甘肅銀行股份有限公司*
BANK OF GANSU CO., LTD.*

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

Stock code: 2139

2018
ANNUAL REPORT

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

Contents

Chairman's Statement

In 2018, faced with the complex economic and financial conditions at home and abroad and the increasingly stringent regulatory policies, the Bank took stable development as baseline, placed emphasis on risk control and followed the leadership of reform and innovation. Availing ourselves of the fresh foothold of being listed on the Hong Kong Stock Exchange, the Bank made persistent efforts to improve our corporate governance and to enhance profitability. As a result, we kept overall asset quality under control, maintained a stable growth momentum of various lines of business, and achieved good operating results.

In 2018, the Bank forged ahead with great ambitions of flexing our muscles in Hong Kong, and successfully made its debut in the international capital market, which opened a new chapter for the reform and development of financial industry in Gansu and presented the new image of banking practitioners in Gansu by taking root in the West China and striving diligently. Capitalizing on the listing, we issued a total of HK$2,544 million shares and obtained proceeds of HK$6,843 million therefrom, which were all used for replenishing our core tier-one capital, having thus substantially enhanced the capital strength of our Bank, further optimized our capital structure and brought along more extensive capital replenishment channels. We have gone through the reelection of members of the Board of Directors and the Board of Supervisors as well as the appointment of the management team and secretary to the Board for the new session, which resulted in the continuous improvement of our corporate governance structure. Besides, the Bank earnestly fulfilled information disclosure obligations to boost the transparency of operation and management as well as the brand image of the Bank on an ongoing basis. In consistent adherence to the general working guideline of pursuing progress while ensuring stability, we focused on the local market, traced back to the fundamentals of our business and concentrated our efforts on our principal businesses and major responsibilities to thoroughly advance the transformation of our retail business, which have made for the steady growth of our asset liability scale; in addition, we consistently strengthened our overall risk management and established a compliant and effective internal control system; sped up business transformation and upgrading and drove business restructuring with innovation.

In 2018, the Bank's social influence and market competitiveness continued to improve. The Bank was ranked 391st on the list of "Top 1000 World Banks 2018" and 330th among the "Top 500 Global Banking Brands" released by The Banker (a British magazine). According to the 2018 evaluation of competitiveness of Chinese commercial banks released by The Chinese Banker, the Bank was honored as "City Commercial Bank with the Best Strategic Management" and ranked second among city commercial banks with assets ranging from RMB200 billion to RMB300 billion in terms of competitiveness. In the evaluation of 2018 GYROSCOPE Systems carried out by China Banking Association, the Bank got 9th place in comprehensive ranking among city commercial banks with assets of more than RMB200 billion. We attribute the outstanding results to the joint efforts of our staff at all levels as well as the strong support from government departments, regulatory authorities and all sectors of the society. On behalf of the Board of Directors, I would like to extend my heartfelt thanks to all shareholders, customers and people from all walks of life who have long supported the growth and development of our Bank!

Since I took over the historical baton of leading the development of the Bank in the fourth quarter of 2018, I have been deeply aware of the glorious mission and great responsibility. I will, together with all our employees, work hard to achieve ever better operating results to reward our shareholders, investors and all sectors of the society for their trust and support and write a brilliant chapter on the new journey of the Bank.

New thought leads to a new era, and new mission calls for new efforts. 2019 will be a year for our Bank to forge ahead towards high-quality development and a crucial year for our Bank to achieve transformation and overcome obstacles. We will earnestly implement the guiding principles from the 19th CPC National Congress and national economic and financial guidelines and policies, firmly focus on the three major tasks of "serving the real economy, preventing and controlling risks and deepening reform", uphold traditional values, steady operation and compliance-based development and hold fast to the bottom line against risks to promote the high-quality and sustainable development of the Bank at the new historical start.

Chairman of the Board of Directors
Liu Qing

President's Statement

In 2018, under the leadership of the provincial Party committee and the provincial government, with the directives and support of the regulatory authorities and under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, all members of the Bank upheld the general principle of pursuing progress while ensuring stability to proactively implement the new development philosophy, and attentively serve the real economy. In addition to being listed on the H share market, the Bank, in spite of the fierce market competition, responded to assorted risks and challenges effectively and expanded business market wholeheartedly, having thus accomplished steady development of various operations.

Over the past year, the Bank's key business indicators including assets, liabilities and benefits maintained the rapid growth. The retail business transformation advanced steadily, individual saving deposits excelled the threshold of RMB100 billion, retail loans grew rapidly and technological finance spread more extensively. With the continuous optimization of online lending products, the "agriculture, rural areas, and rural residents"-oriented digital inclusive finance service platform was rolled out for operation. Individual and corporate customers who signed up via electronic approaches as well as Internet payment vendors mounted up rapidly. The Bank proactively participated in major construction projects in the province and fully supported the loans for private companies, the financial sectors and targeted poverty alleviation and loans for financing projects regarding special industrial development. We issued "agriculture, rural areas, and rural residents"-specific financial debentures for the sole use of supporting the development of agricultural industry. Our market share in the province went upward while maintaining stability and our comprehensive competitiveness continued to improve. It was enrolled on the list of "Top 1000 World Banks 2018" for the first time and came out to the fore in respect of comprehensive ranking in the valuation of GYROSCOPE Appraisal Systems and the rating in respect of competitiveness among China's commercial banks carried out by China Banking Association. Our entity credit rating increased to AAA from the previous AA+. We were shortlisted for the lead underwriter team of the bonds issued by the Gansu provincial government and won the bid for Gansu's provincial-level treasury cash management project, indicating our further enhanced faculty to serve the real economy.

Over the past year, against the internal and external situations such as the economic downturn, policy changes, tightening regulations and underperformed business profits, we spared no effort to safeguard the assets quality by holding fast to risk bottomlines, handling the relationship of development and quality properly and introducing the feasible measure of "one policy for one account". Faced with the latest circumstances and new problems, we carried out the discussion titled "getting ready for a new start and striving for development with concerted efforts" throughout the Bank in a timely manner in a bid to brainstorm for new development orientations with the pooled efforts of the entire Bank.

The achievements are hard won and therefore deserve to be cherished extraordinarily; development can be everlasting and therefore requires greater endeavours. In the future, with both opportunities and challenges in store for development, our confidence will build up just as pressure will breed. On behalf of the management, I would like to extend my heartfelt thanks to the shareholders, customers and friends from all walks of life for their long-term support and trust, to the Board of Directors, the Board of Supervisors and regulatory authorities for their guidance and assistance and to all our staff for their diligent work and selfless contribution.

In the new year, all members of the Bank are urged to enhance our sense of urgency and sense of responsibility in coping with crisis based on our profound understanding of the hardship and challenges arising from the complicated economic situation and intense market competition on the one hand; and catch hold of the favourable conditions and positive factors for development and boost stronger confidence and resolution in high-quality development to promote the sustainable and sound development of the entire Bank through prompt utilisation of opportunities with aggressive steps one the other hand. We will focus on "development, risk prevention, characteristics, reform, compliance, execution and learning", give top priority to development, underscore the significance of asset quality and enhance market competitiveness. We will, persisting in the core ethos of value creation and following the momentum arising from reform and innovation, promote the sound operation, compliance management and high-quality development of the Bank and strive to build a top-notch listed city commercial bank.

Executive Director, President
Wang Wenyong

Chief Supervisor's Statement

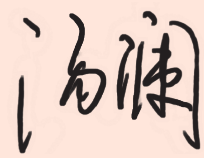
In 2018, the Board of Supervisors, bearing in mind its responsibility towards the shareholders, diligently and earnestly fulfilled its duties and supervision responsibilities and strengthened self-building in accordance with the relevant laws, regulations and regulatory requirements of the State and the provisions of the Articles of Association of the Bank. It focused its supervision efforts on duty performance, financial management, internal control and risk management. It broadened its supervisory scope and enhanced its supervisory achievements, playing an active role in promoting the stable business development of the Bank.

During the past year, the Board of Supervisors strengthened the supervision and appraisal on the performance of duties by directors and senior management members in strict accordance with regulatory requirements, and promoted the improvement of the corporate governance structure by urging the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management to perform their respective duties and responsibilities in a coordinated fashion with effective checks and balances. In addition, it exercised solid supervision over strategies, strengthened the tracking and supervision of the formulation, execution and evaluation of the Bank's development strategies. It attended the meetings of the Board of Directors and relevant meetings on operation and management and made advices and suggestions. It also launched special inspections to give play to the supervision and promotion functions of tour inspections and gain a comprehensive and in-depth understanding of the development of various lines of business of the Bank, which strengthened the substantial supervision responsibility.

Chief Supervisor's Statement

During the past year, the Board of Supervisors seriously implemented the requirement of strict governance over the Party and deepened the self-building of the Board of Supervisors. It added two supervisors, adjusted and improved the respective committees of the Board of Supervisors so that they could better play their fundamental roles. It organized trainings for supervisors to beef up their performance ability and skills. The members of the Board of Supervisors were faithful and diligent in their work, giving full play to their own expertise. They actively attended meetings, reviewed proposals, carried out surveys and presented supervisory opinions independently and objectively, earnestly fulfilling their supervisory duties.

We attribute the results to the support of customers, investors and friends from all walks of life. On behalf of the Board of Supervisors, I would like to extend my heartfelt thanks to people from all walks of life for their care and support to the development of the Bank of Gansu. In 2019, we will firmly focus on the reform and development of the Bank and the implementation of strategies, earnestly fulfill our duties and perform supervision responsibilities, playing well our supervisory role to provide strong guarantee to build a modern and first-class city commercial bank.



Chairman of the Board of Supervisors
Tang Lan

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"Articles of Association" or "Articles"	the articles of association of the Bank
"Baiyin City Commercial Bank"	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all the shareholders of Baiyin City Commercial Bank and all the shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
"Bank", "our Bank"	Bank of Gansu Co., Ltd. (甘肅銀行股份有限公司), a joint stock company incorporated in Gansu province, the PRC on November 18, 2011 with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
"Banking Ordinance"	Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Baoshang Bank"	Baoshang Bank Co., Ltd. (包商銀行股份有限公司), a city commercial bank incorporated in the PRC on December 16, 1998, of which Baotou Taiping Business Group Co., Ltd. (包頭市太平商貿集團有限公司) is its largest shareholder, holding 9.07% of its equity interests. As of the Latest Practicable Date, Baoshang Bank held approximately 8.39% equity interests in the Bank
"Board of Directors", "Board"	the board of Directors of the Bank
"Board of Supervisors"	the board of Supervisors of the Bank
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
"CAGR"	compound annual growth rate
"Capital Adequacy Ratio Measures"	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks《(商業銀行資本充足率管理辦法》) promulgated by the CBRC on February 23, 2004 and effective on March 1, 2004 and amended on July 3, 2007, which were later abolished by the Capital Administrative Measures on January 1, 2013
"Capital Administrative Measures"	the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"CBIRC Gansu Office"	the China Banking and Insurance Regulatory Commission Gansu Office (中國銀行業監督管理委員會甘肅監管局)

"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Core Indicators (Provisional)"	the Core Indicators for Risk Supervision of Commercial Banks (Provisional) (《商業銀行風險監管核心指標(試行)》) promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"Corporate Governance Guidelines"	the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) promulgated by the CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	director(s) of the Bank
"Domestic Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
"Gansu Electric Power Investment"	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限責任公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of December 31, 2018 and up to the Latest Practicable Date, Gansu Electric Power Investment held approximately 6.30% equity interests in the Bank
"Gansu Highway Aviation Tourism"	Gansu Province Highway Aviation Tourism Investment Group Co., Ltd (甘肅省公路航空旅遊投資集團有限公司), a company incorporated in the PRC on December 24, 1999 and a wholly-owned subsidiary of the Department of Transportation of Gansu Province (甘肅省交通運輸廳). As of December 31, 2018 and up to the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 12.49% equity interests in the Bank. It is a substantial Shareholder and connected person of the Bank
"Gansu SASAC"	the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會)
"Gansu State-owned Assets Investment"	Gansu Province State-owned Assets Investment Group Co., Ltd. (甘肅省國有資產投資集團有限公司), a company incorporated in the PRC on November 23, 2007, and 83.54% owned by Gansu SASAC and 16.46% by Jiuquan Iron & Steel. As of December 31, 2018 and up to the Latest Practicable Date, it directly held approximately 3.57% equity interests in the Bank, and indirectly held approximately 12.59% equity interests in the Bank through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. It is a substantial Shareholder and connected person of the Bank
"GDP"	gross domestic product
"GRC system"	Governance, Risk and Compliance Management system

Definitions

"green finance"	economic activities supporting environmental improvements, climate change, conservation and high efficiency utilization of resources, including financial services for project investment, financing, operation and risk management in environmental protection, energy conservation, clean energy, green transportation and green architecture
"H Share(s)"	ordinary shares to be issued by the Bank in Hong Kong pursuant to the Global Offering, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed and traded on the Hong Kong Stock Exchange
"HK$", "HKD" or "HK dollars"	Hong Kong Dollars, the lawful currency of Hong Kong
"HKMA"	the Hong Kong Monetary Authority
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司證券上市規則), as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"independent third party"	a person or entity not considered a connected person or an associate of a connected person of the Bank under the Hong Kong Listing Rules
"Jinchuan Group"	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investments is its largest shareholder, holding 48.67% of its equity interests. As of December 31, 2018 and up to the Latest Practicable Date, Jinchuan Group held approximately 6.30% equity interests in the Bank
"Jingning Chengji Rural Bank"	Pingliang Jingning Chengji Rural Bank Co., Ltd., a joint stock company with limited liability incorporated in the PRC on September 18, 2008 and a subsidiary of the Bank
"Jiuquan Iron & Steel"	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司), a company incorporated in the PRC on May 26, 1998, and 68.09% owned by Gansu SASAC and 31.91% by Gansu State-owned Assets Investment. As of December 31, 2018 and up to the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.30% equity interests in the Bank
"Latest Practicable Date"	March 27, 2019, the latest practicable date for ascertaining certain information in this annual report before its publication

"Listing"	the listing of H Shares of the Bank on the Hong Kong Stock Exchange
"Listing Date"	January 18, 2018, being the date on which dealing in the H Shares of the Bank first commences on the Hong Kong Stock Exchange
"NAFMII"	the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
"non-standard credit assets"	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this annual report represents our investments in trust plans, asset management plans and wealth management products issued by other financial institutions
"NPL ratio" or "non-performing loans ratio"	the percentage ratio calculated by dividing non-performing loans by total loans
"NPLs" or "non-performing loans"	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Pingliang City Commercial Bank"	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all the shareholders of Baiyin City Commercial Bank and all the shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
"PRC" or "China"	the People's Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
"PRC Banking Supervision and Regulatory Law"	the Banking Supervision and Regulatory Law of the PRC (《中華人民共和國銀行業監督管理法》), which was promulgated by the 6th meeting of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
"PRC Commercial Banking Law"	the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》), which was promulgated by the 13th meeting of the Standing Committee of the 8th National People's Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the 10th National People's Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time

Definitions

"PRC PBOC Law"	the Law of the People's Bank of China of the PRC (《中華人民共和國中國人民銀行法》), as enacted by the 3rd meeting of the Standing Committee of the 8th National People's Congress on March 18, 1995, became effective on the same date, as amended, supplemented or otherwise modified from time to time
"PRC Securities Law"	the Securities Laws of the PRC (《中華人民共和國證券法》), as promulgated by the 6th meeting of the Standing Committee of the 9th National People's Congress on December 29, 1998 and previously modified upon approval by the Standing Committee of the 12th National People's Congress on August 31, 2014, as amended, supplemented or otherwise modified from time to time
"provincial city commercial bank(s)"	local city commercial bank(s), whose establishment was promoted by the provincial government
"related party" or "related parties"	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBRC, the PRC GAAP and/or IFRS
"related party transaction(s)"	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the CBRC, the PRC GAAP and/or IFRS
"Reporting Period"	the year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	holder(s) of the Shares
"Shares"	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
"SOE(s)"	state-owned enterprise(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	"subsidiary(ies)" as defined under Rule 1.01 of the Hong Kong Listing Rules
"Supervisor(s)"	the supervisor(s) of the Bank
"three rurals"	rural areas, agriculture and farmers

"U.N."	United Nations
"United States" or "U.S."	the United States of America
"US$", "USD" or "U.S. dollar(s)"	U.S. dollars, the lawful currency of the United States of America
"we", "us", "our", "Group" or "our Group"	the Bank and its subsidiary on a consolidated basis

In this annual report:

- *certain amounts and percentage figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*
- *unless the context otherwise requires, the terms "associate(s)", "close associate(s)", "connected person(s)", "connected transaction(s)", "core connected person(s)" and "substantial shareholder(s)" have the meanings given to such terms in the Hong Kong Listing Rules.*
- *for the ease of reference, in this annual report, unless otherwise indicated, the terms "gross loans and advances to customers", "loans" and "grant of loans" are used synonymously.*
- *if there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*

Company Profile

I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Liu Qing
Authorized Representatives	:	Liu Qing, Ng Wing Yan
Secretary to the Board of Directors	:	Hao Jumei
Company Secretary	:	Ng Wing Yan
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province, the PRC
Principal Office Address	:	Gansu Bank Building, 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Customer Service Hotline	:	+86 400–86 96666
Telephone	:	+86 931 877 0491
Facsimile	:	+86 931 877 1877
Website of the Bank	:	www.gsbankchina.com
Principal Place of Business in Hong Kong	:	40/F, Sunlight Tower, 248 Queen’s Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	www.hkexnews.hk
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited, BANK OF GANSU, 2139
H Share Registrar	:	Computershare Hong Kong Investor Services Limited
PRC Legal Adviser	:	Grandall Law Firm (Shanghai)
Hong Kong Legal Adviser	:	Latham & Watkins LLP
Domestic Auditor	:	Shinewing Certified Public Accountants LLP

International Auditor	:	SHINEWING (HK) CPA Limited
Compliance Advisor	:	Guotai Junan Capital Limited
Place of Inspection of the Annual Report	:	Office of the Board of the Bank

II. HISTORY OF THE BANK

In light of the lack of provincial city commercial banks in Gansu province and to promote the economic development of Gansu province, the People's Government of Gansu Province decided to establish a provincial city commercial bank by building on the foundations of Baiyin City Commercial Bank and Pingliang City Commercial Bank. Therefore, on May 30, 2011, 25 legal entities (including large and medium-sized SOEs in Gansu province and private enterprises in and outside Gansu province) and representatives of all the shareholders of Baiyin City Commercial Bank and Pingliang City Commercial Bank jointly entered into a promoters agreement in respect of Dunhuang Bank Co., Ltd. (敦煌銀行股份有限公司). Pursuant to the agreement, the 25 legal entities contributed cash and all the shareholders of Baiyin City Commercial Bank and Pingliang City Commercial Bank contributed the appraised net assets of Baiyin City Commercial Bank and Pingliang City Commercial Bank, respectively, to incorporate Dunhuang Bank Co., Ltd. On August 24, 2011, the General Office of the People's Government of Gansu Province approved the change to the name of the Bank to be incorporated from the former "Dunhuang Bank Co., Ltd." to "Bank of Gansu Co., Ltd.". On September 27, 2011, the CBIRC approved the establishment of the Bank. On November 18, 2011, the CBIRC Gansu Office approved the commencement of business of the Bank and the conversion of Baiyin City Commercial Bank, Pingliang City Commercial Bank and their branches and sub-branches into Baiyin Branch, Pingliang Branch and its sub-branches. On the same day, the Bank was granted the enterprise business license by the Administration for Industry and Commerce of Gansu Province and was formally incorporated under the PRC Company Law. The Bank is the only provincial city commercial bank in Gansu province.

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu province, the PRC. The Bank has established a principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong and was registered as a non-Hong Kong company on June 28, 2017 under Part XVI of the Companies Ordinance. The Bank appointed Ms. Ng Wing Yan as the Bank's authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Bank in Hong Kong is the same as the Bank's principal place of business in Hong Kong.

As the Bank was established in the PRC, the Bank's corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. The Bank carries on banking business in the PRC under the supervision and regulation of the CBIRC and the PBOC. The Bank is not an authorized institution within the meaning of the Banking Ordinance, and is not subject to the supervision of the HKMA, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

The Bank's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on January 18, 2018.

