comprehensive income	-	-	-	-	-	61,953	8,122	-	70,075
Total comprehensive income	-	-	-	-	-	61,953	8,122	3,014,583	3,084,658
Changes in share capital - Share capital invested by A-share holders	600,000	-	2,108,786	-	-	-	-	-	2,708,786
Sub-total	600,000	-	2,108,786	-	-	-	-	-	2,708,786
Appropriation of profit: - Appropriation to surplus reserve 34(b)	-	-	-	301,458	-	-	-	(301,458)	-
- Appropriation to general reserve 34(c)	-	-	-	-	350,000	-	-	(350,000)	-
- Cash dividend on preference shares 35	-	-	-	-	-	-	-	(502,343)	(502,343)
Sub-total	-	-	-	301,458	350,000	-	-	(1,153,801)	(502,343)
Balance at 31 December 2018	5,921,932	7,825,508	5,163,713	2,356,214	5,813,200	38,020	(44,492)	9,488,400	36,562,495

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For the year ended 31 December 2018
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34 RESERVES (CONTINUED)

(f) Movements in components of equity (Continued)

The Bank (Continued)

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2017		5,321,932	-	3,054,204	1,632,893	4,513,200	2,841	(52,259)	6,776,506	21,249,317
Profit for the year		-	-	-	-	-	-	-	4,218,626	4,218,626
Other comprehensive income		-	-	-	-	-	(25,508)	(355)	-	(25,863)
Total comprehensive income		-	-	-	-	-	(25,508)	(355)	4,218,626	4,192,763
Changes in share capital										
- Share capital invested by other equity instrument holders	36	-	7,825,508	-	-	-	-	-	-	7,825,508
- Others		-	-	723	-	-	-	-	-	723
Sub-total		-	7,825,508	723	-	-	-	-	-	7,826,231
Appropriation of profit:										
- Appropriation to surplus reserve	34(b)	-	-	-	421,863	-	-	-	(421,863)	-
- Appropriation to general reserve	34(c)	-	-	-	-	950,000	-	-	(950,000)	-
- Cash dividend	35	-	-	-	-	-	-	-	(1,170,825)	(1,170,825)
Sub-total		-	-	-	421,863	950,000	-	-	(2,542,688)	(1,170,825)
Balance at 31 December 2017		5,321,932	7,825,508	3,054,927	2,054,756	5,463,200	(22,667)	(52,614)	8,452,444	32,097,486

Notes to the Financial Statements

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35 PROFIT DISTRIBUTION

(a) Dividends for Ordinary Shares

In accordance with the resolution of the Bank's board of directors meeting held on 28 March 2019, cash dividends of RMB1.5 per ten shares before tax and in an aggregation amount of approximately RMB888 million to all existing A and H shareholders for the year ended 31 December 2018 has been proposed.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

(b) Dividends for Preference Shares

As per the resolution and authorization of the General Meeting, the Bank reviewed and approved the Proposal on Distribution of Dividends for Preference Shares at the meeting of its Board of Directors on 9 October 2018, permitting the Bank to distribute the dividends on the Bank's offshore preference shares on 18 October 2018.

Dividends on the Bank's offshore preference shares are paid annually in cash, and calculated based on the aggregate value of the offshore preference shares. Dividends on the offshore preference shares are non-cumulative. Holders of offshore preference shares are only entitled to dividends at the prescribed dividend rate, but are not entitled to any distribution of residual profits of the Bank together with the holders of ordinary shares. According to the dividend distribution plan in the offshore preference share issuance proposal, the Bank distributed a dividend of USD72.78 million, aggregating to RMB502.34 million at the rate on dividend declared date. In practice, the dividend was distributed in the currency of the preference share. According to relevant laws, when the Bank distributes dividends for offshore preference shares, the enterprise income tax shall be withheld by the Bank at a rate of 10%. According to the requirements of the terms and conditions of the offshore preference shares, the Bank shall pay the relevant taxes, in addition to the dividends for offshore preference shares.

36 OTHER EQUITY INSTRUMENTS

(a) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore Preference Shares	2017/10/18	Equity	5.50%	USD20/ share	59,550,000	1,191	7,860	None	Mandatory conversion trigger events
Less: issuing cost							(34)		
Book value							7,826		

Notes to the Financial Statements

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

36 OTHER EQUITY INSTRUMENTS (CONTINUED)

(b) Main clause

(1) *Dividend*

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate.

The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

(2) *Dividend accumulation*

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

(3) *Distribution of residual profits*

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS (CONTINUED)

(b) Main clause (Continued)

(4) *Mandatory conversion trigger events*

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the CBIRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(5) *Conditional redemption*

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the CBIRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares.

The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

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37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Cash on hand	663,758	768,348
Surplus deposit reserves with central bank	16,788,883	12,122,850
Deposits with banks and other financial institutions with original maturity of three months or less	1,684,322	4,598,622
Placements with banks and other financial institutions with original maturity of three months or less	3,384,151	1,764,234
Total	22,521,114	19,254,054

(b) Information on acquisition of a subsidiary during the year:

	2018	2017
Cash and cash equivalents paid during the year for acquiring a subsidiary	-	3,465
Less: Cash and cash equivalents held by acquired subsidiary	-	(71,901)
Net proceeds from acquisition of a subsidiary	-	(68,436)

Notes to the Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Liabilities			Equity				Total
	Debt securities issued (interest not included)	Interest payable arising from debt securities issued	Dividend payable	Share capital and capital reserve	Other equity instruments	Retained earnings	Non-controlling interests	
Balance as at 1 January 2018	73,170,060	202,918	24,327	8,376,801	7,825,508	8,503,783	1,233,478	99,336,875
Cash flows from financing activities								
Proceeds received from issuance of A-share	-	-	-	2,708,786	-	-	-	2,708,786
Proceeds received from debt securities issued	111,834,858	-	-	-	-	-	-	111,834,858
Interest paid on debt securities issued	66,351	(76,960)	-	-	-	(3,469,401)	-	(3,480,010)
Repayment of debt securities issued	(91,548,208)	-	-	-	-	-	-	(91,548,208)
Dividends paid on preference shares	-	-	-	-	-	(502,343)	-	(502,343)
Net cash flows generated from financing activities	20,353,001	(76,960)	-	2,708,786	-	(3,971,744)	-	19,013,083
Total equity-related other change	-	-	-	-	-	4,985,973	(19,718)	4,966,255
Balance at 31 December, 2018	93,523,061	125,958	24,327	11,085,587	7,825,508	9,518,012	1,213,760	123,316,213

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37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities: (Continued)