III. AWARDS OF THE BANK IN 2018

Awards and Honors	Awarding Party/Media
Ranked 391st among the 2018 Top 1000 World Banks (65th among Chinese banks)	The Banker Magazine
Ranked 330th among the 2019 Top 500 Most Valuable Global Banking Brands (39th among domestic banks)	The Banker Magazine, Brand Finance
An overall ranking of No. 9th among city commercial banks with assets over RMB200 billion based on the "GYROSCOPE" evaluation by China Banking Association in 2018	China Banking Association
Ranked 2nd among local city commercial banks in terms of core competitiveness (with assets ranging from RMB200–300 billion)	The Chinese Bankers Magazine
The Best City Commercial Bank of Strategic Management (最佳戰略管理城市商業銀行)	The Chinese Bankers Magazine
Top Ten FinTech Product Innovation Award (十佳金融科技產品創新獎)	The Chinese Bankers Magazine
Achievement Award for IT Risk Management Research of the Banking Industry in 2018 (Class II) (2018年度銀行業資訊科技風險管理研究二類成果獎)	China Banking and Insurance Regulatory Commission
2017 Poverty Alleviation Contribution Award in Gansu Province (2017年全省脱貧攻堅貢獻獎)	The Party Committee and The People's Government of Gansu Province
2017 Provincial Governor Financial Award (2017年度省長金融獎)	The People's Government of Gansu Province
Grade A Bank in Anti-Money Laundering Assessment (全省反洗錢考核A類行)	Lanzhou Central Sub-branch of the PBOC
2018 Top 10 Targeted Poverty Alleviation Innovation Demonstration Banks (2018十佳精準扶貧創新示範銀行)	China Comment
Award for Leading Financial Enterprise in Gansu (甘肅領航金融企業獎)	Xinhua News Agency Gansu Bureau
Outstanding Contribution Enterprise Award (突出貢獻單位獎)	Gansu Province Charity Federation (甘肅省慈善總會)

Awards and Honors	Awarding Party/Media
Outstanding Contribution Award for Product Innovation in Financial Industry (金融行業產品創新突出貢獻獎)	FCMAG (《金融電子化》雜誌社)
2018 Best Mobile Banking Functions Award for Regional Commercial Banks (2018區域性商業銀行最佳手機銀行功能獎)	China Financial Certification Authority
Excellent Proprietary Institution Award (優秀自營商獎)	CCDC
2018 Top 300 Trading Banks in Interbank RMB Market (2018年度銀行間本幣市場交易300強)	National Interbank Funding Center
China Securities "Golden Bauhinia" Award: Best Listed Company's CFO (中國證券"金紫荊"獎最佳上市公司CFO獎)	Hong Kong International Financial Forum
Debt Financing Plan Business Breakthrough Award (債權融資計劃業務乘風破浪獎)	Beijing Financial Assets Exchange

Financial Highlights

FIVE-YEAR FINANCIAL DATA

(Expressed in millions of RMB, unless otherwise stated)	2018	2017	2016	2015	2014
Results of operations					
Interest income	15,327.1	14,045.8	12,063.0	11,129.0	7,992.7
Interest expense	(8,199.3)	(6,560.8)	(5,392.8)	(5,995.0)	(4,559.7)
Net interest income	7,127.8	7,485.0	6,670.2	5,134.0	3,433.0
Fee and commission income	362.7	462.8	327.4	198.7	166.0
Fee and commission expenses	(196.6)	(86.1)	(71.1)	(57.3)	(27.4)
Net fee and commission income	166.1	376.7	256.3	141.4	138.6
Net trading gains/(losses)	1,089.2	(21.9)	(8.0)	(6.1)	–
Net gains/(losses) arising from investment securities	42.7	116.9	–	(1.0)	–
Net exchange gains/(losses)	388.2	(13.2)	9.9	6.3	(1.2)
Other operating income	58.2	109.0	42.5	28.2	32.0
Operating income	8,872.2	8,052.5	6,970.9	5,302.8	3,602.4
Operating expenses	(2,271.0)	(2,052.2)	(1,903.8)	(1,830.0)	(1,258.6)
Impairment losses on assets	(1,962.4)	(1,523.0)	(2,504.4)	(1,720.5)	(938.0)
Operating profit	4,638.8	4,477.3	2,562.7	1,752.3	1,405.8
Share of profits of associates	(1.0)	1.8	1.9	1.4	2.8
Profit before tax	4,637.8	4,479.1	2,564.6	1,753.7	1,408.6
Income tax expense	(1,198.2)	(1,115.4)	(643.6)	(455.3)	(346.0)
Profit for the year	3,439.6	3,363.7	1,921.0	1,298.4	1,062.6
Profit for the year attributable to:					
– Owners of the Bank	3,435.3	3,358.5	1,917.0	1,295.4	1,060.0
– Non-controlling interests	4.3	5.2	4.0	3.0	2.6
Profit for the year	3,439.6	3,363.7	1,921.0	1,298.4	1,062.6

(Expressed in millions of RMB, unless otherwise stated)	2018	2017	2016	2015	2014
Major indicators of assets/liabilities					
Total assets	328,622.4	271,147.6	245,056.4	211,930.7	165,100.1
Of which: total loans and advances to customers	160,885.3	130,283.6	107,855.1	90,626.7	56,495.5
Total liabilities	303,374.8	254,534.6	231,712.7	199,836.0	154,350.2
Of which: deposits from customers	210,723.3	192,230.6	171,165.3	141,020.6	110,541.6
Total equity	25,247.6	16,613.0	13,343.7	12,094.7	10,749.9
Per share *(RMB)*					
Net assets per share	2.51	2.21	1.77	1.61	1.51
Basic earnings per share	0.35	0.45	0.25	0.17	0.19
Diluted earnings per share	0.35	0.45	0.25	0.17	0.19
Profitability indicators *(%)*					
Return on assets[(1)]	1.15	1.30	0.84	0.69	0.87
Return on equity[(2)]	16.43	22.46	15.10	11.37	12.16
Net interest spread[(3)]	2.07	2.74	2.89	2.79	2.56
Net interest margin[(4)]	2.37	2.91	3.08	2.96	2.85
Net fee and commission income to operating income ratio[(5)]	1.87	4.68	3.68	2.67	3.85
Cost-to-income ratio[(6)]	24.72	24.81	25.16	28.72	29.56
Capital adequacy indicators *(%)*					
Core tier-one capital adequacy ratio[(7)]	11.01	8.71	8.58	8.57	9.85
Tier-one capital adequacy ratio[(8)]	11.01	8.71	8.58	8.57	9.85
Capital adequacy ratio[(9)]	13.55	11.54	11.80	11.42	10.55
Shareholders' equity to total assets ratio	7.68	6.13	5.45	5.71	6.51
Assets quality indicators *(%)*					
Non-performing loan ratio	2.29	1.74	1.81	1.77	0.39
Provision coverage ratio[(10)]	169.47	222.00	192.72	150.94	448.83
Provision to total loan ratio[(11)(12)]	3.89	3.86	3.48	2.67	1.73
Other indicators *(%)*					
Loan to deposit ratio[(13)]	76.35	67.77	63.01	64.26	51.11

Financial Highlights

Notes:

(1) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.

(2) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.

(3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(4) Calculated by dividing net interest income by average interest-earning assets.

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

(6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.

(7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.

(8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.

(9) Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.

(10) Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.

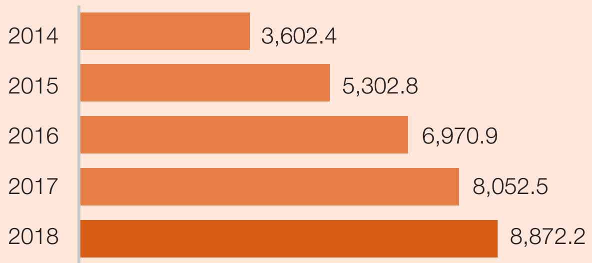
(11) Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.

(12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2018.

(13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.

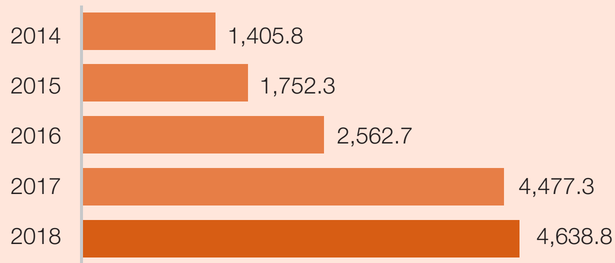
Operating income

Unit: RMB in millions



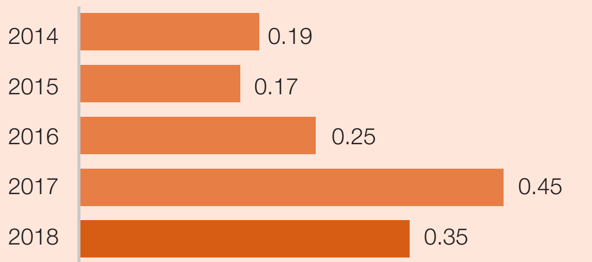
Operating profit

Unit: RMB in millions



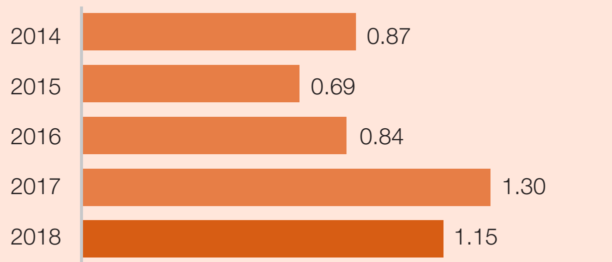
Basic earnings per share

Unit: RMB



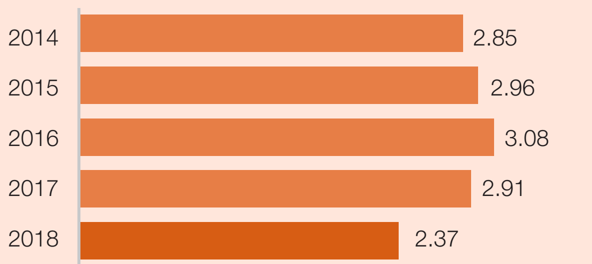
Return on assets

Unit: %



Net interest margin

Unit: %



Cost-to-income ratio

Unit: %

Management Discussion and Analysis

ENVIRONMENT AND PROSPECT

In 2018, China's economy managed to maintain a steady and improved growth momentum on the whole amidst an intricate and complex international environment as well as arduous and onerous domestic reform, development and stability tasks. China's gross domestic product surpassed RMB90 trillion in 2018, representing an increase of 6.6%; the number of newly-employed workers in the urban areas was 13.61 million; the consumer price index (CPI) registered a moderate increase of 2.1% throughout the year; total imports and exports surpassed RMB30 trillion for the first time, representing a year-on-year increase of 9.7%. The year 2019 marks the 70th anniversary since the founding of the People's Republic of China. It is also a critical year in achieving the first centenary goal of successfully building a moderately prosperous society in all respects. Domestically, China will focus on promoting high-quality growth, deepening supply-side structural reform, securing a victory in the three critical missions, deepening reform and opening-up, and facilitating the development of a strong domestic market; internationally, China will participate in the reform of the global economic governance system and take full advantage of the opportunities arising from a general steady albeit changing and unfavourable economic operation, thereby further transforming external pressures into driving forces for high-quality economic growth.

Gansu Province, where the Bank mainly operates, is at a critical phase of strategic opportunities, shifting of growth drivers and tackling of key tasks. In 2018, the economic operation of Gansu Province was steady and improved, with its gross domestic product reaching RMB824.61 billion, representing a year-on-year increase of 6.3% (2.7 percentage points higher than the growth rate of the previous year). In 2019, while carrying out the dual tasks of improving quality and efficiency and steadily expanding economic output, holding onto the two bottom lines of poverty alleviation and ecological environmental protection, and making concerted efforts to drive economic growth, the People's Government of Gansu Province will ensure economic activities are conducted in accordance with the guidelines of "consolidation, enhancement, improvement and non-impediment" with a focus on six major tasks including strengthening industries, securing new growth drivers, facilitating opening-up, tapping growth potential, improving the environment and safeguarding people's livelihood, thereby ensuring a new round of orderly economic growth.

In 2018, China's banking industry maintained a sound growth momentum, with continued improvement in the quality of assets and operating results of the whole industry. The restructuring and optimization of the banking industry was in line with the trend of implementation of national strategies, high-quality development of the economy and market-oriented reform of interest rates, achieving a positive interaction between the banking industry and the real economy. In 2019, with supply-side structural reform as the main task, the banking industry will secure a victory in the critical mission of preventing and controlling financial risks, promoting comprehensive reform and opening-up within the industry, continue to promote business transformation and service upgrading and enhance Fintech standards. Furthermore, commercial banks are encouraged to take full advantage of perpetual bonds and other capital replenishment channels to optimise their capital structure, enhance their ability to prevent risks and to serve business entities with credit supply; and are encouraged to make reasonable use of diversified debt instruments and enhance their pricing ability so as to promote sound development of the liability business.

In 2019, judging from the main development trends at home and abroad, China remains at an important period of strategic development opportunities and will remain so for a long term. As various countries are interconnected and their futures are interwoven together, win-win cooperation has become an irreversible trend and the progress of economic globalization will not be affected. In light of this, the Bank will follow the trends and further improve its corporate governance structure after the successful listing of its H Shares and build itself into a domestic and overseas financing platform so as to make full use of various advantages in the domestic and international economic environment. In addition, by adhering to the principle of compliance operation and steady development, the Bank will enhance its operating efficiency and ability, capture development opportunities, strictly control risks and maintain quality of assets, so as to comprehensively promote high-quality business development.

DEVELOPMENT STRATEGY

Our vision is committed to building ourselves into a first class listed city commercial bank. To this end, the Bank will adhere to the principle of customer-centric, base business operation on sustainable development, guarantee business safety with risk prevention, drive business growth through capability enhancement and regard serving the real economy as its mission. It will make steady progress while prioritising economic benefits and set off on a path that leads to “differentiated, comprehensive, refined and international” development.

To achieve the aforesaid goals, the Bank plans to: (i) advance internal reforms to optimize organizational structure and enhance the corporate governance standards and fundamental management capability of the Bank; (ii) develop mega retail business system to ensure the implementation of the retail transformation strategy; (iii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iv) quicken its pace of integrated operation by actively applying for various business licenses in order to enhance its ability to provide comprehensive services; (v) promote the application of Fintech and cross-sector cooperation to expand its service coverage; (vi) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; (vii) adapt to new norms for regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (viii) explore new business growth models by leveraging the larger international platform available to the Bank after the listing of its H Shares; and (ix) adhere to talent cultivation with continuous promotion in team cohesion.

OVERALL BUSINESS REVIEW

The Bank recorded a total operating income of RMB8,872.2 million in 2018, representing an increase of 10.2% as compared to RMB8,052.5 million in 2017. The Bank’s net profit increased by 2.3% from RMB3,363.7 million in 2017 to RMB3,439.6 million in 2018. The Bank’s performance not only delivered sound returns to the Shareholders and investors, but also laid a solid foundation for its sustainable development.

As at December 31, 2018, the Bank’s total assets amounted to RMB328,622.4 million, representing a year-on-year increase of 21.2%; total loans and advances to customers amounted to RMB160,885.3 million, representing a year-on-year increase of 23.5%; the non-performing loan ratio remained at a reasonable level of 2.29%; total deposits from customers amounted to RMB210,723.3 million, representing a year-on-year increase of 9.6%.

(a) Analysis of the Consolidated Statements of Profit or Loss

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change *(%)*
Interest income	15,327.1	14,045.8	1,281.3	9.1
Interest expense	(8,199.3)	(6,560.8)	(1,638.5)	25.0
Net interest income	7,127.8	7,485.0	(357.2)	(4.8)
Fee and commission income	362.7	462.8	(100.1)	(21.6)
Fee and commission expenses	(196.6)	(86.1)	(110.5)	128.3
Net fee and commission income	166.1	376.7	(210.6)	(55.9)
Net trading gains/(losses)	1,089.2	(21.9)	1,111.1	–
Net gains/(losses) arising from investment securities	42.7	116.9	(74.2)	(63.5)
Net exchange gains/(losses)	388.2	(13.2)	401.4	–
Other operating income	58.2	109.0	(50.8)	(46.6)
Operating income	8,872.2	8,052.5	819.7	10.2
Operating expenses	(2,271.0)	(2,052.2)	(218.8)	10.7
Impairment losses on assets	(1,962.4)	(1,523.0)	(439.4)	28.9
Operating profit	4,638.8	4,477.3	161.5	3.6
Share of profits of associates	(1.0)	1.8	(2.8)	(155.6)
Profit before tax	4,637.8	4,479.1	158.7	3.5
Income tax expense	(1,198.2)	(1,115.4)	(82.8)	7.4
Profit for the year	3,439.6	3,363.7	75.9	2.3
Profit for the year attributable to:				
– Owners of the Bank	3,435.3	3,358.5	76.8	2.3
– Non-controlling interests	4.3	5.2	(0.9)	(17.3)
Profit for the year	3,439.6	3,363.7	75.9	2.3

In 2018, the Bank's profit before tax was RMB4,637.8 million, representing a year-on-year increase of 3.5%; profit for the year was RMB3,439.6 million, representing a year-on-year increase of 2.3%, mainly attributable to the stable growth of total interest-earning assets resulting in increase in operating income of RMB819.7 million or 10.2% as compared to the previous year.

(i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 93.0% and 80.3% of the operating income in 2017 and 2018 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change (%)
Interest income	15,327.1	14,045.8	1,281.3	9.1
Interest expense	(8,199.3)	(6,560.8)	(1,638.5)	25.0
Net interest income	7,127.8	7,485.0	(357.2)	(4.8)

The table below sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield of related assets or average cost of related liabilities of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance[(1)]	Interest income	Average yield[(2)] (%)	Average balance[(1)]	Interest income	Average yield[(2)] (%)
Interest-earning assets						
Loans and advances to customers	147,267.4	9,971.4	6.77	116,311.5	7,744.8	6.66
Investment securities and other financial assets[(3)]	92,171.5	3,812.3	4.14	82,720.9	4,687.8	5.67
Deposits with banks	20,051.6	692.6	3.45	26,615.8	974.5	3.66
Financial assets held under resale agreements and placements with banks and other financial institutions	13,486.8	416.4	3.09	6,692.5	251.3	3.75
Deposits with the central bank[(4)]	28,153.5	434.4	1.54	24,974.1	387.4	1.55
Total interest-earning assets	301,130.8	15,327.1	5.09	257,314.8	14,045.8	5.46

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 Average balance[1]	Interest expense	Average yield[2] (%)	Year ended December 31, 2017 Average balance[1]	Interest expense	Average yield[2] (%)
Interest-bearing liabilities						
Deposits from customers	196,727.2	4,923.3	2.50	177,607.9	3,532.7	1.99
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	12,823.5	431.1	3.36	7,899.0	239.1	3.03
Debt securities issued[5]	32,958.1	1,566.3	4.75	20,126.6	946.0	4.70
Deposits from banks and other financial institutions	21,964.5	1,017.5	4.63	31,807.2	1,712.5	5.38
Borrowings from the central bank	7,034.1	261.1	3.71	3,939.4	130.5	3.31
Total interest-bearing liabilities	271,507.4	8,199.3	3.02	241,380.1	6,560.8	2.72
Net interest income		7,127.8			7,485.0	
Net interest spread[6]			2.07			2.74
Net interest margin[7]			2.37			2.91

Notes:

(1) The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts.

(2) Calculated by dividing interest income/expense by average balance.

(3) Primarily includes investments classified as receivables, available-for-sale financial assets, held-to-maturity investments, and financial assets at fair value through profit or loss.

(4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.

(5) Primarily includes interbank certificates and tier-two capital bonds.

(6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

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

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate for the periods indicated. Changes in amount are measured by changes in average balances, and changes in interest rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 vs 2017 Increase/(decrease) due to Amount[1]	Rate[2]	Net increase/ (decrease)[3]
Interest-earning assets			
Loans and advances to customers	2,095.7	127.9	2,226.6
Investment securities and other financial assets	391.3	(1,265.6)	(875.5)
Deposits with banks	(226.5)	(55.9)	(281.9)
Financial assets held under resale agreements and placements with banks and other financial institutions	209.9	(44.2)	165.1
Deposits with the central bank	49.0	(2.5)	47.0
Change in interest income	2,230.2	(952.1)	1,281.3
Interest-bearing liabilities			
Deposits from customers	478.0	905.8	1,390.6
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	165.5	26.1	192.0
Debt securities issued	609.5	10.1	620.3
Deposits from banks and other financial institutions	(455.7)	(238.6)	(695.0)
Borrowings from the central bank	114.8	15.8	130.6
Change in interest expense	909.8	724.1	1,638.5
Change in net interest income	1,320.4	(1,676.2)	(357.2)

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

(ii) Interest income

The table below sets forth the principal components of interest income of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 Amount	% of total	2017 Amount	% of total
Loans and advances to customers	9,971.4	65.1	7,744.8	55.1
Investment securities and other financial assets	3,812.3	24.9	4,687.8	33.4
Deposits with banks	692.6	4.5	974.5	6.9
Financial assets held under resale agreements and placements with banks and other financial institutions	416.4	2.7	251.3	1.8
Deposits with the central bank	434.4	2.8	387.4	2.8
Total	15,327.1	100.0	14,045.8	100.0

Interest income increased by 9.1% from RMB14,045.8 million in 2017 to RMB15,327.1 million in 2018, primarily due to a 17.0% increase in the average balance of interest-earning assets, from RMB257,314.8 million in 2017 to RMB301,130.8 million in 2018, partially offset by a decrease in the average yield of interest-earning assets from 5.46% in 2017 to 5.09% in 2018. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to a decrease in the average yield of investment securities and other financial assets, the reallocation of interest income from financial assets at fair value through profit or loss under under interest income to net trading gains upon adoption of new financial instrument standards, lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields.

Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 55.1% and 65.1% of total interest income in 2017 and 2018, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 Average balance[1]	Interest income	Average yield (%)	2017 Average balance	Interest income	Average yield (%)
Corporate loans	106,076.8	7,194.3	6.78	88,204.1	5,918.5	6.71
Retail loans	22,678.2	1,757.7	7.75	10,223.8	945.1	9.24
Discounted bills	18,512.4	1,019.4	5.51	17,883.6	881.2	4.93
Total loans and advances to customers	147,267.4	9,971.4	6.77	116,311.5	7,744.8	6.66

Note:

(1) Represents the average of daily balances based on our unaudited management accounts.

(A) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets decreased by 18.7% from RMB4,687.8 million in 2017 to RMB3,812.3 million in 2018, primarily due to a 11.4% increase in the average balance of investment securities and other financial assets, from RMB82,720.9 million in 2017 to RMB92,171.5 million in 2018, offset by a decrease in the average yield of investment securities and other financial assets, from 5.67% in 2017 to 4.14% in 2018. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets; (ii) our increased investments in debt securities with high liquidity and lower yields; and (iii) reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon adoption of new financial instrument standards..

Interest income from deposits with banks

Interest income from deposits with banks decreased by 28.9% from RMB974.5 million in 2017 to RMB692.6 million in 2018, primarily due to a 24.7% decrease in the average balance of deposits with banks, from RMB26,615.8 million in 2017 to RMB20,051.6 million in 2018, and a decrease in the average yield of deposits with banks, from 3.66% in 2017 to 3.45% in 2018. The decrease in average balance was due to our decreased investments in deposits with banks based on changes in interbank money market interest rates. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease in returns from deposits with banks.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 65.7% from RMB251.3 million in 2017 to RMB416.4 million in 2018, which was primarily due to a 101.5% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB6,692.5 million in 2017 to RMB13,486.8 million in 2018; a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.75% in 2017 to 3.09% in 2018, was offset, which in turn resulted in an increase in returns from reverse repurchase transactions.

Interest income from deposits with the central bank

Interest income from deposits with the central bank increased by 12.1% from RMB387.4 million in 2017 to RMB434.4 million in 2018, primarily due to a 12.7% increase in the average balance of deposits with the central bank, from RMB24,974.1 million in 2017 to RMB28,153.5 million in 2018. The increase in average balance was primarily due to increased statutory deposit reserves resulting from the continued growth in deposits from customers.

Interest expense

The table below sets forth the principal components of interest expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 Amount	2018 % of total	2017 Amount	2017 % of total
Deposits from customers	4,923.3	60.0	3,532.7	53.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	431.1	5.3	239.1	3.6
Debt securities issued	1,566.3	19.1	946.0	14.4
Deposits from banks and other financial institutions	1,017.5	12.4	1,712.5	26.1
Borrowings from the central bank	261.1	3.2	130.5	2.0
Total	8,199.3	100.0	6,560.8	100.0

Interest expense increased by 25.0% from RMB6,560.8 million in 2017 to RMB8,199.3 million in 2018, primarily due to a 12.5% increase in the average balance of interest-bearing liabilities, from RMB241,380.1 million in 2017 to RMB271,507.4 million in 2018, and an increase in the average cost of interest-bearing liabilities, from 2.72% in 2017 to 3.02% in 2018. The increase in the average balance of interest-bearing liabilities was primarily due to the increases in customer deposits and repurchase transactions and our issuance of debt securities and borrowings from the central bank. The increase in the average cost of interest-bearing liabilities was primarily due to higher market interest rates.

(B) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 39.4% from RMB3,532.7 million in 2017 to RMB4,923.3 million in 2018, primarily due to a 10.8% increase in the average balance of deposits from customers, from RMB177,607.9 million in 2017 to RMB196,727.2 million in 2018, and an increase in the average cost of deposits from customers, from 1.99% in 2017 to 2.50% in 2018. The increase in the average cost of deposits from customers was primarily due to higher interest rates in deposit market.

(C) Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 80.3% from RMB239.1 million in 2017 to RMB431.1 million in 2018, primarily due to a 62.3% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB7,899.0 million in 2017 to RMB12,823.5 million in 2018, and an increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 3.03% in 2017 to 3.36% in 2018. The increase in average balance was primarily because we entered into more repurchase transactions to diversify our financing channels. The increase in average cost was primarily due to higher market interest rates, which in turn led to an increase in the cost of repurchase transactions.

(D) Interest expense on debt securities issued

Interest expense on debt securities issued increased by 65.6% from RMB946.0 million in 2017 to RMB1,566.3 million in 2018, primarily due to a 63.8% increase in the average balance of debt securities issued, from RMB20,126.6 million in 2017 to RMB32,958.1 million in 2018 and an increase in the average cost of debt securities issued, from 4.70% in 2017 to 4.75% in 2018. The increase in average balance was primarily due to our issuance of financial bonds in an aggregate principal amount of RMB1,500.0 million and interbank certificates in an aggregate principal amount of RMB45,090.0 million. The increase in average cost was primarily due to our issuance of mid and long-term financial bonds which had relatively higher interest rates, and an increase in the interest rates of interbank certificates reflecting higher market interest rates.

(E) Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 40.6% from RMB1,712.5 million in 2017 to RMB1,017.5 million in 2018, primarily due to a 30.9% decrease in the average balance of deposits from banks and other financial institutions, from RMB31,807.2 million in 2017 to RMB21,964.5 million in 2018, primarily because fund raising through deposits from banks and other financial institutions were reduced as a result of increased deposits from customers and our issuance of interbank certificates and financial bonds. In 2017 and 2018, the average cost of deposits from banks and other financial institutions decreased from 5.38% to 4.63%.

(F) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank increased by 100.1% from RMB130.5 million in 2017 to RMB261.1 million in 2018, primarily due to a 78.6% increase in the average balance of borrowings from the central bank, from RMB3,939.4 million in 2017 to RMB7,034.1 million in 2018, primarily due to increase in business. The average cost of borrowings from the central bank increased from 3.31% in 2017 to 3.71% in 2018, respectively.

(iii) Net interest spread and net interest margin

Net interest spread decreased from 2.74% in 2017 to 2.07% in 2018, primarily due to a decrease in average yield of total interest-earning assets, from 5.46% to 5.09%, primarily due to (i) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields; and (ii) reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon of adoption of new financial instrument standards.. The decrease was partially offset by an increase in the average cost of total interest-bearing liabilities, from 2.72% to 3.02%, primarily due to higher market interest rate.

Net interest margin decreased from 2.91% in 2017 to 2.37% in 2018, primarily attributable to the growth in the daily average balance of interest-earning assets, which outpaced the net interest income.

Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change (%)
Fee and commission income				
Wealth management service fees	48.0	193.9	(145.9)	(75.2)
Agency service fees	207.3	144.4	62.9	43.6
Settlement and clearing fees	68.4	53.0	15.4	29.1
Bank acceptance bill service fees	19.8	14.7	5.1	34.7
Letters of guarantee fees	4.3	8.4	(4.1)	(48.8)
Others[(1)]	14.9	48.4	(33.5)	(69.2)
Subtotal	362.7	462.8	(100.1)	(21.6)
Fee and commission expenses	(196.6)	(86.1)	(110.5)	128.3
Net fee and commission income	166.1	376.7	(210.6)	(55.9)

Note:

(1) Primarily include guarantee fees and advisory service income.

Net fee and commission income decreased by 55.9% from RMB376.7 million in 2017 to RMB166.1 million in 2018, primarily due to decreases in wealth management service fees and letters of guarantee fees.

Fee and commission expenses mainly included settlement and clearing service fees paid to third parties and debit card service fees. Fee and commission expenses increased by 128.3% from RMB86.1 million in 2017 to RMB196.6 million in 2018, primarily due to increases in debit cards issued and a higher volume of debit card transactions of the Bank which led to an increase in relevant expenses.

(B) Net trading gains/(losses)

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. We had net trading losses of RMB21.9 million in 2017, and net trading gains of RMB1,089.2 million in 2018, primarily reflecting the fluctuations in market interest rates and reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon adoption of new financial instrument standards.

(C) Net gains from investment securities and other financial assets

The net gains from investment securities and other financial assets included net gains from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The net gains from investment securities and other financial assets of the Bank was RMB116.9 million in 2017. The net gains from investment securities and other financial assets of the Bank was RMB42.7 million in 2018. The decrease in the net gains was mainly due to change of accounting treatment following the application of IFRS9.

(D) Net exchange gains/(losses)

Net exchange gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. We had net exchange gains of RMB388.2 million and losses of RMB13.2 million in 2018 and 2017, primarily reflecting fluctuations in exchange rates.

(E) Other operating income

Other operating income mainly included government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets. Other operating income decreased by 46.6% from RMB109.0 million in 2017 to RMB58.2 million in 2018. This mainly reflects the decrease in government subsidies.

(iv) Operating expenses

Operating expenses increased by 10.7% from RMB2,052.2 million in 2017 to RMB2,271.0 million in 2018, primarily due to the increase in property and equipment expenses and staff costs.

The table below sets forth the principal components of operating expenses of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change *(%)*
Staff costs	1,240.5	1,157.3	83.2	7.2
General management and administrative expenses	429.8	431.0	(1.2)	(0.3)
Property and equipment expenses	523.1	409.3	113.8	27.8
Business tax and surcharge	77.7	54.6	23.1	42.3
Total	2,271.1	2,052.2	218.9	10.7
Cost-to-income ratio[1]	24.72%	24.81%	–	(0.36)

Note:

(1) Calculated by dividing total operating expenses (net of business tax and surcharge) by total operating income.

(A) Staff costs

The table below sets forth the components of staff costs for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change (%)
Salaries and bonuses	910.4	869.7	40.7	4.7
Social insurance	209.2	183.0	26.2	14.3
Housing allowances	57.1	41.9	15.2	36.3
Staff welfares	35.5	36.3	(0.8)	(2.2)
Labour union and staff education expenses	23.5	23.8	(0.3)	(1.3)
Others	4.8	2.6	2.2	84.6
Staff costs	1,240.5	1,157.3	83.2	7.2

Staff costs increased by 7.2% from RMB1,157.3 million in 2017 to RMB1,240.5 million in 2018, primarily due to a corresponding increase in the number of employees due to the expansion of our business.

(B) Property and equipment expenses

Property and equipment expenses increased by 27.8% from RMB409.3 million in 2017 to RMB523.1 million in 2018. The increase in property and equipment expenses mainly reflected an increase in depreciation on newly owned properties, and an increase in depreciation on equipment due to development of new IT systems and addition of new equipment.

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses decreased by 0.3% from RMB431.0 million in 2017 to RMB429.8 million in 2018, maintaining relatively stable.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank increased by 42.3% from RMB54.6 million in 2017 to RMB77.7 million in 2018. The increase is in line with business growth.

(v) Impairment losses on assets

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Increase or decrease	Percentage change (%)
Loans and advances to customers	1,994.4	1,262.5	731.9	58.0
Investment assets	(57.2)	244.2	(301.4)	(123.4)
Other assets	7.8	16.3	(8.5)	(52.2)
Acceptance bill and letter of guarantee	17.4	–	17.4	N/A
Impairment losses on assets	1,962.4	1,523.0	439.4	28.9

Note:

(1) Primarily include interest receivables, advance payment and repossessed assets.

Impairment losses on assets increased by 28.9% from RMB1,523.0 million in 2017 to RMB1,962.4 million in 2018, mainly due to increases in provisions for impairment of loans and advances to customers.

Impairment losses on loans and advances to customers increased by 58% from RMB1,262.5 million in 2017 to RMB1,994.4 million in 2018, mainly due to the increase in provision for impairment losses on assets resulting from to an increase in new non-performing loans in 2018.

(vi) Income tax expense

Income tax expense increased by 7.4 % from RMB1,115.4 million in 2017 to RMB1,198.2 million in 2018. The increase in income tax expense was in line with the growth of our business. Effective tax rates were 25.8% and 24.9% in 2018 and 2017, respectively.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of December 31, 2018 and 2017, the total assets of the Bank were RMB328,622.4 million and RMB271,147.6 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, gross	160,885.3	49.0	130,283.6	48.1
Provision for impairment losses	(6,251.5)	(1.9)	(5,029.0)	(1.9)
Loans and advances to customers, net	154,633.9	47.1	125,254.6	46.2
Investment securities and other financial assets[1]	102,876.4	31.3	70,105.5	25.9
Deposits with banks	12,927.7	3.9	30,811.7	11.4
Cash and deposits with the central bank	31,536.9	9.6	29,084.4	10.7
Financial assets held under resale agreements	19,523.8	5.9	9,819.9	3.6
Other assets[2]	7,123.7	2.2	6,071.5	2.2
Total assets	328,622.4	100.0	271,147.6	100.0

Notes:

(1) Including financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, and financial assets at amortised cost.

(2) Primarily consist of property and equipment, deposit paid for acquisitions of premises, deferred tax assets, interests receivable and interests in an associate.

(A) Loans and advances to customers

As of December 31, 2018, the total loans and advances to customers of the Bank were RMB160,885.3 million, representing an increase of 23.5% as compared to the end of last year. Net loans and advances to customers accounted for 47.1% of the total assets of the Bank, representing an increase of approximately 0.9 percentage points as compared to the end of last year.

The table below sets forth loans and advances to customers by product as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate loans	113,204.1	70.4	97,253.7	74.7
Retail loans	28,025.2	17.4	14,638.1	11.2
Discounted bills	19,656.0	12.2	18,391.8	14.1
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, all of which are substantially denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 47.1% and 46.2% of total assets as of December 31, 2018 and 2017, respectively.

The Bank's corporate loans increased by 16.40% from RMB97,253.7 million as of December 31, 2017 to RMB113,204.1 million as of December 31, 2018, primarily due to the increasing market demand for corporate loans.

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 91.50% from RMB14,638.1 million as of December 31, 2017 to RMB28,025.2 million as of December 31, 2018, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase online loans and personal housing mortgage loans.

Loans and advances to customers by type of collateral

The table below sets forth loans and advances to customers by type of collateral as of the dates indicated. If a loan is secured by multiple forms of collateral, the classification is based on the primary form of collateral.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Collateralized loans	77,917.8	48.4	58,395.8	44.8
Pledged loans	10,310.4	6.4	8,977.9	6.9
Guaranteed loans	54,814.5	34.1	50,146.6	38.5
Unsecured loans	17,842.6	11.1	12,763.3	9.8
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0

As of December 31, 2017 and 2018, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 90.2% and 88.9% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 39.80% from RMB12,763.3 million as of December 31, 2017 to RMB17,842.6 million as of December 31, 2018. The increase of unsecured loans was primarily due to the successive launching of certain online loan products with lower risk by utilizing big data resources.

Change to the provisions for impairment losses on loans and advances to customers

The table below sets forth the change to the provisions for impairment losses on loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	2018	2017
As of January 1	5,029.0	3,756.0
Adjustments due to application of new standards	52.2	
Charge for the year	1,994.4	1,262.5
Write-offs for the year and others	(824.8)	
Reversal of write-offs for the previous years	0.7	10.5
As of December 31	6,251.5	5,029.0

Provisions for impairment losses on loans increased by 24.30% from RMB5,029.0 million as of December 31, 2017 to RMB6,251.5 million as of December 31, 2018, primarily due to the increase in the Bank's provisions for impairment losses on account of the increase in non-performing loans of the Bank.

(B) Investment securities and other financial assets

As of December 31, 2018 and 2017, the Bank's investment securities and other financial assets were RMB105,605.8 million and RMB87,116.2 million, representing 32.1% and 35.5% of its total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

Investment securities and other financial assets increased by 21.2% from RMB87,116.2 million as of December 31, 2017 to RMB105,605.8 million as of December 31, 2018. This increase was primarily due to the adjustment of our investment portfolio based on investment considerations, market conditions and other factors.

(ii) Liabilities

As of December 31, 2018 and 2017, the total liabilities were RMB303,374.8 million and RMB254,534.6 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Deposits from customers	210,723.3	69.5	192,230.6	75.5
Deposits from banks and other financial institutions	15,513.8	5.1	20,178.4	7.9
Financial assets sold under repurchase agreements	11,717.0	3.9	5,817.5	2.3
Debt securities issued	41,576.8	13.7	23,960.8	9.4
Borrowings from the central bank	11,650.9	3.8	5,290.4	2.1
Placements with banks and other financial institutions	3,300.0	1.1	1,050.0	0.4
Other liabilities[1]	8,893.0	2.9	6,006.9	2.4
Total liabilities	303,374.8	100.0	254,534.6	100.0

Note:

(1) Primarily include interest payable, taxes payable, staff costs and deferred tax liabilities.

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2017 and 2018, deposits from customers represented 75.5% and 69.5% of the total liabilities, respectively.

We offer RMB-denominated demand and time deposit products to corporate and retail customers. The table below sets forth deposits from customers by product and customer type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	54,381.4	25.8	67,636.1	35.2
Time deposits	18,058.5	8.6	14,793.2	7.7
Subtotal	72,439.9	34.4	82,429.3	42.9
Retail deposits				
Demand deposits	24,114.6	11.4	22,077.3	11.5
Time deposits	83,018.5	39.4	59,921.8	31.2
Subtotal	107,133.1	50.8	81,999.1	42.7
Pledged deposits	16,500.1	7.8	17,447.3	9.0
Others[(1)]	14,650.2	7.0	10,354.9	5.4
Total deposits from customers	210,723.3	100.0	192,230.6	100.0

Note:

(1) Primarily include principal guaranteed wealth management products issued by the Bank and deposits raised from other investment vehicles.

Total deposits from customers increased by 9.6% from RMB192,230.6 million as of December 31, 2017 to RMB210,723.3 million as of December 31, 2018. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow retail deposits.

(B) Debts securities issued

In December 2015, the Bank issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. The Bank have an option to redeem the bonds on December 11, 2020 at par.

In March 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In August 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

In May 2018, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2018 to December 31, 2018, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB45,090.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

(iii) Shareholders' equity

The table below sets forth the change in Shareholders' equity of the Bank as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Share capital	10,069.8	39.9	7,526.0	45.3
Capital reserve	4,658.3	18.5	1,767.7	10.6
Defined benefit scheme reserve	(4.2)	–	(0.7)	–
Investment revaluation reserve	261.4	1.0	(125.3)	(0.8)
Surplus reserve	1,510.1	6.0	893.0	5.4
General reserve	4,423.1	17.5	3,631.6	21.9
Retained earnings	4,297.8	17.0	2,889.0	17.4
Non-controlling interests	31.3	0.1	31.7	0.2
Total equity	25,247.6	100.0	16,613.0	100.0

(c) Asset quality analysis

(i) Breakdown of loans by the five-category classification

The Bank's non-performing loans are classified into substandard, doubtful and loss-making loans and advances to customers. As of December 31, 2018, the Bank's non-performing loans amounted to RMB3,688.8 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Normal	147,789.2	91.9	120,835.5	92.7
Special mention	9,407.3	5.8	7,182.8	5.5
Substandard	1,330.2	0.8	780.2	0.6
Doubtful	1,773.2	1.1	858.6	0.7
Loss	585.4	0.4	626.5	0.5
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0
Non-performing loans and non-performing loan ratio(1)	3,688.8	2.29	2,265.3	1.74

Note:

(1) Calculated by dividing non-performing loans by total loans and advances to customers.

As of December 31, 2018 and 2017, the non-performing loan ratios of the Bank were 2.29% and 1.74%, respectively, representing an increase of 0.55 percentage points.

(ii) Concentration of loans

(A) Concentration by industry and distribution of non-performing loans

The table below sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated.

	As of December 31, 2018				As of December 31, 2017			
(Expressed in millions of RMB, unless otherwise stated)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio *(%)*	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio *(%)*
Corporate loans								
Wholesale and retail	24,169.5	15.0	1,468.5	6.08	18,232.4	14.0	783.7	4.30
Manufacturing	20,197.2	12.6	583.3	2.89	15,743.3	12.1	346.4	2.20
Agriculture, forestry, animal husbandry and fishing	8,204.6	5.1	524.0	6.39	15,728.2	12.1	399.1	2.54
Construction	9,129.2	5.7	369.8	4.05	12,101.3	9.3	122.0	1.01
Real estate	13,124.8	8.2	–	–	13,685.8	10.5	–	–
Mining	8,534.1	5.3	88.2	1.03	7,087.5	5.4	208.0	2.93
Water, environment and public facility management	6,051.4	3.7	–	–	3,133.2	2.4	–	–
Culture, sports and entertainment	2,898.1	1.8	19.3	0.67	2,628.0	2.0	2.3	0.09
Leasing and business services	7,157.6	4.4	16.4	0.23	1,695.6	1.3	27.0	1.59
Electricity, heating power, gas and water production and supply	2,509.8	1.6	4.5	0.18	2,545.3	2.0	30.0	1.18
Transportation, storage and postal services	2,328.9	1.4	47.7	2.05	1,173.8	0.9	38.3	3.26
Education	1,634.6	1.0	6.0	0.37	1,384.6	1.0	–	–
Accommodation and catering	2,689.4	1.7	32.0	1.19	1,172.3	0.9	60.8	5.19
Financial	1,000.0	0.6	–	–	3.0	0.0	–	–
Health and social services	1,846.2	1.2	–	–	463.4	0.4	–	–
Residents and other services	622.6	0.4	16.1	2.59	224.3	0.2	2.5	1.11
Scientific research, technical service and geological prospecting	927.1	0.6	–	–	126.0	0.1	–	–
Information transmission, computer service and software	159.0	0.1	28.0	17.61	74.3	0.1	3.0	4.04
Public administration, social security and social organizations	20.0	–	–	–	51.4	–	–	–
Retail loans	28,025.2	17.4	485.0	1.73	14,638.1	11.2	242.2	1.65
Discounted bills	19,656.0	12.2	–	–	18,391.8	14.1	–	–
Total amount	160,885.3	100.0	3,688.8	2.29	130,283.6	100.0	2,265.3	1.74

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

Loans to borrowers in the wholesale and retail, manufacturing, real estate, construction and mining real estate industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 77.6% and 66.4% of total corporate loans as of December 31, 2017 and 2018, respectively.