	Liabilities			Equity				Total
	Debt securities issued (interest not included)	Interest payable arising from debt securities issued	Dividend payable	Share capital and capital reserve	Other equity instruments	Retained earnings	Non-controlling interests	
Balance as at 1 January, 2017	44,660,446	82,372	23,373	8,376,136	-	6,808,978	564,997	60,516,302
Cash flows from financing activities								
Proceeds received from issuance of preference shares	-	-	-	-	7,825,508	-	-	7,825,508
Capital contribution by non-controlling interests	-	-	-	-	-	-	552,750	552,750
Proceeds received from debt securities issued	103,216,337	-	-	-	-	-	-	103,216,337
Interest paid on debt securities issued	702,160	120,546	-	-	-	(2,760,788)	-	(1,938,082)
Repayment of debt securities issued	(75,408,883)	-	-	-	-	-	-	(75,408,883)
Dividends paid	-	-	1,479	-	-	(1,170,825)	-	(1,169,346)
Net cash flows generated from financing activities	28,509,614	120,546	1,479	-	7,825,508	(3,931,613)	552,750	33,078,284
Effect of foreign exchange rate changes on cash and cash equivalents	-	-	(525)	-	-	-	-	(525)
Total equity-related other change	-	-	-	665	-	5,626,418	115,731	5,742,814
Balance at 31 December, 2017	73,170,060	202,918	24,327	8,376,801	7,825,508	8,503,783	1,233,478	99,336,875

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38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding.

Shareholding in the Bank:

	31 December 2018	31 December 2017
Zhengzhou Finance Bureau	8.29%	9.22%

(ii) Subsidiaries and associates of the Bank

The detailed information of the Bank's subsidiaries and associates 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 38 (a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Bank (Note 32(b)).

(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 with major shareholders

	31 December 2018	31 December 2017
Balances at the end of the year:		
Deposits from customers	23,203	190,355
Interest payable	–	20
Other liabilities	64,285	64,285

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38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(i) Transactions with major shareholders (Continued)

	2018	2017
Transactions during the year:		
Interest expense	652	892

(ii) Transactions with subsidiaries

	31 December 2018	31 December 2017
Balances at the end of the year:		
Deposits from banks and other financial institutions	399,840	278,519
Interest payable	-	341

	2018	2017
Transactions during the year:		
Interest income	-	2,306
Interest expense	14,655	23,169

The above balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(iii) Transactions with associates

	31 December 2018	31 December 2017
Balances at the end of the year		
Deposits/placements with banks and other financial institutions	50,992	100,909
Interest receivables	-	151
Deposits/placements from banks and other financial institutions	1,265,155	319,997
Interest payable	-	355

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38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) Transactions with associates (Continued)

	2018	2017
Transactions during the year:		
Interest income	3,198	2,053
Interest expense	6,625	887

(iv) Transactions with other major related parties

	31 December 2018	31 December 2017
Balances at the end of the year:		
Loans and advances to customers	2,554,752	3,803,531
Financial investments measured at amortised cost	4,340,365	-
Financial investments at fair value through profit or loss	532,226	-
Financial investments classified as loans and receivables	-	3,697,000
Interest receivables	-	34,777
Deposits from customers	4,122,233	8,642,052
Deposits/placements from banks and other financial institutions	266,799	252,526
Interest payable	-	14,717
	2018	2017
Transactions during the year:		
Interest income	400,973	398,589
Interest expense	53,504	78,618

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38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

(i) Transactions with key management personnel

	31 December 2018	31 December 2017
Balances at the end of the year:		
Loans and advances to customers	14,032	13,076
Interest receivables	-	10
Deposits from customers	25,408	14,170
Interest payable	-	22

	2018	2017
Transactions during the year:		
Interest income	1,439	584
Interest expense	407	125

(ii) Key management personnel remuneration

	2018	2017
Salaries and other emoluments	13,918	12,743
Discretionary bonuses	28,196	25,149
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	3,312	2,812
Total	45,426	40,704

No post-employment benefits, termination benefits or other long-term benefits were provided to key management personnel for the year ended 31 December 2018 and 31 December 2017.

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38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

(iii) Loans to key officers

Loans and advances to directors, supervisors and officers of the Bank, which are disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), are as follows:

	31 December 2018	31 December 2017
Aggregate amount of relevant loans outstanding as at the year end	14,032	13,076
Maximum aggregate amount of relevant loans outstanding during the year	17,632	24,099

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at 31 December 2018 (2017: Nil).

39 SEGMENT REPORTING

(a) Business Segment

The Group manages its business by business lines. 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 finance and deposit taking activities, financial leasing, 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

For the year ended 31 December 2018
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39 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Treasury business

This segment covers the Group's treasury business including interbank money market transactions, repurchases transactions and investments. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

Others

These 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

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39 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	Year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	2,863,458	1,099,075	2,680,150	-	6,642,683
Internal net interest income/(expense)	858,902	407,693	(1,266,595)	-	-
Net interest income	3,722,360	1,506,768	1,413,555	-	6,642,683
Net fee and commission income	400,867	83,587	1,389,865	-	1,874,319
Net trading gains	-	-	365,364	-	365,364
Net gains/(losses) arising from investments	49,037	-	2,148,108	(6,821)	2,190,324
Other operating income	-	-	-	60,965	60,965
Operating income	4,172,264	1,590,355	5,316,892	54,144	11,133,655
Operating expenses	(1,321,178)	(711,207)	(1,182,929)	(436)	(3,215,750)
Impairment losses on assets	(2,851,061)	(744,452)	(564,656)	-	(4,160,169)
Operating profit	25	134,696	3,569,307	53,708	3,757,736
Share of profits of associates	-	-	-	52,170	52,170
Profit before taxation	25	134,696	3,569,307	105,878	3,809,906
Other segment information					
Depreciation and amortisation	140,711	110,929	50,263	-	301,903
Capital expenditure	332,712	180,569	292,913	2,407	808,601

Notes to the Financial Statements

For the year ended 31 December 2018
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39 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	157,319,884	57,840,402	247,604,846	1,429,499	464,194,631
Deferred tax assets					1,947,787
Total assets					466,142,418
Segment liabilities/Total liabilities	184,959,359	83,126,962	158,512,376	1,680,222	428,278,919
Credit commitments	81,456,788	1,778,943	-	-	83,235,731

	Year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	2,862,457	765,753	4,477,832	-	8,106,042
Internal net interest income/(expense)	855,109	525,148	(1,380,257)	-	-
Net interest income	3,717,566	1,290,901	3,097,575	-	8,106,042
Net fee and commission income	598,545	77,997	1,188,591	-	1,865,133
Net trading losses	-	-	(474,716)	-	(474,716)
Net gains arising from investments	-	-	546,473	-	546,473
Other operating income	-	-	-	170,053	170,053
Operating income	4,316,111	1,368,898	4,357,923	170,053	10,212,985
Operating expenses	(1,271,826)	(471,995)	(944,768)	(64,519)	(2,753,108)
Impairment losses on assets	(1,187,744)	(649,206)	(120,000)	-	(1,956,950)
Operating profit	1,856,541	247,697	3,293,155	105,534	5,502,927
Share of profits of associates	-	-	-	44,333	44,333
Profit before taxation	1,856,541	247,697	3,293,155	149,867	5,547,260
Other segment information					
- Depreciation and amortisation	141,288	69,083	51,306	-	261,677
- Capital expenditure	357,605	133,543	259,284	7,901	758,333

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(Expressed in thousands of Renminbi, unless otherwise stated)

39 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	31 December 2017				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	135,166,061	47,444,212	250,530,100	1,418,098	434,558,471
Deferred tax assets					1,270,416
Total assets					435,828,887
Segment liabilities/ Total liabilities	187,633,898	71,725,668	141,636,728	1,393,228	402,389,522
Credit commitments	66,790,405	1,275,828	-	-	68,066,233

(b) Geographical information

Geographically, the Group mainly conducts its business in Henan Province of the PRC and majority of its customers and assets are located in Henan Province of the PRC.