As of December 31, 2018, non-performing loans of the Bank's loans were mainly concentrated in the wholesale and retail and manufacturing industry, with a non-performing loan ratio of 6.08% and 2.89%, respectively.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2018	As of December 31, 2017
Loan concentration ratio for the largest single customer *(%)*	≦10	4.22	4.56
Loan concentration ratio for the top ten customers *(%)*	≦50	31.00	35.35

Note: The data above are calculated in accordance with the formula promulgated by the CBIRC.

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2018 and the balances of loans to these borrowers, of which two borrowers were classified as special mention, others were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2018		
Customers	Industries involved	Amount	% of total loans	% of regulatory capital
Borrower A	Mining	1,300.0	0.8	4.2
Borrower B	Leasing and business services	1,018.0	0.6	3.3
Borrower C	Financial	1,000.0	0.6	3.2
Borrower D	Manufacturing industry	997.0	0.6	3.2
Borrower E	Mining	990.0	0.6	3.2
Borrower F	Agriculture, forestry, animal husbandry and fishery	900.0	0.6	2.9
Borrower G	Manufacturing industry	875.6	0.6	2.8
Borrower H	Manufacturing industry	848.3	0.5	2.8
Borrower I	Manufacturing industry	810.0	0.5	2.6
Borrower J	Scientific research and technical service	800.0	0.5	2.6
Total		9,538.9	5.9	30.8

(C) Non-performing loans by product

The table below sets forth loans and non-performing loans by product type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018 Loan amount	Non-performing loan amount	Non-performing loan ratio[1] *(%)*	As of December 31, 2017 Loan amount	Non-performing loan amount	Non-performing loan ratio[1] *(%)*
Corporate loans						
Working capital loans	72,527.7	3,117.9	4.30	32,509.8	150.0	0.46
Fixed asset loans	38,615.8	45.0	0.12	64,473.9	1,714.3	2.66
Others[1]	2,060.6	40.9	1.98	270.0	158.8	58.81
Sub-total	113,204.1	3,203.8	2.83	97,253.7	2,023.1	2.08
Retail loans						
Personal business loans	7,580.1	361.4	4.77	6,693.4	215.2	3.21
Personal consumption loans	7,647.7	68.5	0.90	3,962.7	21.5	0.54
Residential and commercial mortgage loans	12,797.4	55.1	0.43	3,982.0	5.5	0.14
Sub-total	28,025.2	485.0	1.73	14,638.1	242.2	1.65
Discounted bills	19,656.0	–	–	18,391.8	–	–
Total non-performing loans	160,885.3	3,688.8	2.29	130,283.6	2,265.3	1.74

Notes:

(1) Calculated by dividing non-performing loans by loans and advances to customers of each product category.

(2) Primarily consist of advances for bank acceptance bill.

The non-performing loan ratio of corporate loans increased by 0.75 percentage points from 2.08% as of December 31, 2017 to 2.83% as of December 31, 2018.

The non-performing loan ratio of retail loans increased by 0.08 percentage points from 1.65% as of December 31, 2017 to 1.73% as of December 31, 2018.

(D) Loan aging schedule

The table below sets forth the loan aging schedule for loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Loans not overdue	149,847.3	93.2	124,916.9	95.9
Loans past due for:				
1 to 90 days	6,013.6	3.7	2,042.1	1.6
91 days to 1 year	3,800.7	2.4	1,521.2	1.2
1 to 3 years	1,018.1	0.6	1,356.0	1.0
3 years or more	205.6	0.1	447.4	0.3
Subtotal	11,038.0	6.8	5,366.7	4.1
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0

(d) Segments information

(i) Summary of business segment

We operate three principal lines of business: corporate banking, retail banking and financial market operations. The table below sets forth the operating income for each of our principal business segments for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate banking	4,643.1	52.3	4,455.6	55.3
Retail banking	1,026.0	11.6	1,016.3	12.6
Financial market operations	2,748.2	31.0	2,464.3	30.6
Others[(1)]	454.9	5.1	116.3	1.5
Total operating income	8,872.2	100.0	8,052.5	100.0

Note:

(1) Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

(ii) Summary of geographical segment information

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located in Gansu Province of the PRC and the revenue is derived from local activities there.

(e) Off-balance sheet commitments

Off-balance sheet commitments primarily consist of bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018	As of December 31, 2017
Credit commitments:		
Loan commitments	–	24.0
Bank acceptances[1]	26,418.1	29,352.8
Letters of guarantee[2]	721.5	516.2
Unused credit card commitments	359.2	–
Subtotal	27,498.8	29,893.0
Operating lease commitments	320.1	372.9
Capital commitments	38.7	298.8
Total	27,857.6	30,564.7

Notes:

(1) Bank acceptances refer to our undertakings to pay bank bills drawn on our customers.

(2) We issue letters of credit and guarantee to third parties to guarantee our customers' contractual obligations.

Off-balance sheet commitments decreased by 10.0% from RMB30,564.7 million as of December 31, 2017 to RMB27,857.6 million as of December 31, 2018. The decreases in off-balance sheet commitments were primarily due to the decreases in bank acceptance bills issued.

BUSINESS REVIEW

(a) Corporate banking

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises.

In addition, we are committed in seeking to develop long-term relationships with customers by closely monitoring their financial needs and by offering tailored financial solutions. As of December 31, 2018, we had over 4,430 corporate borrowers with total loans of RMB113,204.1 million, and more than 75,051 corporate deposit customers with total deposits of RMB72,439.9 million. In 2017 and 2018, operating income from our corporate banking business accounted for 55.3% and 52.3% of our total operating income, respectively. The table below sets forth the financial performance of our corporate banking for the periods indicated.

	Year ended December 31,		
(Expressed in millions of RMB, unless otherwise stated)	2018	2017	Percentage change *(%)*
External interest income, net[1]	5,264.4	4,821.8	9.2
Inter-segment interest expenses, net[2]	(708.3)	(510.0)	38.9
Net interest income	4,556.1	4,311.8	5.7
Net fees and commission income	87.0	143.8	(39.5)
Operating income	4,643.1	4,455.6	4.2
Operating expenses	(1,190.3)	(1,135.6)	4.8
Impairment losses on assets	(1,386.2)	(953.3)	45.4
Operating profit	2,066.6	2,366.7	(12.7)
Profit before tax	2,066.6	2,366.7	(12.7)

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Corporate loans

Corporate loans constituted the largest component of our loan portfolio. As of December 31, 2018 and 2017, corporate loans amounted to RMB113,204.1 million and RMB97,253.7 million, accounting for 70.4% and 74.7% of our total loans and advances to customers, respectively.

(ii) Discounted bills

We purchase bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2017 and 2018, discounted bills totaled RMB18,391.8 million and RMB19,656.0 million, accounting for 14.1% and 12.2% of our total loans and advances to customers, respectively.

(iii) Corporate deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HK dollar and EUR) from corporate customers. As of December 31, 2018 and 2017, corporate deposits totaled RMB72,439.9 million and RMB82,429.3 million, accounting for 34.4% and 42.9% of our total customer deposits, respectively.

(iv) Fee and commission-based products and services

We offer corporate customers a broad range of fee and commission-based products and services, primarily including wealth management services, entrusted loans, settlement services and consultation and financial advisory services.

(A) Wealth management services

We offer corporate customers a broad range of wealth management products based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2018 and 2017, wealth management products sold to corporate customers totaled RMB1,220.7 million and RMB2,009.9 million, respectively.

(B) Entrusted loans

We provide loans to borrowers designated by corporate customers, who determine the use of proceeds, principal amount and interest rates for these loans. We monitor the use of entrusted loans by borrowers and assist corporate customers in recovering these loans.

We charge agency fees based on the principal amount of entrusted loans. Our corporate customers bear the risk of default associated with these loans. In 2018 and 2017, service fees charged to corporate customers for entrusted loans totaled RMB96.7 million and RMB144.4 million, respectively.

(C) Settlement services

We offer corporate customers domestic and international settlement services.

Domestic Settlement Services. We provide domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. In 2017 and 2018, our total domestic settlement transaction volumes were approximately RMB7,910.2 billion and RMB8,429.3 billion, respectively.

International Settlement Services. We obtained approval to provide international settlement services in January 2014. Our international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

We established cooperative relationships with twenty overseas corporate customers. In 2017 and 2018, our international settlement transaction volumes were US$664 million and US$1,085 million, of which settlement transactions involving Iran had total volumes of US$591 million and US$859 million, respectively. For information on the operation of the Bank in Iran in 2018, please refer to the section headed "Report of the Board of Directors – 45. Business Activities Involving Sanctioned Countries" in the annual report.

(D) Consultation and financial advisory services

We structure financial solutions and offer advisory services with respect to the economy, financial markets and industry trends for corporate customers. In 2017, our fee and commission income from consultation and financial advisory services were RMB0.8 million. As we did not conduct any consultation and financial advisory services business, we had no fee and commission income from such services in 2018.

(E) Other fee and commission-based products and services

We offer other fee and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

(b) Retail banking

We offer retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee and commission-based products and services. We have a large retail customer base.

As of December 31, 2018, we had 90,635 retail borrowers with total loans of RMB28,025.2 million and over 4.91 million retail deposit customers with total deposits of RMB107,133.1 million. In 2018 and 2017, operating income from our retail banking business accounted for 11.6% and 12.6% of our total operating income, respectively.

We categorize retail banking customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above).

As of December 31, 2018, we had over 150,000 wealthy customers and over 1,438 private banking customers. We continue to grow our wealthy customer and private banking customer base by expanding our product and service portfolio. The table below sets forth the financial performance of our retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Percentage change (%)
External interest expenses, net[1]	(1,232.0)	(1,492.4)	(17.5)
Inter-segment interest income, net[2]	2,238.8	2,490.3	(10.1)
Net interest income	1,006.8	997.9	0.9
Net fee and commission income	19.2	18.4	4.4
Operating income	1,026.0	1,016.3	1.0
Operating expenses	(262.9)	(259.0)	1.5
Impairment losses on assets	(287.7)	(221.2)	30.1
Operating profit	475.4	536.1	(11.3)
Profit before tax	475.4	536.1	(11.3)

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Retail loans

We offer retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2018 and 2017, total retail loans were RMB28,025.2 million and RMB14,638.1 million, accounting for 17.4% and 11.2% of our total loans and advances to customers, respectively.

(ii) Retail deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of December 31, 2018 and 2017, retail deposits totaled RMB107,133.1 million and RMB81,999.1 million, accounting for 50.8% and 42.7% of our total customer deposits, respectively.

(iii) Bank card services

(A) Debit cards

We issue debit cards denominated in Renminbi to retail customers holding deposit accounts with us. Customers may use debit cards for a variety of purposes, such as cash deposits and withdrawals, transfers, payments, settlements, consumption, bill payments, financing and wealth management. We provide cardholders with differentiated services by classifying debit cards into basic cards, gold cards, platinum cards and diamond cards based on a bank cardholder's deposit balances.

To expand our customer base and service scope, we issue the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): We work with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue social security cards, which can be used for making social security contributions and social security information inquiries.

- Housing Provident Fund Co-branded Cards (公積金聯名卡): We work with the local housing provident fund management center to issue housing provident fund co-branded cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.

- Longyuan Transportation Cards (隴原交通卡): We work with the Gansu Province Expressway Management Bureau to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance our brand recognition, we cooperate with local governments to issue theme cards based on regional characteristics of Gansu Province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xiongguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). We also cooperate with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

As of December 31, 2018, the Bank had issued approximately 6.85 million debit cards. As of December 31, 2017 and 2018, holders of these debit cards conducted transactions of approximately RMB19,751.3 million and RMB17,026.6 million, respectively.

(B) Credit cards

In August 2013, the Bank obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu Province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

The Bank obtained approval to issue credit cards in June 2017. The Bank will launch credit card business subject to improvements in the operating market environment amid rising operating risks of credit cards and the negative market condition affected by the domestic economic situation.

(C) POS settlement services

As a payment settlement service provider, we provide selected merchants with transaction fund settlement services. As of December 31, 2018, we had 8,780 selected merchant customers for POS settlement services and 13,510 POS terminals.

(iv) Fee and commission-based products and services

We offer retail customers a wide range of fee and commission-based products and services, primarily including wealth management services, agency services and payroll and payment agency services.

(A) Wealth Management Services

We offer retail customers wealth management products under our Huifu (匯福) series based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products. In 2018 and 2017, wealth management products sold to retail customers totaled RMB34,914.99 million and RMB29,572.30 million, respectively. As of December 31, 2018, we had over 253,664 retail wealth management clients and the return rate of our retail wealth management products was between 4.05% to 5.50% in 2018.

(B) Agency services

We sell insurance and precious metal products to retail customers as an agent.

Insurance Products. As of December 31, 2018, we had entered into agency agreements with six nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products. We received approval to distribute precious metals in China in August 2015. In 2018 and 2017, we sold an aggregate of RMB90 million and RMB59.3 million of precious metal products, respectively.

In October 2017, Dunhuang Research Academy granted us an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes.

In addition, we have completed the development of a fund agent system and fund qualification training for our employees.

(C) Payroll and payment agency services

Payroll Services. We provide payroll services to governmental agencies, public organizations and enterprises customers. As of December 31, 2018, we had over 804,750 payroll customers. In 2017 and 2018, we paid, in the role of paying agent, average monthly salaries of approximately RMB1,771.5 million and RMB1,897.4 million, respectively.

Payment Agency Services. We offer customers payment agency services related to daily living expenses (such as utilities costs) through our broad distribution network.

(D) Other fee and commission-based products and services

We offer other fee and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

(c) Financial market operations

Our financial market operations, which primarily include money market transactions, investment business and wealth management business, are one of our most important revenue sources. In 2018 and 2017, operating income from financial market operations accounted for 31.0% and 30.6% of our total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018	2017	Percent change *(%)*
External interest income, net[(1)]	3,095.4	4,155.6	(25.5)
Inter-segment interest expenses, net[(2)]	(1,530.5)	(1,980.3)	(22.7)
Net interest income	1,564.9	2,175.3	(28.1)
Net fee and commission income	51.4	193.9	(73.5)
Net trading gains/(losses)	1,089.2	(21.9)	N/A
Net income arising from investment securities	42.7	116.9	(63.5)
Operating income	2,748.2	2,464.2	11.5
Operating expenses	(702.1)	(628.0)	11.8
Impairment losses on assets	(263.4)	(332.3)	(20.7)
Operating profit	1,782.7	1,503.9	18.5
Profit before tax	1,782.7	1,503.9	18.5

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Money market transactions

We adjust our liquidity using various monetary market instruments and earn interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

(A) Interbank deposits

We deposit and withdraw funds from banks and other financial institutions to manage our assets and liabilities. We accept deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engage in other interbank transactions with certain of these banks and financial institutions.

As of December 31, 2018 and 2017, deposits from banks and other financial institutions totaled RMB15,513.8 million and RMB20,178.4 million, and our deposits at banks and other financial institutions totaled RMB12,932.4 million and RMB30,811.7 million, respectively.

(B) Interbank placements

The balance of our placements with banks and other financial institutions as of December 31, 2018 and 2017 are both nil. As of the same dates, placements from banks and other financial institutions totaled RMB3,300.0 million and RMB1,050.0 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying our repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of December 31, 2018 and 2017, financial assets held under resale agreements totaled RMB19,523.8 million and RMB9,819.9 million, and financial assets sold under repurchase agreements totaled RMB11,717.0 million and RMB5,817.5 million, respectively.

(ii) Investment securities and other financial assets

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

(A) Security investment by holding purpose

The table below sets forth investment securities and other financial assets by investment intention as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Investments classified as receivables	–	–	48,182.6	68.7
Available-for-sale financial assets	–	–	13,057.2	18.6
Held-to-maturity investments	–	–	8,616.1	12.3
Financial assets at fair value through profit or loss	42,561.0	41.4	249.6	0.4
Financial assets at fair value with changes recognised in other comprehensive income	15,249.1	14.8	–	–
Financial assets at amortised costs	45,066.3	43.8	–	–
Total amount of investment securities and other financial assets	**102,876.4**	**100.0**	70,105.5	100.0

Total amount of investment securities and other financial assets increased by 46.7% from RMB70,105.5 million as of December 31, 2017 to RMB102,876.4 million as of December 31, 2018.

(B) Maturity profile of the Bank's investment portfolio

The table below sets forth investment securities and other financial assets by remaining maturity as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018 Amount	% of total	As of December 31, 2017 Amount	% of total
Repayable on demand	–	–	–	–
Due in three months or less	32,149.1	31.2	14,885.3	21.2
Due between three months and one year	29,749.3	28.9	18,661.4	26.6
Due between one year and five years	38,537.5	37.5	32,251.2	46.0
Due over five years	2,440.5	2.4	4,307.6	6.2
Indefinite[1]	–	–	–	–
Total	102,876.4	100.0	70,105.5	100.0

Note:

(1) Refers to impaired investments, investments overdue for more than one month and equity investments.

The Bank's securities investment with a remaining maturity between 1 year and 5 years represent the largest portion of the Bank's investment securities.

(C) Holding of government bonds

As of December 31, 2018, the balance of face value of government bonds held by the Bank amounted to RMB9,986.30 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 2018.

Name of the bond	Face value	Interest rate per annum	Maturity date
18 Gansu bond 01 (18甘肅債01)	1,040.00	3.3900	April 24, 2023
16 Interest-bearing treasury bond 22 (16附息國債22)	1,000.00	2.2900	October 27, 2019
18 Gansu 02 (18甘肅02)	700.00	3.7900	June 15, 2023
16 Gansu Targeted 02 (16甘肅定向02)	677.60	3.2600	April 21, 2023
18 Gansu 03 (18甘肅03)	500.00	3.9000	June 15, 2025
18 Gansu 04 (18甘肅04)	500.00	4.1800	June 15, 2028
17 Interest-bearing treasury bond 12 (17附息國債12)	500.00	3.6200	June 15, 2019
17 Interest-bearing treasury bond 16 (17附息國債16)	500.00	3.4600	July 27, 2020
16 Gansu Targeted 01 (16甘肅定向01)	443.00	3.2600	April 21, 2023
17 Gansu bond 03 (17甘肅債03)	440.00	3.9700	June 16, 2020

(D) Holding of financial bonds

As of December 31, 2018, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB26,030.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2018.

Name of the bond	Face value	Interest rate per annum	Maturity date
18 ADBC bond 06 (18農發06)	1,790.00	4.65	May 11, 2028
17 CDB bond 09 (17國開09)	1,470.00	4.14	September 11, 2020
18 ADBC bond 05 (18農發05)	1,200.00	4.13	April 11, 2020
18 ADBC bond 01 (18農發01)	1,110.00	4.98	January 12,2025
15 ADBC bond 15 (15農發15)	1,000.00	3.73	May 22, 2020
18 ADBC bond 08 (18農發08)	980.00	4.37	May 25, 2023
17 ADBC bond 02 (17農發02)	700.00	3.54	January 6, 2020
18 CDB bond 08 (18國開08)	700.00	4.07	April 24, 2021
15 CDB bond 16 (15國開16)	600.00	3.94	July 10, 2022
15 CDB bond 13 (15國開13)	500.00	3.86	June 25, 2020

(d) Distribution network

(i) Physical outlets

As of December 31, 2018, we had 1 head office operational department, 12 branches, 189 sub-branches, 5 micro-to-small sub-branches and 2 community banks. Our branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

(ii) Electronic banking business

(A) Internet banking

Through the Internet, we offer customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2018, we had over 1,064,000 Internet banking customers, consisting of 43,155 corporate customers and over 1,021,000 retail customers. As of December 31, 2018, our corporate customers conducted over 5.7 million online transactions with a total transaction amount of approximately RMB1,156,867.0 million, while retail customers conducted approximately 6.2 million online transactions with a total transaction amount of approximately RMB219,456.2 million.

(B) Direct banking platform

We launched our direct banking platform in August 2017. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2018, our direct banking platform had over 955,039 registered users with total transaction amounts of RMB9,499.3 million. The sales volume of direct banking platform products exceeded RMB2,578.1 million.

(C) Mobile phone banking

We provide customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of December 31, 2018, we had approximately 1,783,000 mobile phone banking customers that had conducted approximately 15.4 million transactions through mobile phones, with total transaction amounts of approximately RMB193,517.0 million.

(D) Telephone banking

We provide customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2018, we had 314,854 telephone banking customers, including 314,839 individual customers and 15 corporate customers.

(E) Self-service banking

We provide convenient banking services to customers at lower operating costs through self-service facilities. Our self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2018, we had 209 outlets, 168 off-bank self-service zones and 793 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access our products and services; manage accounts, transaction inquires, payment and convenience services; and search for our outlet locations. As of December 31, 2018, we had over 461,568 WeChat banking customers.

(G) E-commerce platform

In April 2018, we formally launched our e-commerce platform “Longyin Commerce”, which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of December 31, 2018, the platform had 781 merchants and 140,002 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2018, we held an approximately 62.7% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.

As of December 31, 2018, Jingning Chengji Rural Bank had 21 corporate loan customers, 632 corporate deposit customers, 3,706 retail loan customers and 80,428 retail deposit customers. As of December 31, 2018, Jingning Chengji Rural Bank had 12 outlets and 108 employees.

As of December 31, 2018, Jingning Chengji Rural Bank had total assets of RMB1,216.88 million, total deposits of RMB1,041.61 million and total loans of RMB676.44 million. In 2017 and 2018, operating income attributable to Jingning Chengji Rural Bank totaled RMB54.1 million and RMB42.9 million, accounting for 0.63% and 0.48% of our total operating income, respectively.