40 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.

The Board of Directors (the "Board") is the highest decision-making authority within the Group in terms of risk management and oversees the Group's risk management functions through the Risk Management 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.

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40 RISK MANAGEMENT (CONTINUED)

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Management 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 establishing the Group's risk management strategies 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 credit risk in various businesses are properly identified, assessed, calculated and monitored. The Credit Management Department is responsible for credit risk management. Departments such as the Credit Approval Department, the Corporate Business Department, the Retail Banking Department, the Financial Department of Small Business, Investment Bank Department, and the Financial Markets Department carry out credit businesses and investments portfolios business according to the Group's risk management policies and procedures. The Group adopts a loan risk classification approach to manage its loan portfolio risk.

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and interbank business. The Group manages the credit risk exposures by setting up credit on its treasury business and interbank business. Credit risk exposure is closely monitored on a systematic, real-time basis. Credit risk limits are reviewed and updated regularly.

Measurement of ECL

Based on whether there is a significant increase in credit risk and whether the asset has incurred credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

The Group measures loss provision of the financial instruments that meet the following conditions according to the amount of expected credit losses within the next 12 months, and measures loss provision for other financial instruments in accordance with the amount of lifetime expected credit losses.

- The financial instruments that are determined to have low credit risk at the reporting date; or
 - The financial instruments for which credit risk has not increased significantly since initial recognition.
- (i) Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial instruments has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status
- Application of a grace period or debt-restructuring
- Significant changes with an adverse effect in the borrower's business conditions
- Less value of the collaterals (for the collateral loans and pledged loans only)
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans
- The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial instruments related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 31 December 2018, the Group has not considered that any of its financial instruments has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Notes to the Financial Statements

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

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(ii) Definition of “default” and “credit-impaired assets”

When a financial instrument meets one or more of the following conditions, the Group considers the financial asset to be in default, and the criteria are consistent with the definition of credit-impaired assets.

(1) Quantitative criterion

The financial asset is more than 90 days past due.

(2) Qualitative criterion

The borrower meets the criterion of “having difficulty in repayment”, which indicates that the borrower has significant financial difficulty, including:

- the borrower has been in the grace period for a long time
- the death of the borrower
- the borrower enters bankruptcy
- the borrower breaches (one or more) terms of the contract that the debtor shall be subject to
- the disappearance of an active market for the related financial asset because of financial difficulties faced by the borrower
- the creditor make concessions due to the financial difficulties faced by the borrower
- it becoming probable that the borrower will enter bankruptcy
- a higher discount was obtained during the acquisition of assets, and the assets has incurred credit loss when they are acquired

The above criteria apply to all financial instruments of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

Notes to the Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(iii) Notes to the parameters, assumptions and valuation techniques

The ECL 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:

- 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;
- 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;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. 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 months. The results of calculation for each month 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 PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

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

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(iii) Notes to the parameters, assumptions and valuation techniques (Continued)

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the loans 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.
- In respect of the products of revolving credit agreement, the Group estimates the remaining withdrawal within the limits by using the balance of the loan after previous withdrawals and the “credit conversion factor”, so as to predict the exposure at default. Based on the Group’s analysis on recent default data, these assumptions vary based on differences in product type and utilization rate of the limits.
- The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to loans classified as guarantees, the Group determines the 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 fiduciary loans, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers. The LGD is affected by the recovery strategies, which include the transfer plan and pricing of loans.
- Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD. Forward-looking information that need to be considered is different due to different product types.

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.

Both the assessment of the 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 GDP, industrial added value, CPI, etc.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

The Group adopted IFRS 9 since 1 January 2018, for policies applicable to the year ended 31 December 2017, refer to 2017 annual financial statements.

(1) 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 each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the reporting period is disclosed in Note 42(a).

(2) Loans and advances to customers

(i) Loans and advances to customers were analysed as follows as at 31 December 2018:

	31 December 2018
Gross balance of loans and advances that are assessed for 12-month ECL	
– Overdue but not credit-impaired	639,733
– Neither overdue nor credit-impaired	149,978,957
Sub-total	150,618,690
Gross balance of loans and advances that are not credit-impaired and assessed for lifetime ECL	
– Overdue but not credit-impaired	2,396,820
– Neither overdue nor credit-impaired	2,431,602
Sub-total	4,828,422
Gross balance of credit-impaired loans and advances that are assessed for lifetime ECL	
– Overdue and credit-impaired	4,012,791
– Not overdue but credit-impaired	112,889
Sub-total	4,125,680
Interest accrued	489,560
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(6,062,971)
Net loans and advances to customers	153,999,381

Notes to the Financial Statements

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

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(ii) Neither overdue nor credit-impaired

Credit risk of loans and advances to customers neither overdue nor credit-impaired was analysed as follows as at 31 December 2018:

	31 December 2018
Corporate loans and advances	109,829,919
Personal loans and advances	42,580,640
Total gross balance	152,410,559

(iii) Overdue but not credit-impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not credit-impaired as at 31 December 2018.

	31 December 2018		
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	Total
Corporate loans and advances	1,132,393	1,422,545	2,554,938
Personal loans and advances	225,265	256,350	481,615
Total gross balance	1,357,658	1,678,895	3,036,553

Fair value of collateral held against loans and advances overdue 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 overdue but not credit-impaired	2,250,645

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(iii) Overdue but not credit-impaired (Continued)

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.

(iv) Credit-impaired loans

Credit-impaired loans as at 31 December 2018 were analysed as follows:

	31 December 2018
Gross balance	
Corporate loans and advances	3,268,726
Personal loans and advances	856,954
Sub-total	4,125,680
Interest accrued	
Corporate loans and advances	1,809
Personal loans and advances	8
Sub-total	1,817
Provision for impairment losses	
Corporate loans and advances	(2,279,394)
Personal loans and advances	(567,625)
Sub-total	(2,847,019)
Net balance	
Corporate loans and advances	991,141
Personal loans and advances	289,337
Total	1,280,478
Fair value of collateral held against credit-impaired loans and advances	1,967,877

Notes to the Financial Statements

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

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(iv) Credit-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.