We assist Jingning Chengji Rural Bank by providing strategic guidance and employee training. We also dispatch professional staff to improve employee business skills, and share experience to innovate products and services to diversify its business.

(f) Operation and safety of IT systems

We regularly optimize and upgrade our IT system to support the operation and management of our businesses. For 2017 and 2018, investments in our IT system totaled RMB586.0 million and RMB311.0 million, respectively.

Our new core banking system based on the SOA-framework was formally put into operation in October 2017. Constructed according to the five-layer application framework of the "four horizontal layers and one vertical layer", the system is able to achieve rapid and flexible product innovation, centralized management of customer information, separation of transaction and accounting, refined management and decision making, transformation of a process-oriented bank and dynamic management of system resources.

We were granted the Certification of ISO 20000 – Information Technology Service Management System Standard in June 2018, signaling that we have built an IT service management system applicable to the circumstance of the Bank.

We place a high priority on business continuity and information security. We have established disaster recovery centres in Lanzhou and Xi'an and conducted periodic security drills to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities. Our new data center, new local disaster recovery center and new core banking system have been put into use synchronously. With a floorage of about 5,400 square meters, the new data center is constructed in strict accordance with the standards of class-A machine room of the state, with partial kernel module reaching T4, the highest international standard (TIA-942). The new local disaster recovery center adopts an active-active architecture. With these two centres supporting business operation simultaneously, we have made important application systems both active locally, which has greatly improved our business continuity.

We have also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desk site security, intrusion prevention and detection, filing and evaluation of important information systems, key information infrastructure protection and information system security assessment. During the Reporting Period, we did not suffer any material IT system failures.

RISK MANAGEMENT

(a) Risk management of the Bank

We are primarily exposed to credit risk, liquidity risk, market risk and operational risk in our business. We are also exposed to other risks such as reputational risk, information technology risk, money-laundering risk and legal and compliance risk.

Since our inception, we have implemented comprehensive risk management strategies to enhance our risk management systems.

(i) Credit risk management

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. Our credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

We determine the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. We also consider our asset and liability structure and trends in deposit and loan growth. We formulate annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. We also encourage the extension of credit to emerging sectors, such as modern services, new urbanization construction and Internet commerce, in accordance with national policy directives. In addition, we may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and our risk preferences.

We categorize the industries in which a loan applicant operates into the following four categories and adopt a different credit policy for each industry category.

Industries	Credit Policies
Modern agriculture, tourism, education and health care industries ("active support" industries)	• prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, utility, warehouse and logistics, culture-related and pharmaceutical industries ("moderate support" industries)	• selectively distribute credit to borrowers in these industries.
Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries ("caution" industries)	• focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
Steel trading, coal trading, over-capacity and commodity trading industries ("exit" industries)	• focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-disbursement management measures.

We have also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. We generally update these policies on an annual basis.

(ii) Market risk management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. We are exposed to market risks primarily through our banking book and trading book.

(A) Interest rate risk management

Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. Our primary source of interest rate risk is the repricing of on- and off-balance sheet assets and liabilities due to mismatches in maturities.

Maturity or repricing date mismatches may cause changes in net interest income due to fluctuations in prevailing interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market operations.

We place great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. We formulate and adjust interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

We manage the interest rate risk exposure of our RMB-denominated assets and liabilities on our balance sheet primarily by adjusting interest rates and optimizing the maturity profile of our assets and liabilities. We seek to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

We use various measures to evaluate interest rate risks arising from our banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests, to measure our interest rate risk. For example, we regularly conduct sensitivity analysis and duration analysis on our bond business under different circumstances, to measure the potential effects on our profitability. Under unfavorable external conditions, we will also conduct special stress tests analyses on the interest rate benchmark on loans and deposits. Based on such analyses, we may adjust our terms on repricing to control interest rate risk.

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2018.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	31,536.9	432.4	31,104.5	–	–	–
Deposits with banks	12,927.7	–	8,903.4	4,024.3	–	–
Financial assets held under resale agreement	19,523.8	–	19,523.8	–	–	–
Interests receivable	1,891.2	1,891.2	–	–	–	–
Loans and advances to customers	154,633.9	5,777.8	67,559.1	55,280.9	24,044.7	1,971.4
Investments	102,876.4	–	32,099.4	21,347.2	40,491.6	8,938.2
Others[(1)]	5,232.5	5,232.5	–	–	–	–
Total assets	328,622.4	13,333.9	159,190.2	80,652.4	64,536.3	10,909.6
Liabilities						
Borrowings from the central bank	11,650.9	–	4,835.9	6,815.0	–	–
Deposits from banks and other financial institutions	15,513.8	57.4	5,786.4	9,170.0	500.0	–
Placements from banks	3,300.0	–	–	3,300.0	–	–
Financial assets sold under repurchase agreements	11,717.0	–	11,717.0	–	–	–
Deposits from customers	210,723.3	–	99,502.9	20,943.0	85,410.8	4,866.6
Interests payable	6,418.9	6,418.9	–	–	–	–
Debt securities issued	41,576.8	–	10,516.2	21,869.8	5,993.7	3,197.1
Others[(2)]	2,474.1	2,474.1	–	–	–	–
Total liabilities	303,374.8	8,950.4	132,358.4	62,097.8	91,904.5	8,063.7
Asset-liability gap	25,247.6	4,383.5	26,831.8	18,554.6	(27,368.2)	2,845.9

(Expressed in millions of RMB, unless otherwise stated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
	As of December 31, 2017					
Assets						
Cash and deposits with the central bank	29,084.4	492.4	28,592.0	–	–	–
Deposits with banks	30,811.7	–	12,409.9	18,401.8	–	–
Financial assets held under resale agreement	9,819.9	–	9,819.9	–	–	–
Interests receivable	1,268.6	1,268.6	–	–	–	–
Loans and advances to customers	125,254.6	2,000.9	55,350.9	52,337.0	13,952.7	1,613.1
Investments	70,105.5	–	14,885.2	18,661.5	32,251.2	4,307.6
Others[(1)]	4,802.9	4,802.9	–	–	–	–
Total assets	271,147.6	8,564.8	121,057.9	89,400.3	46,203.9	5,920.7
Liabilities						
Borrowings from the central bank	5,290.4	–	1,787.3	3,503.1	–	–
Deposits from banks and other financial institutions	20,178.4	–	8,236.5	11,341.9	600.0	–
Placements from banks	1,050.0	–	1,000.0	–	50.0	–
Financial assets sold under repurchase agreements	5,817.5	–	5,817.5	–	–	–
Deposits from customers	192,230.6	–	106,737.8	29,377.2	56,115.6	–
Interests payable	4,305.5	4,305.5	–	–	–	–
Debt securities issued	23,960.8	–	4,991.6	11,281.2	6,696.2	991.8
Others[(2)]	1,701.4	1,701.4	–	–	–	–
Total liabilities	254,534.6	6,006.9	128,570.7	55,503.4	63,461.8	991.8
Asset-liability gap	16,613.0	2,557.9	(7,512.8)	33,896.9	(17,257.9)	4,928.9

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.

We use sensitivity analysis to measure the impact of changes in interest rates on our net profit or loss and equity. The table below sets forth the results of our interest rates sensitivity analysis based on our assets and liabilities as of the dates indicated.

	As of December 31,			
	2018		2017	
(Expressed in millions of RMB, unless otherwise stated)	Change in net profit	Changes in equity	Change in net profit	Changes in equity
Increase by 100 basis points	151.1	419.6	174.7	371.6
Decrease by 100 basis points	(151.1)	(419.6)	(174.7)	(371.6)

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each Track Record Period apply to our non-derivative financial instruments;
- At the end of each Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(B) Exchange rate risk management

We are exposed to exchange rate risks primarily due to mismatches in the currency denominations of on- and off-balance sheet assets and liabilities and in the trading positions of foreign exchange transactions. We manage exchange rate risks by matching the sources and uses of funds.

We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of our assets and liabilities. In addition, we endeavor to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

(iii) Operational risk management

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

Our Board of Directors is ultimately responsible for monitoring the effectiveness of our operational risk management. It determines our operational risk appetite based on our overall business strategies, and reviews and oversees the implementation of operational risk strategies and policies.

Our senior management is responsible for coordinating operational risk management through its risk management and internal control committee.

Our risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of our Board and senior management. Our audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures.

We have established a GRC system for managing internal control and operational risks. Through the system, we utilize operational risk management tools to identify, measure and monitor operational risks.

(iv) Liquidity risk

(A) Liquidity risk management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting our liquidity include the term structure of our assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to our statutory deposit reserve ratio. We are exposed to liquidity risk primarily in our lending, trading and investment activities, as well as in the management of our cash flow positions.

The organizational framework of our liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for our liquidity risk management, the Board of Directors assumes ultimate responsibility for our liquidity risk management.

Senior management is responsible for liquidity management, and our assets and liabilities management committee is responsible for implementing liquidity management policies and procedures. Our supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for our daily liquidity risk management.

The objective of our liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of our assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

According to the Measures for the Management of Liquidity Risks of Commercial Banks (effective as from July 1, 2018) issued by the CBRC, we continually improve liquidity risk management, strictly implement regulatory rules, closely monitor liquidity indicators, enhance maturity management of our cash flows, formulate emergency plans and enhance liquidity risk management and stress tests.

We manage liquidity risks with instruments such as position provisioning and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(B) Liquidity risk analysis

We fund our loan and investment portfolios principally through customer deposits. Deposits from customers have been, and we believe will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 57.2% and 70.8% of total deposits from customers as of December 31, 2018 and December 31, 2017, respectively.

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2018 and December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018 Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets							
Cash and deposits with the central bank	24,717.0	6,819.9	–	–	–	–	31,536.9
Deposits with banks	–	4,038.6	4,864.8	4,024.3	–	–	12,927.7
Financial assets held under resale agreements	–	–	19,523.8	–	–	–	19,523.8
Financial assets at fair value through profit or loss	–	–	24,428.9	8,262.8	8,654.1	1,215.2	42,561.0
Interests receivables	–	13.3	558.9	1,214.6	104.4	–	1,891.2
Loans and advances to customers	3,586.3	2,191.6	18,517.1	65,564.8	46,074.4	18,699.7	154,633.9
Financial assets at fair value with changes recognised in other comprehensive income	–	–	299.7	8,451.7	6,497.7	–	15,249.1
Financial assets at amortised costs	–	–	7,420.5	13,034.7	23,385.8	1,225.3	45,066.3
Others[1]	5,053.4	–	–	–	179.1	–	5,232.5
Total assets	33,356.7	13,063.4	75,613.7	100,552.9	84,895.5	21,140.2	328,622.4
Liabilities							
Borrowings from the central bank	–	–	4,835.9	6,815.0	–	–	11,650.9
Deposits from banks and other financial institutions	–	1,093.8	4,750.0	9,170.0	500.0	–	15,513.8
Placements from banks and other financial institutions	–	–	–	3,300.0	–	–	3,300.0
Financial assets sold under repurchase agreements	–	–	11,717.0	–	–	–	11,717.0
Deposits from customers	–	81,896.5	17,606.4	20,943.0	85,410.8	4,866.6	210,723.3
Interests payable	–	5,873.3	124.0	400.4	21.2	–	6,418.9
Debt securities issued	–	–	10,516.2	21,869.8	5,993.7	3,197.1	41,576.8
Others[2]	61.5	1,093.0	1,319.6	–	–	–	2,474.1
Total liabilities	61.5	89,956.6	50,869.1	62,498.2	91,925.7	8,063.7	303,374.8
New working capital	33,295.2	(76,893.2)	24,744.6	38,054.7	(7,030.2)	13,076.5	25,247.6

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017 Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets							
Cash and deposits with the central bank	25,070.1	4,014.3	–	–	–	–	29,084.4
Deposits with banks	–	3,121.8	9,288.1	18,401.8	–	–	30,811.7
Financial assets held under resale agreements	–	–	9,819.9	–	–	–	9,819.9
Financial assets at fair value through profit or loss	–	–	249.6	–	–	–	249.6
Interests receivables	–	–	621.6	579.5	67.5	–	1,268.6
Loans and advances to customers	1,630.7	370.3	18,326.8	61,298.1	33,056.3	10,572.5	125,254.7
Available-for-sale financial assets	–	–	1,811.4	5,255.3	4,255.0	1,735.5	13,057.2
Held-to-maturity investments	–	–	85.2	598.0	7,264.9	668.0	8,616.1
Debt securities classified as receivables	–	–	12,739.0	12,808.1	20,731.3	1,904.2	48,182.6
Others(1)	3,535.9	–	–	–	1,266.9	–	4,802.8
Total assets	30,236.7	7,506.4	52,941.6	98,940.8	66,641.9	14,880.2	271,147.6
Liabilities							
Borrowings from the central bank	–	–	1,787.3	3,503.1	–	–	5,290.4
Deposits from banks and other financial institutions	–	531.5	7,705.0	11,341.9	600.0	–	20,178.4
Placements from banks	–	–	1,000.0	–	50.0	–	1,050.0
Financial assets sold under repurchase agreements	–	–	5,817.5	–	–	–	5,817.5
Deposits from customers	–	92,713.8	14,024.0	29,377.2	56,115.6	–	192,230.6
Interests payable	–	3,684.2	167.8	312.4	141.1	–	4,305.5
Debt securities issued	–	–	4,991.6	11,281.1	6,696.2	991.9	23,960.8
Others(2)	–	623.7	1,077.7	–	–	–	1,701.4
Total liabilities	–	97,553.2	36,570.9	55,815.7	63,602.9	991.9	254,534.6
New working capital	30,236.7	(90,046.8)	16,370.7	43,125.1	3,039.0	13,888.3	16,613.0

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.

The Bank's liquidity coverage ratio

	December 31, 2018	December 31, 2017
Liquidity coverage ratio *(%)*	198.28	159.47

(v) Reputational risk management

Reputational risk represents the risk of negative publicity caused by our operations, management or other activities or external events. The general office of our head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management.

(vi) Legal compliance risk management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

(vii) IT risk management

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. Our IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

Our IT management committee supervises and guides our IT activities. Our risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Our audit department audits IT risks. Our IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

(viii) Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and the regulations of the PBOC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches.

(ix) Internal audits

We believe internal audits are essential to our stable operations and achievement of business objectives. We conduct internal audits to monitor the compliance with laws and regulations and the implementation of our internal policies and procedures, with the objective of controlling risks at an acceptable level.

We also aim to conduct effective risk management as well as optimize internal control compliance and our corporate governance structure, in an effort to improve our operations. We adhere to the principles of independence, importance, prudence, objectiveness and relevance.

We have adopted an independent and vertical internal audit management system, consisting of the audit committee of our Board of Directors, the audit committee of our Board of Supervisors and the audit department of our head office.

Analysis On Capital Adequacy Ratio

We are required to comply with the CBIRC capital adequacy ratio requirements. Since January 1, 2015, we have calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures, which required China's commercial banks (except systematically important banks) to maintain (i) minimum capital adequacy ratios of 8.9%, 9.3%, 9.7%, 10.1% and 10.5%, (ii) minimum tier-one capital adequacy ratios of 6.9%, 7.3%, 7.7%, 8.1% and 8.5%, and (iii) minimum core tier-one capital adequacy ratios of 5.9%, 6.3%, 6.7%, 7.1% and 7.5%, as of December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

The table below sets forth certain information relating to our capital adequacy ratio as of December 31, 2018 and December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	December 31, 2018	December 31, 2017
Core capital		
Paid-up capital	10,069.8	7,526.0
Qualifying portion of capital reserve	4,658.3	1,767.7
Defined benefit plan reserve	(4.2)	(0.7)
Investment revaluation reserve	261.4	(125.3)
Surplus reserve	1,510.1	893.0
General risk reserve	4,423.1	3,631.6
Retained earnings	4,297.8	2,889.0
Qualifying portion of non-controlling interest	17.2	17.4
Core tier-one capital deductions[1]	(225.0)	(32.5)
Net core tier-one capital	25,008.5	16,566.2
Other tier-one capital[2]	2.3	2.3
Net tier-one capital	25,010.8	16,568.5
Tier-two capital		
Instruments issued and share premium	3,194.4	3,191.9
Surplus reserve for loan impairment	2,562.7	2,187.1
Eligible portion of non-controlling interest	4.7	4.6
Net capital base	30,772.6	21,952.1
Total risk-weighted assets	227,144.1	190,251.6
Core tier-one capital adequacy ratio *(%)*	11.01	8.71
Tier-one capital adequacy ratio *(%)*	11.01	8.71
Capital adequacy ratio *(%)*	13.55	11.54

Notes:

(1) Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.

(2) Primarily includes tier-one capital instruments such as preference Shares and their premiums.

Report of the Board of Directors

The Board is pleased to present the Report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2018. All relevant sections of this annual report referred to in this Report of the Board of Directors form part of this Report of the Board of Directors. Unless otherwise specified, the financial data disclosed in this report are prepared in accordance with the IFRS.

1. BUSINESS REVIEW

We are the only provincial city commercial bank in Gansu Province of China, and have established a comprehensive business network across Gansu province. The Group is engaged in a range of banking services and related financial services. The information on business review of the Group for the year ended December 31, 2018 is set out in the section headed "Management Discussion and Analysis-BUSINESS REVIEW" of this annual report.

2. ISSUANCE OF H SHARES AND LISTING ON THE HONG KONG STOCK EXCHANGE

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018. The offer price was determined at HK$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,212,000,000 H Shares in total. Four cornerstone investors subscribed for 1,163,152,000 H Shares in total issued by the Bank. The net proceeds from global offering received by the Bank, after deducting the underwriting fees, commissions, and estimated expenses borne by us in relation to the global offering and assuming the over-allotment option was not exercised, are approximately HK$5,743.18 million.

On February 5, 2018, the Joint Representatives (as defined in the prospectus of Global Offering of the Bank's: H Shares) (on behalf of the international underwriters) fully exercised the over-allotment option in respect of an aggregate of 331,800,000 H Shares, representing in aggregate 15% of the offer Shares initially offered under the global offering before any exercise of the over-allotment option, to cover over-allocations in the international offering. The over-allotment Shares were issued and allotted at HK$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). Listing of and dealing in the over-allotment Shares were commenced on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. The additional net proceeds from the issue of the over-allotment Shares by the Bank, after deduction of underwriting commissions, brokerage, transaction levy and trading fee, was approximately HK$872.84 million.

Pursuant to the use of proceeds disclosed in the Prospectus, we had used the net proceeds that we received from the global offering to strengthen our capital base and to support the on-going growth of our business.

3. RELATIONSHIP BETWEEN THE BANK AND ITS EMPLOYEES

We have a young and highly educated team of employees. Our employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance. We conduct performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation. We determine performance-based compensation based on the employee's work performance and our financial results.

We focus on employee career development and provide training programs for employees in different business lines. We have built a team of internal training providers under our human resources department.

We have established a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. During the Reporting Period and as of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that materially affected our operations or public image.

4. RELATIONSHIP BETWEEN THE BANK AND ITS CUSTOMERS

(1) Retail Customers

In respect of retail banking, the Bank offers its retail customers a wide range of products and services, including loans, deposits, debit card services and fee and commission-based products and services. We categorize retail customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above). As of December 31, 2018, we had 155,388 wealthy customers and 1,438 private banking customers. This sizable retail customer base provides a stable source of deposits and opportunities to cross-sell and develop our retail business.

(2) Corporate Customers

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises. In addition, we are committed to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions.

5. PROFITS AND DIVIDEND

(1) Dividend Policy

The Board of Directors of the Bank is responsible for submitting proposals for dividend payments to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors deems relevant.

Under the PRC Company Law and our Articles of Association, all of the shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC law, we may only pay dividends out of profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or IFRS or the accounting standards of the overseas jurisdiction where the shares are listed, whichever is lower, less:

- any of its accumulated losses in prior years;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such statutory surplus reserve in aggregate reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

According to the relevant MOF regulations, before a financial institution makes any profit distribution, the balance of our statutory general reserve shall in principle not be lower than 1.5% of the balance of risk assets at the end of the period. As of December 31, 2018, we set aside RMB785.4 million as general reserves, in line with relevant regulations.

Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. We generally do not distribute dividends in a year in which we do not have any distributable profit. The payment of any dividend by us must also be approved at a Shareholders' general meeting.

We are not allowed to distribute profits to the Shareholders until we have made up our losses and made appropriations to our statutory surplus reserve and general reserves. The Shareholders are required to return any profit distributed in violation of the relevant rules and regulations.

The CBIRC has discretionary authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. As of December 31, 2018, we had a capital adequacy ratio of 13.55%, a tier-one capital adequacy ratio of 11.01% and a core tier-one capital adequacy ratio of 11.01%, all of which comply with the relevant CBIRC requirements.

(2) Final dividend for 2017

The Board of Directors, after taking into consideration the need for adequate capital to support the future business development of the Bank, recommended not to distribute final dividend to Shareholders for 2017 at the meeting held on March 27, 2018. The proposal was considered and approved at the 2017 annual general meeting of the Bank held on June 1, 2018.

(3) Profit and profit distribution plan for 2018

The Group's revenue for the year ended December 31, 2018 and the Group's financial position as of the same date are set out in the consolidated financial statements of this annual report.