(v) Loans and advances to customers were analysed as follows as at 31 December 2017:

	Note	31 December 2017
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	(vi)	121,576,757
– Overdue but not impaired	(vii)	4,954,035
– Impaired	(viii)	1,925,686
Sub-total		128,456,478
Less: provision for impairment loss		
– Neither overdue nor impaired		(2,500,249)
– Overdue but not impaired		(719,329)
– Impaired		(780,958)
Sub-total		(4,000,536)
Net balance		
– Neither overdue nor impaired		119,076,508
– Overdue but not impaired		4,234,706
– Impaired		1,144,728
Total		124,455,942

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(vi) 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	89,263,328
Personal loans and advances	32,313,429
Total gross balance	121,576,757

(vii) Overdue but not impaired

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 31 December 2017.

	31 December 2017				Total
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	971,263	1,676,854	779,303	34,785	3,462,205
Personal loans and advances	369,630	519,940	478,327	123,933	1,491,830
Total gross balance	1,340,893	2,196,794	1,257,630	158,718	4,954,035

Notes to the Financial Statements

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

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(vii) Overdue but not impaired (Continued)

Fair value of collateral held against loans and advances overdue but not impaired as at 31 December 2017 was analysed as follows:

	31 December 2017
Fair value of collateral held against loans and advances overdue but not impaired	3,252,167

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

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(viii) Impaired loans

	31 December 2017
Gross balance	
– Corporate loans and advances	1,617,673
– Personal loans and advances	308,013
Sub-total	1,925,686
% of total loans and advances	1.50%
Provision for impairment losses	
– Corporate loans and advances	(640,455)
– Personal loans and advances	(140,503)
Sub-total	(780,958)
Net balance	
– Corporate loans and advances	977,218
– Personal loans and advances	167,510
Total	1,144,728
Fair value of collateral held against impaired loans and advances	1,313,544

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

For the year ended 31 December 2018
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40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(2) Loans and advances to customers (Continued)

(ix) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrowers' financial conditions or of the borrowers' inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduling is most commonly applied to term loans. There were no rescheduled loans as at 31 December 2018 and 31 December 2017.

(3) 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		
– grade A to AAA	7,708,768	22,775,611
– grade B to BBB	1,524,561	1,123,835
– unrated	144,486	529,207
Total	9,377,815	24,428,653

As at 31 December 2018, amounts due from banks and other financial institutions of the Group were neither overdue nor credit-impaired. As at 31 December 2017, amounts due from banks and other financial institutions of the Group were neither overdue nor impaired.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(4) 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.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers as at 31 December 2018:

	31 December 2018
Carrying amount	
<i>Neither overdue nor credit-impaired</i>	
– Government	29,170,003
– Policy banks	37,537,081
– Banks and other financial institutions	2,876,607
– Corporate	8,176,557
Sub-total	77,760,248
<i>Overdue but not credit-impaired</i>	
– Corporate	256,411
Total	78,016,659

Notes to the Financial Statements

For the year ended 31 December 2018
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40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(4) 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 as at 31 December 2017:

31 December 2017

Carrying amount	
<i>Neither overdue nor impaired</i>	
– Government	20,177,393
– Policy banks	30,253,171
– Banks and other financial institutions	6,283,256
– Corporate	7,505,397
<hr/>	
Total	64,219,217

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(5) Financial investments measured at amortised cost

The Group

	31 December 2018
Balance of financial investments measured at amortised cost that are assessed for 12-months ECL	
– Overdue but not credit-impaired	708,400
– Neither overdue nor credit-impaired	163,391,994
Sub-total	164,100,394
Balance of not credit-impaired financial investments measured at amortised cost that are assessed for lifetime ECL	
– Neither overdue nor credit-impaired	1,400,000
	1,400,000
Balance of credit-impaired financial investments measured at amortised cost that are assessed for lifetime ECL	
– Overdue and credit-impaired	2,629,147
Sub-total	2,629,147
Interest accrued	1,427,133
Less: Provision for impairment losses	(1,726,620)
Total	167,830,054
Fair value of collaterals held against credit-impaired financial investments that are measured at amortised cost	5,027,204

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40 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(6) Financial investments classified as loans and receivables

	31 December 2017
Gross balance of financial investments classified as loans and receivables	
– Neither overdue nor impaired	114,379,282
– Overdue but not impaired	2,525,000
– Impaired	206,561
Sub-total	117,110,843
Less: allowance for impairment loss	
– Neither overdue nor impaired	(440,622)
– Overdue but not impaired	(117,830)
– Impaired	(81,561)
Sub-total	(640,013)
Net balance	
– Neither overdue nor impaired	113,938,660
– Overdue but not impaired	2,407,170
– Impaired	125,000
	116,470,830
Fair value of collaterals held against financial investments classified as loans and receivables overdue but not impaired	4,486,208
Fair value of collaterals held against impaired financial investments classified as loans and receivables	125,000

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 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 Management Committee to supervise the market risk management conducted by the senior management. The Finance and Accounting Department, Financial Markets Department and Risk Management Department are responsible for identifying, measuring, monitoring and reporting the market risk.

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

For the year ended 31 December 2018
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40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(1) 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.

(i) 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 causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Finance and Accounting 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.

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40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) 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	Within 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	46,224,453	1,377,590	44,846,863	-	-	-
Deposits/placements with banks and other financial institutions	5,925,690	408,126	5,084,150	350,000	83,414	-
Financial assets held under resale agreements	3,452,125	4,739	3,447,386	-	-	-
Loans and advances to customers (1)	153,999,381	489,560	101,086,197	47,170,340	3,077,839	2,175,445
Investments (3)	236,359,868	46,426,383	26,063,860	23,792,639	103,650,064	36,426,922
Finance lease receivables (1)	13,710,666	105,345	11,651,404	1,953,917	-	-
Others	6,470,235	6,238,684	180,265	51,286	-	-
Total assets	466,142,418	55,050,427	192,360,125	73,318,182	106,811,317	38,602,367
Liabilities						
Due to central bank	4,196,194	62,494	-	4,133,700	-	-
Deposits/placements from banks and other financial institutions	41,051,553	484,380	19,111,780	21,455,393	-	-
Financial assets sold under repurchase agreements	18,956,133	9,853	18,946,280	-	-	-
Deposits from customers	267,758,206	4,041,732	136,777,389	62,212,591	61,726,494	3,000,000
Debt securities issued	93,649,019	125,958	21,943,150	61,584,355	9,995,556	-
Others	2,667,814	2,629,313	37,976	525	-	-
Total liabilities	428,278,919	7,353,730	196,816,575	149,386,564	71,722,050	3,000,000
Asset-liability gap	37,863,499	47,696,697	(4,456,450)	(76,068,382)	35,089,267	35,602,367