Considering the Shareholders' interests, our future development and other factors and in accordance with the requirements of relevant laws and regulations and the Articles of Association of the Bank, the Board proposed the 2018 profit distribution plan as follows:

- To appropriate RMB343.1 million, being 10% of net profit realized this year to statutory surplus reserve.
- To appropriate RMB343.1 million, being 10% of net profit realized this year to surplus reserve fund.
- To appropriate RMB785.4 million, being 1.5% of the risk-bearing assets to the general risk reserve according to the Administrative Measures for the Provisioning for Reserves of Financial Institutions (2012) No. 20 (《金融企業準備金計提管理辦法》([2012] 20號)) promulgated by the Ministry of Finance of the People's Republic of China.
- To distribute cash dividends in an aggregate amount of RMB1,029,363,510.73 (tax inclusive), being 30% of the net profit of RMB3,431,211,702.42, representing a cash dividend of RMB0.1022 per share (tax inclusive) to be distributed.
- The remaining retained earnings of the parent company of RMB2,925.9 million to be carried forward to the following year.

The above profit distribution plan remains to be submitted to the 2018 annual general meeting of the Bank for consideration. If approved by the Shareholders, the final dividend for 2018 is expected to be distributed on or before Friday, August 2, 2019 to all Shareholders on register as at Saturday, June 15, 2019. A further announcement on the specific arrangements for dividend distribution will be made after the general meeting. In case there is any change in the projected date for the dividend distribution mentioned above, an announcement will also be made by the Bank in a timely manner.

6. ANNUAL GENERAL MEETING AND BOOK CLOSURE DATE

The 2018 annual general meeting will be held on Monday, June 3, 2019. In order to determine the holders of H Shares who are eligible to attend the 2018 annual general meeting, the H Share register of the Bank will be closed from Friday, May 3, 2019 to Monday, June 3, 2019 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be eligible for attending the 2018 annual general meeting, share certificates accompanied by transfer documents must be lodged with the Bank's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, May 2, 2019. Holders of H Shares of the Bank whose names appear on the register of members maintained at Computershare Hong Kong Investor Services Limited on Monday, June 3, 2019 are entitled to attend the 2018 annual general meeting.

For the purpose of determining Shareholders' entitlement to the proposed 2018 final dividend, the register of members of the Bank will be closed from Monday, June 10, 2019 to Saturday, June 15, 2019 (both days inclusive), during which period no transfer of Shares of the Bank will be registered. In order to be eligible for the above-mentioned final dividend (subject to Shareholders' approval), unregistered Holders of H Shares of the Bank must lodge related instruments of transfer with the Bank's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, June 6, 2019.

7. CHANGES IN THE RESERVES

Details of the Group's changes in the reserves and the distributable profit reserve for the year ended December 31, 2018 are set out in "Consolidated Statement of Changes in Equity" of this annual report. The distributable profit reserves as of December 31, 2018 were RMB4,298,338,092.05.

8. SUMMARY OF FINANCIAL INFORMATION

The summary of the operating results for the year ended December 31, 2018 and assets and liabilities as of December 31, 2018 of the Group is set out in the chapter headed "Financial Highlights" of this annual report.

9. DONATIONS

For the year ended December 31, 2018, the Group made charity and other donation of RMB9,689,500.00 in aggregate.

10. PROPERTY AND EQUIPMENT

Details of the changes in property and equipment of the Group for the year ended December 31, 2018 are set out in note 27 to the consolidated financial statements of this annual report.

11. RETIREMENT BENEFITS

Details of the retirement benefits provided by the Group to employees are set out in notes 12 and 36 to the consolidated financial statements of this annual report.

12. SUBSTANTIAL SHAREHOLDERS

Details of the substantial Shareholders as of December 31, 2018 are set out in "Changes in Share Capital and Particulars of Shareholders – II. Particulars of Shareholders – (II) Interests and Short Positions of Substantial Shareholders and Other Persons" of this annual report.

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

The H Shares of the Bank were listed on the Main Board of Hong Kong Stock Exchange on January 18, 2018. The over-allotment option was fully exercised on February 5, 2018. The over-allotment Shares were listed on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. Save as disclosed above, the Bank and any of its subsidiaries had not purchased, sold or redeemed any of the Bank's listed securities during the Reporting Period.

14. PRE-EMPTIVE RIGHTS

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to the Shareholders.

15. MAJOR CUSTOMERS

As of December 31, 2018, the Group's five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers.

None of the Directors, their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Bank's issued share capital) have any interests in the Group's five largest borrowers or depositors.

16. SHARE CAPITAL

Please refer to the chapter headed "Changes in Share Capital and Particulars of Shareholders" for details of the share capital of the Bank.

17. DIRECTORS AND SUPERVISORS OF THE BANK

During the Reporting Period, the Board of Directors includes:

Executive Directors:

- Mr. Liu Qing (appointed as Chairman and Executive Director on December 3, 2018)
- Mr. Wang Wenyong (appointed as Executive Director on December 3, 2018 and his qualification was approved by the relevant regulatory authority on December 20, 2018)
- Mr. Li Xin (retired as Chairman and Executive Director on December 3, 2018)
- Mr. Lei Tie (retired as Executive Director on December 3, 2018)

Non-executive Directors:

- Ms. Wu Changhong
- Ms. Zhang Hongxia
- Mr. Guo Jirong
- Mr. Zhang Youda
- Mr. Liu Wanxiang (appointed as non-executive Director on December 3, 2018 and his appointment does not take effect until his qualification is approved by regulatory agencies)
- Mr. Li Hui (resigned as non-executive Director on August 31, 2018)

Independent non-executive Directors:

- Ms. Tang Xiuli
- Ms. Luo Mei
- Mr. Wong Sincere
- Mr. Dong Ximiao (appointed as independent non-executive Director on December 3, 2018)
- Mr. Chen Aiguo (retired as independent non-executive Director on December 3, 2018)

Details of the Directors, Supervisors and senior management members of the Bank are set out in "Directors, Supervisors, Senior Management, Employees and Organizations" of this annual report.

According to the Articles of Association of the Bank, the Board of Directors shall consist of twelve Directors. The Board of Directors had eleven Directors as of the date of this annual report. The Bank is in the process of selecting the twelfth Director in accordance with the Articles of Association, and will make the appointment as soon as practicable. As advised by Grandall Law Firm (Shanghai), the Bank's PRC legal advisor, although the actual number of the Directors is lower than that set forth in the Articles of Association, the Board of Directors is still able to function properly. Grandall Law Firm (Shanghai) is of the view that the composition of the Board of Directors will not result in any violation of applicable PRC laws and regulations. The Bank will make announcement(s) in relation to the appointment of the twelfth Director in due course in accordance with the Hong Kong Listing Rules.

18. CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

19. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2018, the interests of the Directors, Supervisors and chief executive of the Bank 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 required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code or in accordance with Divisions 7 and 8 of Part XV under the SFO are as follows:

Name	Position in the Bank	Class of Shares	Nature of Interest	Number of Shares	Percentage of Domestic Shares of the Bank *(%)*	Percentage of the Total Share Capital of the Bank *(%)*
Mr. Liu Qing	Chairman, Executive Director	Domestic Shares	Beneficial owner	301,714(L)[2]	0.004	0.003
Mr. Li Xin[1]	Chairman, Executive Director	Domestic Shares	Beneficial owner	300,000(L)[2]	0.004	0.003
Mr. Lei Tie[3]	Executive Director, Vice President	Domestic Shares	Beneficial owner	300,000(L)[2]	0.004	0.003
Mr. Yang Qian[4]	Chief Supervisor	Domestic Shares	Beneficial owner	300,000(L)[2]	0.004	0.003
Mr. Xu Yongfeng	Supervisor	Domestic Shares	Beneficial owner	225,514(L)[2]	0.003	0.002
Mr. Luo Zhenxia	Supervisor	Domestic Shares	Beneficial owner	205,711(L)[2]	0.003	0.002
Mr. Li Yongjun[1]	Supervisor	Domestic Shares	Interest in the controlled corporation[5]	239,326,800(L)[2]	3.180	2.377

Notes:

(1) Mr. Li Xin resigned on December 3, 2018.

(2) L represents long position.

(3) Mr. Lei Tie resigned on December 3, 2018.

(4) Mr. Yang Qian resigned on April 24, 2018.

(5) Mr. Li Yongjun (a Supervisor) and his spouse collectively hold 2.0% equity interest in Yong Xin Hua Holdings Co., Ltd. (永新華控股有限公司). Gansu Yong Xin Construction and Installation Engineering Company Limited (甘肅永新建築安裝工程有限公司) and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited (甘肅黃海電子機電設備工程有限公司) hold 33.0% and 65.0% equity interest in Yong Xin Hua Holdings Co., Ltd., respectively. Mr. Li Yongjun and his spouse collectively hold 100.0% equity interest in Gansu Yong Xin Construction and Installation Engineering Company Limited and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited. Yong Xin Hua Holdings Co., Ltd. held 239,326,800 Domestic Shares of the Bank as at the Latest Practicable Date. Pursuant to the SFO, Mr. Li Yongjun is deemed to be interested in the Shares of the Bank held by Yong Xin Hua Holdings Co., Ltd.

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

20. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors and Supervisors (including their spouses and children under the age of eighteen) of the Bank to acquire benefits by means of the acquisition of Shares in, or debentures of, the Bank or any other body corporate.

21. INTERESTS OF DIRECTORS AND SUPERVISORS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS AND SERVICE CONTRACTS

Saved as disclosed in this annual report, none of the Directors or Supervisors (or their connected entities) had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Bank or its subsidiaries subsisting during or at the end of the Reporting Period. None of the Directors and Supervisors has entered into a service contract with the Bank that cannot be terminated by the Bank or its subsidiaries within one year without payment of compensation (other than statutory compensation).

22. MANAGEMENT CONTRACT

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

23. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESSES

None of the Directors and Supervisors has any interest in a business that competes, or is likely to compete, either directly or indirectly, with the business of the Bank under Rule 8.10(2) of the Hong Kong Listing Rules.

24. CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. Details of the Group's corporate governance are set out in the chapter headed "Corporate Governance Report" of this annual report.

25. CONNECTED TRANSACTIONS

The continuing connected transactions of the Bank during the Reporting Period are set forth below:

Exempt Continuing Connected Transactions

(I) Commercial banking services and products provided in the ordinary and usual course of business

The Bank is a commercial bank incorporated in the PRC under the supervision of the CBIRC and the PBOC. It provides commercial banking services and products in the ordinary and usual course of business to the public in China, including the Bank's connected persons (such as the Directors, the Supervisors and/or their respective associates). Details of the connected transactions between the Bank and its connected persons are set out below. These transactions are entered into in the ordinary and usual course of business of the Bank on normal commercial terms.

(1) Extending loans and other credit facilities to connected persons

The Bank provides loans and other credit facilities to certain connected persons of the Bank in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market rates (including providing loans indirectly to connected persons of the Bank through trust schemes or asset management schemes established by third parties).

The above loans and other credit facilities provided by the Bank to the connected persons are entered into in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market interest rates. Accordingly, pursuant to Rule 14A.87 (1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance provided by the Bank to connected persons in the ordinary and usual course of business on normal commercial terms), and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(2) Taking deposits from connected persons

The Bank takes deposits from certain connected persons in the ordinary and usual course of business with normal deposit interest rates and on normal commercial terms.

The deposits are placed by the Bank's connected persons with the Bank on normal commercial terms, with reference to prevailing market rates. Accordingly, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance received by the Bank from connected persons which are made by connected persons on normal commercial terms, and are not secured by the Bank's assets) and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) Other banking services and products

The Bank provides various commercial banking services and products (such as bank acceptance bills and debit card services) to certain connected persons in the ordinary and usual course of business on normal commercial terms and conditions at normal fee standards.

These continuing connected transactions are the provision of various commercial banking services and products to the Bank's connected persons in the ordinary and usual course of business on normal commercial terms similar to or no more favorable than those offered to independent third parties and are expected to constitute de minimis transactions under Chapter 14A of the Hong Kong Listing Rules. Accordingly, pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(II) Property leasing agreement with a connected person

The Bank entered into a property leasing agreement with JISCO Zhongtian Property Co., Ltd. (酒鋼集團中天置業有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank) ("Zhongtian Property"). Pursuant to the agreement, Zhongtian Property leased a property located in Jiayuguan, Gansu province to the Bank as the Bank's business office, with a leasing term from January 1, 2018 to December 31, 2018 and at an unchanged annual rental of RMB401,568. The transaction is conducted on normal commercial terms.

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.91% equity interest in Jiuquan Iron & Steel, while Zhongtian Property is a subsidiary of Jiuquan Iron & Steel. Zhongtian Property is therefore a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property leasing agreement constitutes de minimis transaction, and therefore is exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

(III) Property management agreement with a connected person

The Bank entered into a property management agreement with Lanzhou Changhong Property Management Co., Ltd. (蘭州長虹物業管理有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank) ("Changhong Property Management"). Pursuant to this agreement, Changhong Property Management agreed to provide property management services to the Bank for its office space located in the Bank of Gansu Tower situated at Chengguang District of Lanzhou, Gansu Province, with a term from August 1, 2017 to July 31, 2020. In view of establishing a long-term business relationship, the Bank and Changhong Property Management agreed that Changhong Property Management will not charge relevant property management fees in respect of the property management services it provides to the Bank. Afterwards, considering the Bank's need for using offices and as agreed by the Bank and Changhong Property Management upon negotiation, a supplemental agreement with a term from October 28, 2018 to December 31, 2018 was entered into, pursuant to which, Changhong Property Management would charge RMB467,595.23 of property management fees for the provision of such property services for the Bank.

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.91% equity interest in Jiuquan Iron & Steel, which holds 100% equity interest in JISCO Lanzhou Judong Real Estate Development Co., Ltd. JISCO Lanzhou Judong Real Estate Development Co., Ltd. holds 100% equity interest in Changhong Property Management. Therefore, Changhong Property Management is a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property management services agreement constitutes de minimis transaction, and therefore is exempt from all the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

Non-exempt Continuing Connected Transactions

(IV) Trust arrangement with a connected person

In the ordinary and usual course of business, the Bank and Everbright Xinglong Trust Co., Ltd. (光大興隴信託有限責任公司) ("Everbright Xinglong Trust") enter into a number of fund trust agreements ("Everbright Xinglong Trust Agreements"). As the settlor of the trust schemes, the Bank uses its own funds as the trust property, while Everbright Xinglong Trust, serving as the trustee of the trust schemes, sets up specific service management trust schemes. The Bank designates the end users of the trust property and Everbright Xinglong Trust in turn enters into relevant agreements (the "Relevant Agreements", such as trust loan agreements) with the end users.

The Bank and Everbright Xinglong Trust have entered into the Trust Business Cooperation Framework Agreement on August 31, 2018, which took effect from September 1, 2018 and will expire on December 31, 2020.

Pursuant to the Trust Business Cooperation Framework Agreement, The Bank entrusts its all or managed funds to Everbright Xinglong Trust, which will apply, under its own name, the trust funds into the purposes agreed upon in the specific trust agreement. The establishment of the trust, target recipient of trust property, management, application and way of disposal of the trust property under the trust business cooperation shall be further set out in the trust business agreements by both parties according to the principles under the Trust Business Cooperation Framework Agreement and taking into account of the specific circumstances. Unless otherwise paid by the Bank for various taxes, trust management fees and custody fees arising from the establishment, management and termination of the trust, all expenses incurred from handling the business of the trust by Everbright Xinglong Trust shall be paid out of the trust property. If the trust property is insufficient to pay the trust expense, Everbright Xinglong Trust is entitled to refuse to pay in advance by using its proprietary assets. However, if Everbright Xinglong Trust makes advance payment of trust expenses out of its proprietary assets, it is entitled to be reimbursed in priority out of the trust property. Everbright Xinglong Trust is entitled to receive trust management fee for its management, application and disposal of trust property (including fixed trust management fee and floating trust management fee, which should be agreed upon in the specific trust business agreement).

As the trustee of the trust schemes, Everbright Xinglong Trust is entitled to obtain trust management fees from the trust property which should be a fixed amount agreed upon between Everbright Xinglong Trust and the Bank or calculated with reference to the principal balance of the trust property multiplied by the annualized trust management fee rate agreed by both parties. In the previous trust scheme agreements signed between the Bank and Everbright Xinglong Trust, the annualized trust management fee rate charged by Everbright Xinglong Trust ranges from 0.15% to 0.79%.

During the Reporting Period, trust management fees obtained by Everbright Xinglong Trust in accordance with the Trust Business Cooperation Framework Agreement totaled RMB9.2591 million, including approximately RMB5.87 million for the period from January 1, 2018 to August 31, 2018 and RMB3.3885 million for the period from September 1, 2018 to December 31, 2018 (the cap of the transaction for such period amounted to RMB8 million).

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 43.98% equity interest in Everbright Xinglong Trust. Everbright Xinglong Trust is therefore an associate of Gansu State-owned Assets Investment, and then a connected person of the Bank. The transactions under the Trust Business Cooperation Framework Agreement between the Bank and Everbright Xinglong Trust constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the transaction exceeds 0.1% but is less than 5%, the transaction is therefore subject to compliance with the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but is exempt from independent Shareholders' approval requirements.

Confirmation by the independent non-executive Directors

The independent non-executive Directors of the Bank have reviewed the continuing connected transactions carried out between the Bank and Everbright Xinglong Trust under the Trust Business Cooperation Framework Agreement and confirmed that the transactions have been conducted:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as case may be) independent third parties; and

(3) in accordance with relevant agreement governing the relevant transactions, on terms that are fair and reasonable and in the interests of the Shareholders of the Bank as a whole.

Confirmation by the auditor

SHINEWING (HK) CPA Limited, the auditors of the Bank, have issued a letter to the Board of Directors, confirming that for the year ended December 31, 2018, in respect of the aforementioned continuing connected transactions:

(1) nothing has come to their attention that causes them to believe that the transactions have not been approved by the Board of Directors;

(2) nothing has come to their attention that causes them to believe that the transactions were not carried out, in all material respects, in accordance with the relevant agreements governing such transactions; and

(3) nothing has come to their attention that causes them to believe that the amount of each of the transactions has exceeded its annual cap mentioned above.

Related Party Transactions Referred to in the Consolidated Financial Statements and Connected Transactions under the Hong Kong Listing Rules

Save as disclosed above, there is no related party transaction or continuing related party transaction referred to in Note 46 to the consolidated financial statements that falls into the category of connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. The Bank has complied with the requirements under Chapter 14A of the Hong Kong Listing Rules with respect to the connected transactions and continuing connected transactions of the Bank.

26. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

The Bank endeavors to improve its performance evaluation system for Directors, Supervisors and senior management members. The remuneration system for the Directors, Supervisors and senior management members of the Bank adheres to the principle of unifying responsibilities, authorities and interests, combing incentives and restraints and focusing on both short-term and long-term incentives. The Bank insists on conducting remuneration system reform complementary with relevant reforms and promoting the marketization, monetization and standardization of the income allocation of the Bank's senior management.

The remuneration provided by the Bank for its executive Directors, employee representative Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities. Please refer to note 12 to the consolidated financial statements in this annual report for the details of the remuneration of the Directors and Supervisors.

The Bank strictly adheres to relevant regulatory provisions when making remuneration payments. The Bank assesses senior management members and offers remuneration to them based on the results of the assessment.

27. PUBLIC FLOAT

When it applied for the listing of its H Shares, the Bank applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted the Bank a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the higher of (i) 22.72%, the percentage of H Shares to be held by the public immediately after the completion of the global offering (assuming the over-allotment option is not exercised); and (ii) such percentage of H Shares to be held by the public after the exercise of the over-allotment option, provided that the higher of (i) and (ii) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Hong Kong Listing Rules.

Based on the Bank's publicly available information and to the best of the Directors' knowledge, as of the Latest Practicable Date, the number of H Shares in public hands represents approximately 25.26% of the total issued share capital of the Bank, which satisfies the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules.

28. TAX RELIEF

(I) Withholding and Payment of Enterprise Income Tax for Non-resident Enterprise Shareholders

Pursuant to the Enterprise Income Tax Law of the People's Republic of China《中華人民共和國企業所得稅法》) and its implementation rules and the relevant regulations, the Bank has the obligation to withhold and pay enterprise income tax at a tax rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H Share register in the distribution of dividend. As any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders, the dividends received shall be subject to the withholding of enterprise income tax.

Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent, and provide evidence in support of its status as an actual beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authorities, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

(II) Withholding and Payment of Individual Income Tax for Individual Overseas Resident Shareholders

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation 2015 No.60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) (the "Tax Convention Announcement"), the Bank has the obligation to withhold and pay individual income tax on behalf of the individual shareholders whose names appear on the H Share register ("Individual H Shareholder(s)") in the distribution of final dividend for 2018. However, Individual H Shareholders are entitled to the relevant favorable tax treatments pursuant to the provisions in the tax treaties between the countries (regions) in which they are domiciled and the PRC, and the tax arrangements between the PRC and Hong Kong (or Macau). As such, the Bank will withhold and pay individual income tax on behalf of the Individual H Shareholders in accordance with the following arrangements:

- for Individual H Shareholders receiving dividends who are Hong Kong or Macau residents or citizens from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend;

- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Bank will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Convention Announcement. Qualified shareholders shall submit in time a letter of entrustment and all application materials as required under the Tax Convention Announcement to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited. The Bank will then submit the above documents to competent tax authorities and, after their examination and approval, the Bank will assist in refunding the excess amount of tax withheld and paid;

- for Individual H shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;

- for Individual H shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 20% or without tax treaties with the PRC or under other circumstances, the Bank will withhold and pay the individual income tax at the rate of 20% in the distribution of final dividend. Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

29. AUDITORS

Shinewing Certified Public Accountants LLP was engaged by the Bank as the auditor for the financial statements of the Bank prepared under the PRC GAAP for 2018. SHINEWING (HK) CPA Limited was engaged by the Bank as the auditor for financial statements of the Bank prepared under the IFRS for 2018. Please also refer to the section headed "Corporate Governance Report – II. Corporate Governance – (IX) External Auditors and Remuneration of Auditors" in this annual report for the information on the auditors' remuneration.