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40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) Repricing risk (Continued)

	31 December 2017					
	Total	Non-interest bearing	Within 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	45,635,132	1,179,134	44,455,998	-	-	-
Deposits/placements with banks and other financial institutions	20,021,177	303,103	8,365,841	11,339,733	7,500	5,000
Financial assets held under resale agreements	4,407,476	-	4,407,476	-	-	-
Loans and advances to customers (1)	124,455,942	-	90,087,783	31,717,262	2,219,858	431,039
Investments (2)	222,954,437	288,591	31,217,809	41,466,381	102,898,199	47,083,457
Finance lease receivables (1)	10,490,994	-	7,868,449	2,622,545	-	-
Others	7,863,729	7,500,984	362,745	-	-	-
Total assets	435,828,887	9,271,812	186,766,101	87,145,921	105,125,557	47,519,496
Liabilities						
Due to central bank	1,599,550	-	1,000,000	599,550	-	-
Deposits/placements from banks and other financial institutions	51,282,755	-	14,174,466	37,008,289	100,000	-
Financial assets sold under repurchase agreements	14,085,500	-	14,085,500	-	-	-
Deposits from customers	255,407,398	295,136	150,653,254	59,072,809	45,386,199	-
Debt securities issued	73,170,060	-	20,590,717	42,585,365	9,993,978	-
Others	6,844,259	6,811,949	-	32,310	-	-
Total liabilities	402,389,522	7,107,085	200,503,937	139,298,323	55,480,177	-
Asset-liability gap	33,439,365	2,164,727	(13,737,836)	(52,152,402)	49,645,380	47,519,496

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For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) Repricing risk (Continued)

- (1) For the Group's loans and advances to customers, the category "Within three months (inclusive)" as at 31 December 2018 includes overdue amounts (net of allowance for impairment losses) of RMB3,555 million (31 December 2017: RMB5,379 million). For the Group's finance lease receivables, the category "Within three months (inclusive)" as at 31 December 2018 includes overdue amounts (net of allowance for impairment losses) of RMB176 million (31 December 2017: nil).
- (2) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates. The category "Within three months (inclusive)" as at 31 December 2017 includes overdue amounts (net of allowance for impairment losses) of RMB2,472 million.
- (3) As at 31 December 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates, the category "Within three months (inclusive)" as at 31 December 2018 includes overdue amounts (net of allowance for impairment losses) of RMB2,819 million.

(ii) Interest rate sensitivity analysis

	31 December 2018 (Decrease)/increase	31 December 2017 (Decrease)/increase
Changes in net interest income		
Up 100 bps parallel shift in yield curves	(461,308)	(386,729)
Down 100 bps parallel shift in yield curves	461,308	386,729

	31 December 2018 (Decrease)/increase	31 December 2017 (Decrease)/increase
Changes in equity		
Up 100 bps parallel shift in yield curves	(671,154)	(414,627)
Down 100 bps parallel shift in yield curves	679,002	370,456

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(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on a static interest risk exposure profile of assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net interest income and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The effect of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing financial investments at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income held at year end. The sensitivity analysis is based on the following assumptions:

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning 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, all the position will be held and keep unchanged after matured; 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 net interest income and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

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40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(2) 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	45,973,787	247,943	2,723	46,224,453
Deposits/placements with banks and other financial institutions	3,532,393	2,324,726	68,571	5,925,690
Financial assets held under resale agreements	3,452,125	-	-	3,452,125
Loans and advances to customers	153,029,933	969,448	-	153,999,381
Investments (ii)	226,454,202	9,727,272	178,394	236,359,868
Finance lease receivables	13,710,666	-	-	13,710,666
Others	5,102,832	1,367,403	-	6,470,235
Total assets	451,255,938	14,636,792	249,688	466,142,418
Liabilities				
Due to central bank	4,196,194	-	-	4,196,194
Deposits/placements from banks and other financial institutions	40,331,556	719,997	-	41,051,553
Financial assets sold under repurchase agreements	18,956,133	-	-	18,956,133
Deposits from customers	262,405,650	5,351,699	857	267,758,206
Debt securities issued	93,649,019	-	-	93,649,019
Others	1,954,107	654,427	59,280	2,667,814
Total liabilities	421,492,659	6,726,123	60,137	428,278,919
Net position	29,763,279	7,910,669	189,551	37,863,499
Off-balance sheet credit commitments	80,231,567	2,953,262	50,902	83,235,731

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

40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(2) Currency risk (Continued)

	31 December 2017			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with central bank	44,768,691	864,676	1,765	45,635,132
Deposits/placements with banks and other financial institutions	1,252,260	18,512,003	256,914	20,021,177
Financial assets held under resale agreements	4,407,476	–	–	4,407,476
Loans and advances to customers	123,401,784	1,054,158	–	124,455,942
Investments (i)	217,464,588	5,239,125	250,724	222,954,437
Finance lease receivables	10,490,994	–	–	10,490,994
Others	7,641,607	222,122	–	7,863,729
Total assets	409,427,400	25,892,084	509,403	435,828,887
Liabilities				
Due to central bank	1,599,550	–	–	1,599,550
Deposits/placements from banks and other financial institutions	51,282,755	–	–	51,282,755
Financial assets sold under repurchase agreements	14,085,500	–	–	14,085,500
Deposits from customers	239,066,363	16,262,297	78,738	255,407,398
Debt securities issued	73,170,060	–	–	73,170,060
Others	6,077,723	285,128	481,408	6,844,259
Total liabilities	385,281,951	16,547,425	560,146	402,389,522
Net position	24,145,449	9,344,659	(50,743)	33,439,365
Off-balance sheet credit commitments	66,363,583	1,623,457	79,193	68,066,233

(i) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates.

(ii) As at 31 December 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates.

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40 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(2) Currency risk (Continued)

	31 December 2018 Increase/(decrease)	31 December 2017 Increase/(decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	8,852	10,668
Down 100 bps change of foreign exchange rate	(8,852)	(10,668)

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 based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- The foreign currency exposures calculated includes spot and forward foreign exchange exposures and swaps, and all the position will be held and keep unchanged after mature; 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 net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

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40 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 has implemented the centralised management of the Group-wide liquidity risk by the head office, and established the Risk Management Committee which mainly comprises the Liquidity Risk Management Committee, the Asset and Liability Management Committee and the Finance and Accounting Department at the head office. The responsibilities of them are as following:

- the Risk Management Committee and the Asset and Liability Management Committee are the decision-making bodies for liquidity risk management and are responsible for formulating the guidelines and policies for liquidity risk management;
- the Finance and Accounting Department is the liquidity risk management department and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators; formulating, implementing and evaluating relevant systems, setting the Group-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; regularly carrying out risk analysis and reporting to the Risk Management Committee and the Asset and Liability Management Committee.

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, liquidity gap ratio, and etc.

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.

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(Expressed in thousands of Renminbi, unless otherwise stated)

40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(1) 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	Repayable on demand	Within 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	28,771,795	17,452,641	17	-	-	-	46,224,453
Deposits/placements with banks and other financial institutions	-	1,340,322	4,151,954	350,000	83,414	-	5,925,690
Financial assets held under resale agreements	-	-	3,452,125	-	-	-	3,452,125
Loans and advances to customers	2,447,480	3,017,666	19,443,318	68,239,848	34,409,919	26,441,150	153,999,381
Investments (i)	3,337,111	-	30,676,743	53,918,052	111,887,468	36,540,494	236,359,868
Finance lease receivables	175,639	-	1,713,373	3,677,864	8,131,081	12,709	13,710,666
Others	4,868,013	29,009	637,605	776,808	157,570	1,230	6,470,235
Total assets	39,600,038	21,839,638	60,075,135	126,962,572	154,669,452	62,995,583	466,142,418
Liabilities							
Due to central bank	-	-	62,494	4,133,700	-	-	4,196,194
Deposits/placements from banks and other financial institutions	-	1,470,384	18,060,377	21,520,792	-	-	41,051,553
Financial assets sold under repurchase agreements	-	-	18,956,133	-	-	-	18,956,133
Deposits from customers	-	105,878,265	34,940,856	62,212,591	61,726,494	3,000,000	267,758,206
Debt securities issued	-	-	21,943,150	61,710,313	9,995,556	-	93,649,019
Others	-	622,732	779,357	195,703	962,774	107,248	2,667,814
Total liabilities	-	107,971,381	94,742,367	149,773,099	72,684,824	3,107,248	428,278,919
Long/(short) position	39,600,038	(86,131,743)	(34,667,232)	(22,810,527)	81,984,628	59,888,335	37,863,499

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For the year ended 31 December 2018
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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(1) Maturity analysis (Continued)

	31 December 2017						Total
	Indefinite	Repayable on demand	Within 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	32,743,934	12,891,198	-	-	-	-	45,635,132
Deposits/placements with banks and other financial institutions	5,000	1,174,854	7,494,090	11,339,733	7,500	-	20,021,177
Financial assets held under resale agreements	-	-	4,407,476	-	-	-	4,407,476
Loans and advances to customers	4,119,917	2,368,855	18,378,439	61,055,985	23,270,331	15,262,415	124,455,942
Investments	456,231	2,364,529	27,264,071	42,709,660	102,969,192	47,190,754	222,954,437
Finance lease receivables	-	-	573,671	2,422,037	7,470,691	24,595	10,490,994
Others	3,620,768	36,288	2,201,026	1,820,802	167,913	16,932	7,863,729
Total assets	40,945,850	18,835,724	60,318,773	119,348,217	133,885,627	62,494,696	435,828,887
Liabilities							
Due to central bank	-	-	1,000,000	599,550	-	-	1,599,550
Deposits/placements from banks and other financial institutions	-	676,366	13,498,100	37,008,289	100,000	-	51,282,755
Financial assets sold under repurchase agreements	-	-	14,085,500	-	-	-	14,085,500
Deposits from customers	-	111,125,769	36,702,622	59,072,808	48,506,199	-	255,407,398
Debt securities issued	-	-	20,590,717	42,585,365	9,993,978	-	73,170,060
Others	-	332,480	5,419,627	348,676	627,509	115,967	6,844,259
Total liabilities	-	112,134,615	91,296,566	139,614,688	59,227,686	115,967	402,389,522
Long/(short) position	40,945,850	(93,298,891)	(30,977,793)	(20,266,471)	74,657,941	62,378,729	33,439,365

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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(1) Maturity analysis (Continued)

- (i) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates. 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”.

As at 31 December 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates. 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) 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.
- (iii) For loans and advances to customers, as at 31 December 2017, 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”; as at 31 December 2018, 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”
- (iv) For finance lease receivables, as at 31 December 2018, 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”

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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(2) Analysis on contractual counted cash flows of financial liabilities

- (i) 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						
	Carrying amount at 31 December	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Non-derivative cash flows:							
Due to central bank	4,196,194	4,269,685	-	674	4,269,011	-	-
Deposits/placements from banks and other financial institutions	41,051,553	41,917,620	1,470,800	18,128,333	22,318,487	-	-
Financial assets sold under repurchase agreements	18,956,133	18,961,045	-	18,961,045	-	-	-
Deposits from customers	267,758,206	276,804,929	105,943,418	32,023,206	64,856,254	70,737,843	3,244,208
Debt securities issued	93,649,019	96,157,155	-	22,156,000	63,324,600	10,676,555	-
Total non-derivative financial liabilities	425,611,105	438,110,434	107,414,218	91,269,258	154,768,352	81,414,398	3,244,208

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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(2) Analysis on contractual counted cash flows of financial liabilities (Continued)

(i) (Continued)

	31 December 2017						
	Carrying	Total	Repayable	Within	Between	Between	More than
	amount at						
31 December	on demand	(inclusive)	(inclusive)	(inclusive)	(inclusive)	five years	
Non-derivative cash flows:							
Due to central bank	1,599,550	1,599,807	-	1,000,134	599,673	-	-
Deposits/placements from banks and other financial institutions	51,282,755	53,264,632	676,512	13,937,277	38,543,829	107,014	-
Financial assets sold under repurchase agreements	14,085,500	14,121,581	-	14,121,581	-	-	-
Deposits from customers	255,407,398	268,036,084	111,166,502	38,793,599	61,730,805	56,345,178	-
Debt securities issued	73,170,060	76,110,978	-	20,796,000	44,159,400	11,155,578	-
Total non-derivative financial liabilities	395,545,263	413,133,082	111,843,014	88,648,591	145,033,707	67,607,770	-

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For the year ended 31 December 2018
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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(2) Analysis on contractual counted cash flows of financial liabilities (Continued)

- (ii) The following tables provide an analysis of the contractual undiscounted cash flow of the derivative financial instruments at the end of the reporting period:

	31 December 2018						
	Carrying amount at 31 December	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Derivative cash flows:							
Derivative financial instruments settled on net basis	28,713	28,713	-	29,238	(525)	-	-
Derivative financial instruments settled on gross basis:							
- Cash inflow	3,118,539	3,135,618	-	2,418,107	717,511	-	-
- Cash outflow	(2,954,202)	(2,965,309)	-	(2,301,962)	(663,347)	-	-
Total derivative financial instruments settled on gross basis	164,337	170,309	-	116,145	54,164	-	-

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40 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(2) Analysis on contractual counted cash flows of financial liabilities (Continued)

(ii) (Continued)

	31 December 2017						
	Carrying amount at 31 December	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Derivative cash flows:							
Derivative financial instruments settled on net basis	(21,014)	(21,014)	-	-	(21,014)	-	-
Derivative financial instruments settled on gross basis:							
- Cash inflow	659,882	682,115	-	-	682,115	-	-
- Cash outflow	(671,178)	(693,680)	-	-	(693,680)	-	-
Total derivative financial instruments settled on gross basis	(11,296)	(11,565)	-	-	(11,565)	-	-

This analysis of financial liabilities by contractual undiscounted cash flow might vary from actual results.