During its application for listing of H Shares on the Hong Kong Stock Exchange, the Bank engaged Shinewing Certified Public Accountants LLP as its domestic auditor and SHINEWING (HK) CPA Limited its overseas auditor.

30. PERMITTED INDEMNITY PROVISION

The Bank has arranged appropriate insurance covering possible legal liabilities of the Directors and the senior management arising from corporate activities to third parties.

31. MAJOR RISKS AND UNCERTAINTIES

Major risks and uncertainties faced by the Group include credit risk, operational risk, market risk and liquidity risk. By promoting comprehensive risk management, continuously refining the systems, enriching operating means and improving technologies, the Group has effectively enhanced its risk management capability. Please refer to the sections headed "Management Discussion and Analysis – Risk Management" and "Risk Management, Internal Control and Internal Audit" in this annual report.

32. FUTURE DEVELOPMENT OF BUSINESS

Please refer to the sections headed "Management Discussion and Analysis – Environment and Prospect" and "Management Discussion and Analysis – Development Strategy" in this annual report for further details.

33. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2018, according to the financial data prepared under the IFRS, the total assets of the Group amounted to RMB328,622.4 million, representing a year-on-year increase of 21.2%; total loans and advances to customers amounted to RMB160,885.3 million, representing a year-on-year increase of 23.5%; the non-performing loan ratio was 2.29%; total deposits from customers amounted to RMB210,723.3 million, representing a year-on-year increase of 9.6%; the operating income of the Group amounted to RMB8,872.2 million, representing a year-on-year increase of 10.2%; and the net profit of the Group amounted to RMB3,439.6 million, representing a year-on-year increase of 2.3%. As of December 31, 2018, the Group's capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio was 13.55%, 11.01% and 11.01%, respectively.

34. ENVIRONMENTAL PROTECTION POLICY AND IMPLEMENTATION

The Group places great emphasis on its own environmental and social performance by integrating the banking operation and management with social responsibilities, actively supporting environmental friendly industries and environmental protection. In May 2017, we issued the first "green" financial bonds in Gansu, which totaled RMB1,000 million in the national interbank bond market. The proceeds of these bonds will be used to promote the development of the green and environmental friendly industry projects. In addition, we established our Green Finance Department in June 2017, which focuses on "green finance".

In line with national policies to save energy costs, the Bank has implemented a series of measures, including: (i) regulating office room temperature; (ii) strengthening management of usage of the Bank's business vehicles and encouraging the use of public transport for long-distance business trips; and (iii) encouraging the turning off of lights and electronic appliances after work.

35. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2018, the Bank has complied with the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2018 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

For details of the governance of the Bank, please refer to "Corporate Governance Report" of this annual report. The Bank continuously refined its internal control and management system to make the internal control system more comprehensive, practicable and efficient. The rules and systems of the Bank were further improved to ensure that the departments of the Bank could duly discharge their respective duties and responsibilities.

36. COMPLIANCE WITH LAWS AND REGULATIONS

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2018, to the best knowledge of the Board, the Group has complied in all material respects with all applicable laws and regulations which could materially affect the Group.

(1) Legal and compliance risk management of the Bank

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

The legal and compliance department at our head office is in charge of managing our overall legal and compliance risks. In addition, we have established discipline inspection, legal and compliance departments at the tier-one branches and sub-branches in charge of the matters in respect of legal compliance and risk management.

Our risk and internal control management committee supervises and leads our legal and compliance work. We systematically manage our internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. We manage legal and compliance risks primarily through the following measures:

- formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof;
- enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities;
- uniformly managing standard contracts and other legal documents;
- managing and tracking our legal proceedings;
- formulating an annual compliance management plan, stipulating the focus for annual compliance work;
- managing related parties and related party transactions to control related party transactions in advance;
- optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection;
- closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and
- enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

(2) Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and other applicable regulations of the PBOC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches. The anti-money laundering steering group at our head office leads and coordinates our bank-wide anti-money laundering efforts. It is primarily responsible for:

- formulating anti-money laundering plans;
- reviewing rules and internal controls regarding anti-money laundering;
- ensuring the effective implementation of internal controls for anti-money laundering;
- analyzing significant issues relating to anti-money laundering;
- formulating solutions and responsive measures; and
- reporting to our Board of Directors.

The group is led by the chairman of our Board, and consists of responsible persons from our accounting operation department, financial planning department, risk and credit management department, corporate banking department, international banking department, personal banking department, financial service center of our retail banking department and IT department.

We conduct due diligence on our customers in accordance with anti-money laundering laws and regulations. We report large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center on a daily basis through our anti-money laundering management system. We also report major reasonably suspected money laundering activities to the local branch of the PBOC and cooperate with their investigations, and report to local public security units when necessary.

We provide bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. We also require all new employees to participate in mandatory anti-money laundering training before commencing employment.

37. BUSINESS QUALIFICATIONS

During the Reporting Period and as of the date of this annual report, the Bank and its sole subsidiary Jingning Chengji Rural Bank have obtained necessary business qualifications required for their business operations.

38. LEGAL PROCEEDINGS

The Bank and its sole subsidiary Jingning Chengji Rural Bank are involved in legal disputes in the ordinary course of business, which primarily include actions against borrowers for the recovery of loans. As of the Latest Practicable Date, none of the Bank or any of its subsidiary were involved in any material pending lawsuits as a defendant.

During the Reporting Period and up to the Latest Practicable Date, none of the Bank's Directors, Supervisors, or senior management was involved in any material litigation or arbitration, nor had any of them been subject to any administrative penalty.

39. ISSUANCE OF BONDS

For the year ended December 31, 2018, the Bank has issued debt securities during the Reporting Period to supplement its capital, the details of which are set out as follows:

Interbank certificates

For the year ended December 31, 2018, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB45,090.0 million. The interbank certificates have a term ranging from one month to one year and bear effective interest rates between 3.35% and 5.35% per annum.

Financial bonds

In May 2018, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

40. EQUITY-LINKED AGREEMENT

During the Reporting Period, the Bank did not enter into any equity-linked agreement.

41. REVIEW OF ANNUAL RESULTS

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited have audited the consolidated financial statements of the Group prepared in accordance with the PRC GAAP and IFRS, respectively, and issued standard unqualified auditors' reports. The Board of Directors and the Audit Committee of the Bank have reviewed the results and financial report of the Bank for the year ended December 31, 2018 and recommended the Board of Directors to approve these documents.

42. BUSINESS ACTIVITIES INVOLVING SANCTIONED COUNTRIES

The United States has imposed sanctions against Cuba, Iran, North Korea, Sudan, Syria, and the Crimea region of Ukraine (the "Sanctioned Countries") as well as individual persons and entities on lists of designated parties. To varying extents, the European Union, Australia, and the United Nations also maintain certain sanctions.

We do not engage, and have not in the past five years engaged, in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. Our Iran-related transactions and dealings have been limited to the provision of RMB and Euro ("EUR") settlement services to PRC merchants that we believe sell daily necessities and commercial electronic devices to Iranian companies (the "Iran-related Business").

The U.S. White House released statements on August 6, 2018, announcing that the U.S. would reimpose sanctions targeting Iran's non-energy sector on August 7, including the purchase of U.S. dollars by the Iranian government; its trade in gold and precious metals; graphite, steel, aluminum, coal and software for industrial purposes; Iranian currency-related trade; relevant activities on the sovereign debts issued by the Iranian government; and Iran's automotive sector. On November 5, 2018, it reinitiated sanctions targeting Iran's energy export, including Iran's port operators, energy, shipping and shipbuilding sectors; petroleum-related transactions; as well as transactions by foreign financial institutions with the central bank of Iran. The releasing of the statements means that if the Bank continues cross-border settlement and clearance with relevant Iranian banks, it will be exposed to risks on U.S. sanctions. As a result, the Bank adjusted the development plans on Iran-related Business in a timely manner and has fully withdrawn from Iran-related settlement in steps to prevent risks on sanctions.

After the releasing of the statements on sanctions against Iran by the U.S. White House on August 6, 2018, the Bank initiated the steps in fully withdrawing from Iran-related settlement on August 7. Firstly, it withdrew from the import and export business and products with enterprises in the industries under the first sanctions; Secondly, it withdrew from enterprises with the business scope involving the industries under the first sanctions in their business licenses; Thirdly, it withdrew from the import and export business and products with enterprises in the industries under the second sanctions; and finally (on October 23, 2018), it withdrew from all Iran-related Businesses. As Iran is a sensitive country and Iran-related customers will enter into the Letter of Commitment for Customers with Businesses related to Special Regions when opening accounts at the Bank, committing that they will unconditionally assume risks on possible suspension of payment and the termination/suspension of transactions. As a result, a majority of Iran-related customers understood and coordinated in the withdrawal.

Before November 5, 2018, all of the seventeen Iranian banks for which we maintain accounts are identified on the List of Specially Designated Nationals and Blocked Persons (the "SDN List") by the U.S. Department of Treasury Office of Foreign Assets Control ("OFAC"). As a general matter, U.S. persons, wherever located, have an obligation to block the property and interests in property of individuals and entities that meet the definition of the Government of Iran or an Iranian financial institution, including those entities identified in the 13599 List. However, U.S. sanctions do not currently prohibit non-U. S. persons, such as financial institutions like us, from engaging in transactions or dealings with these banks, including maintaining RMB and EUR accounts for them, provided there is no involvement by U.S. persons, including U.S. financial institutions. As described in more detail below, our Iran-related activities do not involve, directly or indirectly, U.S. persons or U.S. financial institutions. In 2018, the U.S. government resolved that the sanctions against Iran which were lifted under The Joint Comprehensive Plan of Action (JCPOA) would be put back in place. On November 5, 2018, it removed relevant Irani financial institutions from the 13599 List onto the OFAC List of Specially Designated Nationals and Blocked Persons (the "SDN List"). In anticipation of that, we have called a complete halt to our Iran-related Business since October 23, 2018. On October 24, 2018, we notified via the SWIFT system all Irani banks that have accounts with us that we had frozen the money in their settlement accounts due to the new round of sanctions and would cut off all communications with them until such sanctions are lifted. The monetary value of the Iran-related settlement transactions we have handled from 2014 to 2018, as well as the commission income we received in connection with these settlement services and the percentage of our total operating income that this commission income represents, are set out as follows:

Year	Settlement Amount	Commission Income	Percent of Total
2014	–	–	–
2015	US$30.6 million	RMB0.5 million	0.01
2016	US$151.2 million	RMB2.8 million	0.04
2017	US$591.32 million	RMB21.82 million	0.25
2018	US$859 million	RMB22 million	0.25

When we applied to the Hong Kong Stock Exchange for the listing of the H Shares issued by the Bank on the Hong Kong Stock Exchange, we made the following undertakings to the Hong Kong Stock Exchange:

- We will not knowingly use the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange to finance or facilitate, directly or indirectly, sanction projects or businesses in the Sanctioned Countries;

- We will disclose on the Hong Kong Stock Exchange's website and on our own website if our transactions or dealings in Sanctioned Countries put us or our Shareholders or potential investors at risk of being sanctioned; and

- We will disclose in our annual reports/interim reports our efforts on monitoring sanctions risk exposure, the status of any future business in the Sanctioned Countries, and our business intentions relating to the Sanctioned Countries.

We have adopted the following internal control measures to identify, monitor, and manage our exposure to sanctions risk and to comply with our undertakings to the Hong Kong Stock Exchange:

- We conduct sanctions-related screening in connection with our international transactions, including screening against the SDN List and the Sectoral Sanctions Identifications List and the E.U. Consolidated List of Financial Sanctions Targets;

- We provide training on sanctions laws to all business personnel of the Bank;

- We will seek appropriate advice from external legal advisers upon identifying any material sanctions risk in our operations; and

- We will closely monitor the use of the proceeds from the Global Offering and other funds raised through the Hong Kong Stock Exchange to help ensure the proceeds and other funds will not be used for or applied to any sanctioned business. We have deposited these proceeds and funds in a separate bank account.

We expect that we will not engage in the future in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. As disclosed above, our Iran-related Business has come to a complete halt since October 23, 2018 and would not be resumed until the new round of sanctions against Iran by the U.S. government are lifted. We expect that our Iran-related transactions and dealings will also be limited to the provision of RMB and EUR settlement services to PRC merchants that we believe have business dealings with Iranian companies even if such sanctions are removed. We will not take the initiative to enlarge the scale of our Iran-related transactions unless required by national macro policies or strategies, to ensure these transactions account for one percent or less of our total operating income.

We consider various factors when determining whether to engage in transactions involving Sanctioned Countries, including:

- The scale of the transactions as a percentage of our total operating income;

- Involvement of any persons or entities on lists of designated parties maintained by the sanctions enforcement agencies;

- Involvement of any industries or sectors that are subject to sanctions; and

- Legal and reputational risks.

43. COMPANY SECRETARIES

During the Reporting Period, there were changes in the Bank's company secretaries. The current company secretary is Ms. Ng Wing Yan (伍穎欣), who was appointed on June 15, 2018. The Bank previously adopted the system of Joint Company Secretaries, under which, Mr. Xu Jianping and Ms. Hui Yin Shan were former joint company secretaries, who resigned their positions in December 2018 and on February 28, 2018, respectively. Ms. Ko Nga Kit acted as a joint company secretary of the Bank from February 28, 2018 to June 15, 2018.

44. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB9,760,000,000. The ranges of the interest rates per annum on the Group's interbank deposits issued are 2.97% to 3.30%.

45. MISCELLANEOUS

1. As of the Latest Practicable Date, the Bank was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.

2. As of the Latest Practicable Date, none of the Directors waived or agreed to waive the related remuneration arrangements.

3. During the Reporting Period and up to the Latest Practicable Date, there were no collateral and pledges of significant assets of the Bank.

4. The Bank did not implement any equity incentive plan during the Reporting Period and up to the Latest Practicable Date.

5. The Bank did not implement any employee stock ownership scheme during the Reporting Period and up to the Latest Practicable Date.

By Order of the Board
Liu Qing
Chairman

Work Report of the Board of Supervisors

In 2018, the Board of Supervisors of the Bank of Gansu, bearing in mind its responsibility towards the shareholders and staff and following the requirements of the PRC Company Law, the PRC Securities Law, guidelines of regulatory authorities, the Articles of Association of the Bank and all rules and systems of the Board of Supervisors, diligently and earnestly fulfilled its duties and established a supervision system with meetings supervision, strategic supervision, tour inspection and research supervision, performance and appraisal supervision, external auditing supervision and communication and summon supervision, which facilitated the sound development of the business of the Bank, strengthened risk control and improved the corporate governance structure.

I. PRINCIPAL WORK IN 2018

(I) Carefully performing supervision responsibilities of the Board of Supervisors and improving corporate governance in a more orderly way

1. **Fully attended various meeting and activities of the "shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management".** In 2018, the Board of Supervisors convened 6 meetings and 5 special committee meetings. Supervisors attended 2 general meetings and presented at 9 meetings of the Board. The Chief Supervisor and supervisors directly attended all work meetings on business, meetings of business lines, safety meetings, risk control meetings and participated in the supervision on risk control, appraisal, organizational framework improvement and other significant decision-making matters and established a decision-making negotiation mechanism on significant matters through meetings with the Chairman, the President and the Chief Supervisor. The Board of Supervisors attended and presented various meetings and activities and it facilitated the Board of Supervisors in obtaining the information on the operation and management of the Bank and enhanced the substantial supervision responsibilities.

2. **Actively displayed the supervision and promotion function of tour inspections.** The Board of Supervisors conducted tour inspections and researches in institutes in Zhangye, Jiuquan and Jiayuguan, paid attention to the development and risk control of frontline offices and urged the head office to increase support to and enhance management and control over frontline offices to solve their difficulties in business development and risk control and promote their stable operation.

3. **Improved and implemented performance appraisal of directors, supervisors and senior management.** It completed the performance appraisal report on directors, supervisors and senior management in 2017 as required through optimizing the performance appraisal procedures and the external auditing appraisal mechanism. It also beefed up the communication with directors and senior management and the supervision and reminders on them and reported the performance appraisal results to the general meeting and regulatory departments.

4. **Creatively conducted strategic appraisal.** Following regulatory requirements and based on routine supervisions and inspections, the Board of Supervisors creatively appraised the strategic planning on the development of the Bank in the previous and following three years. It also proposed appraisal opinions and suggestions to further enhance risk control, properly solving imbalanced development and comprehensively achieve strategic targets and guaranteed stable and sustainable strategic targets.

5. **Reviewed risk control in business lines.** It attended meetings of relevant business lines, paid close attention to relevant risks, listened to reports of auditing, risk control and compliance and other business lines on non-performing loans control, safety, auditing and accountability and proposed supervision opinions and improvement suggestions, which played an active role in promoting the business development and risk control of the Bank.

6. **Further perfected the external auditing communication and inspection mechanism.** On the one hand, it maintained regular and irregular communications with external auditors and obtained information from independent third parties based on the auditing information. On the other hand, it coordinated with the provincial regulatory bureau on financial institutes in inspecting the internal control, credit, finance and other businesses of the Bank. It made feedbacks to the operation team on the "13 problems in 5 aspects" spotted in the inspection and the proposed rectification measures and urged the implementation of rectification of all problems, thus effectively promoting the optimization of the credit process and the improvement of meticulous management.

(II) Consistently consolidating the basic work of the Board of Supervisors and improving efficiency in performance supervision

1. **Successfully completed re-election.** The Board of Supervisors conducted re-election according to regulatory requirements and the Articles of Association after the listing. The Board of Supervisors consists of nine Supervisors, including three employee representative Supervisors, three shareholder Supervisors and three external Supervisors. The professional structure of all supervisors meets regulatory requirements, effectively guaranteeing the smooth supervision work of the Board of Supervisors.

2. **Improved and amended systems.** According to regulatory requirements on listing and on the basis of further improvement and revision of the Rules of Procedure for the Board of Supervisors of the Bank of Gansu Co., Ltd., the Rules of Procedure for the Nomination Committee of the Board of Supervisors of the Bank of Gansu Co., Ltd., the Rules of Procedures of the Supervisory Committee of the Board of Supervisors of Bank of Gansu Co., Ltd. and the Rules of Procedures of the Audit Committee of Bank of Gansu Co., Ltd., it initiated the revision of other systems of the Board of Supervisors, which provided strong system guarantees to the supervision work.

3. **Paid attention to information collection.** On the basis of the smooth channels for meetings supervision, strategic supervision, tour inspection and research supervision, performance and appraisal supervision, external auditing supervision and communication and summon supervision, it extracted and analyzed various information collected and transmitted them to supervisors through emails, telephone, WeChat and other means, providing necessary information basis for performance supervision.

4. **Optimized internal communication.** The Board of Supervisors attached great importance to the communications with the Board of Directors and the operation team. It continuously optimized the communication and interaction mechanism between the Chief Supervisor and the Chairman and the President, who regularly and irregularly conduct communication on important information in and out of the industry through meetings, telephone and other means, participated in supervision on decision-making and made feedbacks to the supervision opinions and reasonable suggestions of the Board of Supervisors.

5. **Strengthened external communication.** On the one hand, it maintained effective reporting and communication channels with government and regulatory authorities at all levels and visited to them to obtain work guidance and support in a timely manner. On the other hand, it strengthened the communication with banks. It communicated with the supervisory committees of Zhongyuan Bank, the Bank of Zhengzhou, the Bank of Jiangsu and the Bank of Nanjing to learn from each other, which further enriched the working contents.

6. **Enhanced performance training.** Besides tour inspections, researches, examinations, promotions and other practice, the Board of Supervisors also organized all supervisors to attend performance trainings and invited the lawyers appointed by the Bank to lecture. It further enriched knowledge, broadened the horizon and the mind and laid a solid foundation for better performance supervision in the future.

II. PERFORMANCE APPRAISAL ON THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS, SENIOR MANAGEMENT AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT STAFF

The Board of Supervisors evaluated the duty performance of the Board of Directors, the Board of Supervisors and the senior management as well as the Directors, Supervisors and senior management members for 2018 in accordance with the requirements of the Guidelines on the Functioning of Board of Supervisors of Commercial Banks, the Articles of Association and the Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on Due Diligence Supervision Over the Directors, Presidents and Other Senior Management. After evaluation, the Board of Supervisors believed that the Board of Directors fully performed its decision-making and supervision functions, and formulated plans with respect to development strategies, risk management and internal control policies, and capital planning for the Bank's business development goals, operations and risk conditions, and risk tolerance capabilities in accordance with the current economic and financial conditions. Through the implementation of authorized management and target assessment for senior management, the senior management was promoted to effectively implement the resolutions of the Board of Directors and promote the realization of various operation and management objectives; the Board of Supervisors were capable of carrying out supervision in respect of performance of duties, finance, internal control and risk management for the purpose of safeguarding the legitimate rights and interests of the Bank, its Shareholders and other stakeholders pursuant to the PRC Company Law, the Guidelines on Corporate Governance of Commercial Bank and the Articles of Association, which facilitated the regulated operation and sound development of corporate governance. The senior management effectively implemented the strategic decisions of the Board of Directors. After fulfilling the annual business objectives made by the Board of Directors, the senior management continued to strengthen efforts to speed up the adjustment and optimization of business structure, effectively enhance the risk management capabilities, improve the internal control system, which plays an active and important role in corporate governance and business management and improves the Bank's comprehensive benefits and brand influence. Upon evaluation, it is considered that all Directors, senior management members and Supervisors were competent.