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40 RISK MANAGEMENT (CONTINUED)

(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 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.

The Group's measures to manage the operational risk mainly include:

- making use of risk alert system and paying attention to risk product and early risk alert on each aspect of business; making business risk assessment in time; carrying out centralised risk management on major business controlling unit 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 centralized operational risk management tools, supervising, analysing and reporting the sufficiency and effectiveness of operational risk management;
- the Compliance Department, the Risk Management Department and the Internal Audit Office constitute “three lines of defense” for operational risk management base on the separating responsibilities of the front, middle and the back offices. The Business and functional departments act as the first line of defense, the Compliance Department and the Risk Management Department act as the second line of defense and the Internal Audit Office acts as the third line of defense;
- establishing a compulsory leave and rotation policies to staff in key position or important process;
- 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.

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40 RISK MANAGEMENT (CONTINUED)

(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. The 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 needs.

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40 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 31 December 2018 and 31 December 2017 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法) issued by the former CBRC in 2012 and relevant requirements promulgated by the CBIRC as follows:

	Note	31 December 2018	31 December 2017
Total core tier-one capital			
– Share capital		5,921,932	5,321,932
– Valid portion of capital reserve		5,157,753	2,979,588
– Surplus reserve		2,356,214	2,054,756
– General reserve		5,870,320	5,520,320
– Retained earnings		9,518,012	8,503,783
– Valid portion of minority interests		602,538	452,798
Core tier-one capital		29,426,769	24,833,177
Core tier-one capital deductions		(714,478)	(456,513)
Net core tier-one capital		28,712,291	24,376,664
Additional tier-one capital			
– Additional tier-one capital instruments and related premium		7,825,508	7,825,508
– Valid portion of minority interests		80,339	60,373
Net tier-one capital		36,618,138	32,262,545
Tier two capital			
– Qualifying portions of tier-two capital instruments issued		7,000,000	7,000,000
– Surplus provision for loan impairment		2,179,647	2,231,162
– Valid portion of minority interests		160,677	120,746
Net tier-two capital		9,340,324	9,351,908
Net capital base		45,958,462	41,614,453
Total risk weighted assets	(1)	349,504,822	307,474,718
Core tier-one capital adequacy ratio		8.22%	7.93%
Tier-one capital adequacy ratio		10.48%	10.49%
Capital adequacy ratio		13.15%	13.53%

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40 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

- (1) 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.
- (2) 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 CBIRC 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.

41 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs

The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair values:

(1) Debt securities investments

Fair values of debt securities investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

Notes to the Financial Statements

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

41 FAIR VALUE (CONTINUED)

(a) Methods and assumptions for measurement of fair value (Continued)

(2) 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 each of the reporting period.

(3) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of each of the reporting period, 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 each of the reporting period.

(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			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Financial investments at fair value through profit or loss				
– Debt securities	7,389,146	8,377,366	–	15,766,512
– Investment funds	–	8,421,637	–	8,421,637
– Other financial investments at fair value through profit or loss	–	–	35,844,826	35,844,826
Financial investments at fair value through other comprehensive income (excluding accrued interest)				
– Debt instruments	3,474,207	4,520,117	–	7,994,324
Loans and advances to customers measured at fair value through other comprehensive income				
– Corporate loans and advances	–	–	12,396,145	12,396,145
Derivative financial assets	–	231,551	–	231,551
Total	10,863,353	21,550,671	48,240,971	80,654,995
Liabilities measured at fair value on a recurring basis				
Derivative financial liabilities	–	38,501	–	38,501
Total	–	38,501	–	38,501

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

41 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements assets				
Financial investments at fair value through profit or loss				
– Debt securities	1,060,078	1,091,487	–	2,151,565
– Investment funds	–	3,755,820	–	3,755,820
– Investment management products	–	5,941,912	–	5,941,912
Available-for-sale financial assets				
– Debt instruments	–	2,799,831	32,278,067	35,077,898
Total	1,060,078	13,589,050	32,278,067	46,927,195
Liabilities measured at fair value on a recurring basis				
Derivative financial liabilities	–	32,310	–	32,310
Total	–	32,310	–	32,310

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31 December 2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements

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

41 FAIR VALUE (CONTINUED)

(c) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

	1 January 2018	Changes in accounting policies	Total effects of profit and loss during the year	Total effects of other comprehensive income during the year	Acquisition	Sales/ Settlement	Transferred from Level 2 to Level 3	31 December 2018
Financial assets:								
Available-for-sale financial assets								
- Debt instruments	32,278,067	(32,278,067)	-	-	-	-	-	-
Financial investments measured at fair value through profit or loss								
- Other interbank investment	-	41,477,107	2,319,007	-	21,926,075	(29,877,363)	-	35,844,826
Loans and advances to customers measured at fair value through other comprehensive income	-	2,473,540	49,037	10,804	12,392,571	(2,529,807)	-	12,396,145
Total	32,278,067	11,672,580	2,368,044	10,804	34,318,646	(32,407,170)	-	48,240,971

	1 January 2017	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals/ settlements	Transfers to Level 2 from Level 3	31 December 2017
Financial assets:							
Available-for-sale financial assets							
- Debt instruments	4,972,113	565,011	(1,245)	31,419,845	(4,677,657)	-	32,278,067

During the reporting period, the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were immaterial.

During the reporting period, total gains recorded in profit or loss is recognised in the line item “net gains arising from investments” on the face of the consolidated statement of profit or loss and other comprehensive income (31 December 2017: “interest income”).

Notes to the Financial Statements

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

41 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods are adopted to determine the fair values of these assets and liabilities.

The fair values of debt securities in financial investments measured at amortised cost and debt securities issued are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

Financial investments measured at amortized cost with the exception of debt securities and financial investments classified as loans and receivables are stated at amortised cost using the effective interest method. The fair value of financial investments measured at amortized cost and financial investments classified as loans and receivables are estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of financial investments measured at amortized cost and financial investments classified as loans and receivables are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

The above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Cash and deposits with central bank	Due to central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with banks and other financial institutions	Placements from banks and other financial institutions
Financial assets held under resale agreements	Financial assets sold under repurchase agreements
Loans and advances to customers (measured at amortized cost)	Deposits from customers
Finance lease receivables	Other financial liabilities
Other financial assets	

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

42 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, unused 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 unused 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	68,168,889	57,538,871
Letters of credit	9,294,124	5,264,644
Guarantees	3,993,775	3,986,890
Unused credit card commitments	1,778,943	1,275,828
Total	83,235,731	68,066,233

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. 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	16,547,584	18,630,228

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the CBIRC. 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

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

42 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)	148,229	118,008
After one year but within five years (inclusive)	300,321	292,948
After five years	116,454	197,228
Total	565,004	608,184

(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	156,097	207,346
Approved but not contracted for	58,250	49,956
Total	214,347	257,302

(e) Outstanding litigations and disputes

As at 31 December 2018 and 31 December 2017, there are no outstanding legal proceedings that have a significant impact on the financial statements against the Group.

(f) Pledged assets

	31 December 2018	31 December 2017
Debt securities	18,886,750	13,281,523
Total	18,886,750	13,281,523

Some of the Group's assets are pledged as collateral under repurchase agreements.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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.

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	
	Carrying amount	Maximum exposure
Financial investments		
– Financial investments at fair value through profit or loss	38,373,901	38,373,901
– Financial investments measured at amortised cost	95,121,768	95,121,768
Interest receivables	68,540	68,540
Total	133,564,209	133,564,209

	31 December 2017	
	Carrying amount	Maximum exposure
Financial investments		
– Financial investments at fair value through profit or loss	9,697,732	9,697,732
– Available-for-sale financial assets	28,044,753	28,044,753
– Financial investment classified as loans and receivables	102,127,230	102,127,230
Interest receivables	683,308	683,308
Total	140,553,023	140,553,023

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amount of the assets held by the Group and the related interest receivable at the end of each of the reporting period.

Notes to the Financial Statements

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

43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The interest income, changes in fair value and investment gains arising from the above unconsolidated structured entities for the year ended 31 December 2018 amounted to RMB8,685 million (31 December 2017: RMB6,258 million).

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unstructured 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.

As at 31 December 2018, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB36,372 million (31 December 2017: RMB37,501 million).

During the year ended 31 December 2018, the amount of fee and commission income received from the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB44 million (31 December 2017: RMB25 million).

During the year ended 31 December 2018, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB30,534 million (31 December 2017: RMB22,109 million).

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 RMB6,430 million (31 December 2017: RMB8,375 million).

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

45 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2018	31 December 2017
Assets		
Cash and deposits with central bank	46,041,259	45,545,998
Deposits with banks and other financial institutions	1,390,883	4,284,808
Placements with banks and other financial institutions	1,869,155	15,297,528
Derivative financial assets	231,551	-
Financial assets held under resale agreements	3,452,125	4,407,476
Loans and advances to customers	153,011,647	123,722,963
Financial investments:		
Financial investments at fair value through profit or loss	59,914,898	11,849,297
Financial investments at fair value through other comprehensive income	7,959,305	-
Financial investments measured at amortised cost	167,830,054	-
Available-for-sale financial assets	-	35,086,298
Held-to-maturity investments	-	59,267,821
Loans and receivables	-	116,470,830
Interest in associates and subsidiaries	1,496,234	1,455,344
Property and equipment	2,054,701	1,787,973
Deferred tax assets	1,892,439	1,255,294
Other assets	2,128,746	4,333,046
Total assets	449,272,997	424,764,676
Liabilities		
Due to the central bank	4,062,438	1,500,000
Deposits from banks and other financial institutions	27,799,827	29,212,403
Placements from banks and other financial institutions	426,601	14,048,389
Derivative financial liabilities	38,501	32,310
Financial assets sold under repurchase agreements	18,956,133	14,085,500
Deposits from customers	266,127,673	254,502,449
Tax payable	390,778	659,883
Debt securities issued	93,649,019	73,170,060
Other liabilities	1,259,532	5,456,196
Total liabilities	412,710,502	392,667,190

Notes to the Financial Statements

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

45 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

	31 December 2018	31 December 2017
Equity		
Share capital	5,921,932	5,321,932
Other financial instruments		
Include: preference shares	7,825,508	7,825,508
Capital reserve	5,163,713	3,054,927
Surplus reserve	2,356,214	2,054,756
General reserve	5,813,200	5,463,200
Fair value reserve	38,020	(22,667)
Remeasurement of net defined benefit liability	(44,492)	(52,614)
Retained earnings	9,488,400	8,452,444
Total equity	36,562,495	32,097,486
Total liabilities and equity	449,272,997	424,764,676

Approved and authorised for issue by the board of directors on 28 March 2019.

Wang Tianyu

*Chairman of the Board of Directors
Executive Director*

Shen Xueqing

*President
Executive Director*

Mao Yuezhen

Chief accountant

Zhang Zhiyong

*General Manager of the Planning and
Finance Department*

(Company chop)

46 SUBSEQUENT EVENTS

Up to the reporting date, the Group had no subsequent event for disclosure.

Notes to the Financial Statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

		Effective for accounting period beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

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

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

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

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.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated interim financial report, and is included herein for information purpose only.

1 LIQUIDITY COVERAGE RATIOS AND LEVERAGE RATIO

	31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	241.44%	188.80%

	31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	189.22%	225.23%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 70%, 80% and 90% by the end of 2015, 2016 and 2017, respectively.

	31 December 2018	31 December 2017
Leverage ratio	6.64%	6.30%

Pursuant to the Leverage Ratio Management of Commercial Banks 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 are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, 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	14,636,792	184,703	64,985	14,886,480
Spot liabilities	(6,726,123)	(744)	(59,393)	(6,786,260)
Net position	7,910,669	183,959	5,592	8,100,220

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	25,892,084	424,571	84,832	26,401,487
Spot liabilities	(16,547,425)	(481,548)	(78,598)	(17,107,571)
Net position	9,344,659	(56,977)	6,234	9,293,916

The Group has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, amounts due from banks and other financial institutions and debt investments.

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.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS (CONTINUED)

	31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	232,760	–	549,849	782,609
North and South America	188,230	–	–	188,230
Europe	145,883	–	–	145,883
Total	566,873	–	549,849	1,116,722

	31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	4,103,554	14,591	1,040,709	5,158,854
North and South America	162,237	–	–	162,237
Europe	81,826	–	–	81,826
Total	4,347,617	14,591	1,040,709	5,402,917

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	31 December 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for year of		
– between 3 and 6 months (inclusive)	1,345,544	1,074,269
– between 6 months and 1 year (inclusive)	742,150	1,102,103
– over 1 year	1,667,331	1,119,103
Total	3,755,025	3,295,475
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.84%	0.84%
– between 6 months and 1 year (inclusive)	0.47%	0.85%
– over 1 year	1.04%	0.87%
Total	2.35%	2.56%