III. INDEPENDENT OPINIONS ISSUED

(I) Compliance operation

The business activities conducted by the Bank in 2018 were in compliance with the requirements of the PRC Company Law, the Commercial Banking Law and the Articles of Association, and decision-making procedures were lawful and valid. Neither violation of laws, regulations or the Articles of Association nor harm to the interests of the Bank or Shareholders during performance of duties by the Directors or senior management of the Bank was identified.

(II) Truthfulness of the financial report

Shinewing Certified Public Accountants LLP has audited the financial report for 2018 prepared by the Bank under the PRC GAAP and issued a standard unqualified audit report thereon. The Board of Supervisors was of the view that the financial report gave an objective view of the financial position and operating results of the Bank, and no false records or material omissions were found.

(III) The Board's Implementation of resolutions proposed at the Shareholders' general meeting

The Board of Supervisors had no disagreement upon any reports and proposals submitted by the Board to the Shareholders' general meeting for consideration in 2018, and was of the view that the Board diligently implemented relevant resolutions passed at the Shareholders' general meetings.

IV. WORK PLANS IN 2019

In 2019, the Board of Supervisors will consistently follow the PRC Company Law, the PRC Securities Law, the Articles of Association of the Bank and other requirements, aim at safeguarding the overall and long-term interests of the Bank and the benefits of all shareholders and staff, firmly focus on the reform and development of the whole Bank and the implementation of strategies, diligently and earnestly fulfill its duties and work even harder to increasingly improve and innovate working styles, strengthen self-building and enhance the performance ability of supervisors. We will consolidate the effectively integration of supervision before, during and after the process, make more efforts in boosting the standardization of supervision work and the supervision effects, perform supervision responsibilities strictly in compliance with the established procedures and fully guarantee the professionalism, seriousness and authoritativeness of supervision work. We will leverage on inspection, query, reminders and other supervision means to better perform supervision responsibilities, play well our supervisory role and provide strong support to building a modern and first-class city commercial bank.

Changes in Share Capital and Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL OF THE BANK

(I) Share Capital

As of December 31, 2018, the share capital of the Bank was as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital
Domestic Shares	7,525,991,330	74.74%
H Shares	2,543,800,000	25.26%
Total	10,069,791,330	100.0%

(II) Changes in Share Capital

During the Reporting Period, the Bank completed the global offering of its H Shares under which a total of 2,543,800,000 H Shares (including H Shares issued pursuant to the exercise of the over-allotment option) were issued. As a result, the total share capital of the Bank increased to RMB10,069,791,330 as at the end of the Reporting Period from RMB7,525,991,330 as at the beginning of the Reporting Period.

II. PARTICULARS OF SHAREHOLDERS

(I) Particulars of Shareholdings of the Top Ten Shareholders of the Domestic Shares of the Bank

No.	Name of Shareholder	The Number of Shares Held as at December 31, 2018 [1]	Shareholding Percentage as at December 31, 2018 *(%)*	The Number of Shares Held as at the Latest Practicable Date [1]	Shareholding Percentage as at the Latest Practicable Date *(%)*
1	Gansu Highway Aviation Tourism	1,157,154,433	11.49	1,257,696,100	12.49
2	Baoshang Bank	845,296,403	8.39	845,296,403	8.39
3	Jinchuan Group	633,972,303	6.30	633,972,303	6.30
4	Gansu Electric Power Investment	633,972,303	6.30	633,972,303	6.30
5	Jiuquan Iron & Steel	633,972,303	6.30	633,972,303	6.30
6	Gansu State-owned Assets Investment	359,250,972	3.57	359,250,972	3.57
7	Yong Xin Hua Holdings Co., Ltd.	239,326,800	2.38	239,326,800	2.38
8	Jingyuan Coal Industry Group Limited	239,326,800	2.38	239,326,800	2.38
9	Readers Publishing Group Limited	211,324,101	2.10	211,324,101	2.10
10	Ningxia Tianyuan Manganese Limited Company	201,083,333	2.00	201,083,333	2.00
	Hebei Jingye Group Co., Ltd.	201,083,333	2.00	201,083,333	2.00

Note:

(1) The shareholding in this table refers to the number of Domestic Shares directly held in the Bank.

(II) Interests and Short Positions of Substantial Shareholders and Other Persons

To the best knowledge of the Bank, as of December 31, 2018, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Bank pursuant to section 336 of Part XV of the SFO and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, were interested in 5% or more of the nominal value of any class of the Bank's share capital carrying rights to vote in all circumstances at the shareholders' general meetings of any other member of the Bank:

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held	Approximate Percentage of the Total Issued Share Capital of the Bank *(%)*	Approximate Percentage of the Relevant Class of Shares of the Bank *(%)*
Gansu State-owned Assets Investment	Beneficial owner	Domestic Shares	359,250,972(L)[1]	3.57	4.77
	Interest in controlled Corporations[3]	Domestic Shares	1,267,944,606(L)[1]	12.59	16.85
Gansu Highway Aviation Tourism	Beneficial owner	Domestic Shares	1,157,154,433(L)[1]	11.49	15.38
Baoshang Bank	Beneficial owner	Domestic Shares	845,296,403(L)[1]	8.39	11.23
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	633,972,303(L)[1]	6.30	8.42
Gansu Electric Power Investment	Beneficial owner	Domestic Shares	633,972,303(L)[1]	6.30	8.42
Jinchuan Group	Beneficial owner	Domestic Shares	633,972,303(L)[1]	6.30	8.42
China Foreign Economy and Trade Trust Co., Ltd.	Trustee[4]	H Shares	360,577,000(L)[1]	3.58	14.17
Harvest Ahead International Holdings Limited	Beneficial owner	H Shares	358,405,115(L)[1]	3.56	14.09
Huaxun International Group Limited	Beneficial owner	H Shares	290,788,000(L)[1]	2.89	11.43
Huaxun Fangzhou Technology Co., Ltd.	Interest in controlled Corporations[5]	H Shares	290,788,000(L)[1]	2.89	11.43
Wu Guangsheng	Interest in controlled Corporations[6]	H Shares	290,788,000(L)[1]	2.89	11.43
China Create Capital Limited	Beneficial owner	H Shares	290,788,000(L)[1]	2.89	11.43
Zhang Wei	Interest in controlled Corporations[7]	H Shares	290,788,000(L)[1]	2.89	11.43
BOC-LION RAINBOW NO.14 FUND	Trustee[8]	H Shares	282,064,000(L)[1]	2.80	11.09
Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司)	Founder of a discretionary trust, who can affect the trustee how to exercise discretionary trust[9]	H Shares	282,064,000(L)[1]	2.80	11.09
Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司)	Interest in controlled Corporations[10]	H Shares	282,064,000(L)[1]	2.80	11.09
Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司)	Interest in controlled Corporations[11]	H Shares	282,064,000(L)[1]	2.80	11.09
Cui Wei	Interest in controlled Corporations[12]	H Shares	282,064,000(L)[1]	2.80	11.09
Sang Chunhua	Interest in controlled Corporations[13]	H Shares	282,064,000(L)[1]	2.80	11.09

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held	Approximate Percentage of the Total Issued Share Capital of the Bank *(%)*	Approximate Percentage of the Relevant Class of Shares of the Bank *(%)*
Chang'an International Trust Co., Ltd. (長安國際信託股份有限公司)	Trustee[14]	H Shares	282,064,000(L)[1]	2.80	11.09
Citigroup Global Markets Hong Kong Limited	Beneficial owner[15]	H Shares	203,551,000(S)[2]	2.02	8.00
Citigroup Financial Products Inc.	Interest in controlled Corporations[16]	H Shares	203,551,000(S)[2]	2.02	8.00
Citigroup Global Markets Holdings Inc.	Interest in controlled Corporations[17]	H Shares	203,551,000(S)[2]	2.02	8.00
Citigroup Inc.	Interest in controlled Corporations[18]	H Shares	203,551,000 (S)[2]	2.02	8.00
CITIC Securities Company Limited	Interest in controlled Corporations[19]	H Shares	203,551,000(L)[1]	2.02	8.00
CITIC Securities International Company Limited	Interest in controlled Corporations	H Shares	203,551,000(L)[1]	2.02	8.00
CLSA B.V.	Interest in controlled Corporations	H Shares	203,551,000(L)[1]	2.02	8.00
CITIC CLSA Global Markets Holdings Limited	Interest in controlled Corporations	H Shares	203,551,000(L)[1]	2.02	8.00
CSI Capital Management Limited	Beneficial owner[20]	H Shares	203,551,000(L)[1]	2.02	8.00
H.K. RUIJIA TRADING COMPANY LIMITED	Beneficial owner[21]	H Shares	147,718,000(L)[1]	1.47	5.81
Huarong Rongde (Hong Kong) Investment Management Company Limited	Beneficial owner	H Shares	145,394,000(L)[1]	1.44	5.72
Huarong Rongde Asset Management Company Limited	Interest in controlled Corporations[22]	H Shares	145,394,000(L)[1]	1.44	5.72
China Huarong Asset Management Co., Ltd.	Interest in controlled Corporations[23]	H Shares	145,394,000(L)[1]	1.44	5.72
Cathay Capital Company (No. 2) Limited	Interest in controlled Corporations[24]	H Shares	145,394,000(L)[1]	1.44	5.72
Deutsche Bank Aktiengesellschaft	Interest in controlled Corporations[25]	H Shares	145,394,000(L)[1]	1.44	5.72

Notes:

(1) L represents long position.

(2) S represents short position

(3) Gansu State-owned Assets Investment directly held 359,250,972 Domestic Shares, representing approximately 3.57% of the total issued Shares. Gansu SASAC and Jiuquan Iron & Steel hold 83.54% and 16.46% equity interest in Gansu State-owned Assets Investment, respectively, while Gansu State-owned Assets Investment in turn holds 31.91% equity interest in Jiuquan Iron & Steel. Gansu State-owned Assets Investment also holds 100% of the equity interest in Gansu Electric Power Investment and 48.67% of the equity interest in Jinchuan Group. Therefore, Gansu Electric Power Investment and Jinchuan Group are controlled corporations of Gansu State-owned Assets Investment. Pursuant to the SFO, Gansu State-owned Assets Investment is deemed to be interested in the Shares held by Gansu Electric Power Investment and Jinchuan Group

(4) According to the disclosure of interests form filed by China Foreign Economy and Trade Trust Co., Ltd. on January 31, 2018, it holds 360,577,000 H Shares of the Bank as a trustee, among which, "FOTIC – Wuxingbaichuan No. 26 Special Unitrust of Anar Group" (外貿信託一五行百川26號石榴集團專項單一資金信託) holds 282,064,000 H Shares of the Bank, "FOTIC – Wuxingbaichuan No. 25 Unitrust" (外貿信託一五行百川25號單一資金信託) holds 78,513,000 H Shares of the Bank.

(5) Huaxun International Group Limited is a wholly-owned subsidiary of Huaxun Fangzhou Technology Co., Ltd. According to the SFO, Huaxun Fangzhou Technology Co., Ltd. is deemed to be interested in the Shares held by Huaxun International Group Limited.

(6) Huaxun International Group Limited is a wholly-owned subsidiary of Huaxun Fangzhou Technology Co., Ltd. Mr. Wu Guangsheng holds approximately 39.98% of the total share capital in Huaxun Fangzhou Technology Co., Ltd. According to the SFO, Mr. Wu Guangsheng is deemed to be interested in the Shares held by Huaxun International Group Limited.

(7) Mr. Zhang Wei holds 100% of the total issued share capital in China Create Capital Limited. According to the SFO, Mr. Zhang Wei is deemed to be interested in the Shares held by China Create Capital Limited.

(8) According to the disclosure of interests form filed by BOC-LION RAINBOW NO. 14 FUND on February 26, 2018, it holds 282,064,000 H Shares of the Bank as a trustee.

(9) According to the disclosure of interests form filed by Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司) on January 29, 2018, it holds 282,064,000 H Shares of the Bank as founder of a discretionary trust who can influence the trustee how to exercise its discretion.

(10) Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司) holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. According to the SFO, Beijing Kadapu Investment Co., Ltd. is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..

(11) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司). According to the SFO, Beijing Annatuoliya Investment Co., Ltd. is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..

(12) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd.. Cui Wei holds 58.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. According to the SFO, Cui Wei is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..

(13) Beijing Kadapu Investment Co., Ltd. holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd.. Sang Chunhua holds 42.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. According to the SFO, Sang Chunhua is deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..

(14) According to the disclosure of interests form filed by Beijing Annatuoliya Investment Co., Ltd. on January 29, 2018, Chang'an International Trust Co., Ltd. is entitled to control the trust scheme in respect of 282,064,000 H Shares of the Bank formed by China Foreign Economy and Trade Trust Co., Ltd. where it acts as a trustee thereof. According to the SFO, Chang'an International Trust Co., Ltd. is deemed to be interested in the 282,064,000 Shares.

(15) According to the disclosure of interests form filed by Citigroup Inc. on December 6, 2018, Citigroup Global Markets Hong Kong Limited, as a beneficial owner, holds short position in 203,551,000 shares of the Bank.

(16) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. According to the SFO, Citigroup Financial Products Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.

(17) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is a wholly-owned subsidiary of Citigroup Global Markets Holdings Inc.. According to the SFO, Citigroup Global Markets Holdings Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.

(18) Citigroup Global Markets Hong Kong Limited is a wholly-owned subsidiary of Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is a wholly-owned subsidiary of Citigroup Global Markets Holdings Inc.. Citigroup Global Markets Holdings Inc. is a wholly-owned subsidiary of Citigroup Inc. According to the SFO, Citigroup Inc. is deemed to be interested in the Shares of the Bank held by Citigroup Global Markets Hong Kong Limited.

(19) According to the disclosure of interests form filed by by CITIC Securities Company Limited on 7 December 2018, CSI Capital Management Limited, as a beneficial owner of controlled corporations, holds 203,551,000 shares of the Bank.

(20) CSI Capital Management Limited is a wholly-owned subsidiary of CITIC CLSA Global Markets Holdings Limited, which in turn is a wholly-owned subsidiary of CLSA B.V. CLSA B.V. is a wholly-owned subsidiary of CITIC Securities International Company Limited, which in turn is a wholly-owned subsidiary of CITIC Securities Company Limited. CITIC Securities Company Limited is deemed to be interested in the Bank's shares held by CSI Capital Management Limited under the SFO.

(21) According to the equity disclosure form filed by H.K. RUIJIA TRADING COMPANY LIMITED on January 15, 2019, it holds 147,718,000 H shares of the Bank as a beneficial owner.

(22) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. According to the SFO, Huarong Rongde Asset Management Company Limited is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

(23) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. China Huarong Asset Management Co., Ltd. holds 59.3% of the registered share capital in Huarong Rongde Asset Management Company Limited. According to the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

(24) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No. 2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited. According to the SFO, Cathay Capital Company (No. 2) Limited is deemed to be interested in the Shares held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

(25) Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No. 2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited, while Deutsche Bank Aktiengesellschaft holds 67.57% equity interest in Cathay Capital Company (No. 2) Limited. According to the SFO, Deutsche Bank Aktiengesellschaft is deemed to be interested in the Shares of the Bank held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

Save as disclosed above, as of the Latest Practicable Date, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank, which were required to be recorded in the register of interests maintained by the Bank pursuant to section 336 of Part XV of the SFO, and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(III) Shareholders Holding 5% or More of the Share Capital

Please refer to II. Particular of Shareholders above for information on Shareholders holding 5% or more of the share capital of the Bank.

(IV) Particulars of Controlling Shareholders and Actual Controller

The Bank does not have a controlling Shareholder or actual controller.

Directors, Supervisors, Senior Management, Employees and Organizations

I. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the Reporting Period and up to the date of this annual report, the information of the Directors, Supervisors and senior management members of the Bank is as follows:

Directors

Name	Age	Date of joining the Bank	Date of appointment as Director[1]	Position held as of the Latest Practicable Date	Responsibilities
Mr. Liu Qing (劉青)	53	May 2011[2]	December 3, 2018	Chairman, executive Director	Presiding over the overall operations of the Bank, and primarily responsible for matters concerning Party building, implementation of major responsibilities for fostering a clean and honest Party, the ideological and political work, as well as work concerning the Board of Directors, human resources, and strategic development; in charge of the Office of the Board of Directors (the Strategy and Development Department) and the Human Resources Department (the Organization Department under the Party Committee)
Mr. Wang Wenyong (王文永)	53	December 2018	December 3, 2018	Executive Director	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; in charge of the Planning and Financial Department and the Corporate Business Department
Ms. Wu Changhong (吳長虹)	55	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member
Ms. Zhang Hongxia (張紅霞)	40	October 2011	October 15, 2011	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member

Name	Age	Date of joining the Bank	Date of appointment as Director[1]	Position held as of the Latest Practicable Date	Responsibilities
Mr. Guo Jirong (郭繼榮)	47	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Zhang Youda (張有達)	45	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Liu Wanxiang (劉萬祥)	51	December 2018	December 3, 2018[3]	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Ms. Tang Xiuli (唐岫立)	50	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transactions and risk management committee

Name	Age	Date of joining the Bank	Date of appointment as Director[1]	Position held as of the Latest Practicable Date	Responsibilities
Ms. Luo Mei (羅玫)	43	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transactions and risk management committee
Mr. Wong Sincere (黃誠思)	54	August 2017	August 12, 2017[3]	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance work, and performing his duties as a Director through the Board of Directors, audit committee and related party transactions and risk management committee
Mr. Dong Ximiao (董希淼)	41	December 2018	December 3, 2018	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank based on his extensive experience in finance, and performing his duties as a Director through the Board of Directors, nomination and remuneration committee and related party transactions and risk management committee

Note:

(1) The date of appointment as a Director stated here represents the date on which the relevant person was elected as a Director at the general meetings of the Bank.

(2) Mr. Liu Qing was appointed as deputy secretary to the Party committee and vice president of Dunhuang Bank Co., Ltd. (the former name of the Bank used during the Bank's incorporation process) in May 2011, and had served as an executive director of the Bank from October 2011 to November 2017. He resigned from all his positions in the Bank on November 9, 2017 due to work reallocation and was appointed as chairman and an executive Director of the Bank at the general meeting held on December 3, 2018.

(3) Mr. Liu Wanxiang was appointed as a non-executive Director at the first extraordinary general meeting of the Bank dated December 3, 2018, but his directorship qualification is still subject to the approval by the regulatory authority.

Supervisors

Name	Age	Date of joining the Bank	Date of appointment as Supervisor [1]	Position held as of the Latest Practicable Date	Responsibilities
Ms. Tang Lan (湯瀾)	55	November 2018	November 12, 2018	Chairman of the Board of Supervisors, employee representative Supervisor	Responsible for overall work of the Board of Supervisors, primarily responsible for supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security, institutional construction and work concerning the mass organization; in charge of the Office of the Board of Supervisors, Audit Department, Mass Organization Department, Institutional Management Department and Security Department
Mr. Xu Yongfeng (許勇鋒)	54	October 2011	October 15, 2011	Employee representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Luo Zhenxia (羅振夏)	54	October 2011	October 15, 2011	Employee representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Liu Yongchong (劉永翀)	52	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Li Yongjun (李永軍)	50	October 2011	October 15, 2011	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Liu Xiaoyu (劉曉宇)	46	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Yang Zhenjun (楊振軍)	49	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Dong Ying (董英)	55	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Luo Yi (羅藝)	38	June 2018	June 1, 2018	External Supervisor	Supervising the Board of Directors and the senior management

Note:

(1) The date of appointment as a Supervisor stated here represents the date on which the relevant person was elected as a Supervisor by the Shareholders' general meetings or the employee representatives' meetings (for employee representative Supervisors only) of the Bank.

Senior Management

Name	Age	Date of joining the Bank	Date of appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	53	December 2018	December 3, 2018	Executive Director, president	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; in charge of the Planning and Financial Department and the Corporate Business Department
Mr. Qiu Jinhu (仇金虎)	54	January 2015	January 2015	Vice president	Responsible for retail credit business, administrative work, logistical support, operation and management as well as work relating to poverty alleviation and support; in charge of the General Office (Office of the Party Committee), Accounting and Operation Department, Retail Business Financial Service Center, Administrative Affairs Department and work relating to poverty alleviation and support.
Mr. Wang Chunyun (王春雲)	47	October 2011	October 2016	Senior executive officer for internal control and compliance	Responsible for risk management and legal compliance as well as the organization, coordination, resolving and disposition work concerning material risk matters. Assisting the president to take charge of the Risk and Credit Management Department, Asset Preservation Department and Legal and Compliance Department
Mr. Wang Zhiyuan (王志遠)	50	April 2012	December 2017	Vice president, general manager of the Human Resources Department, general manager of the Strategy and Development Department (concurrent)	Responsible for individual business, Internet finance, information technology and work related to the Party committee; stewarding organization and human resources work; in charge of the Individual Business Department, Internet Finance Department, Information Technology Department, and the Party Committee of the headquarters; and assisting the chairman to take charge of the Human Resources Department (Organization Department of the Party Committee)
Ms. Hao Jumei (郝菊梅)	49	February 2012	December 2018	Secretary to the Board of Directors	Responsible for the daily work of the Board of Directors and the financial market, investment banking and bill businesses, as well as the coordination and liaison with the companies hold by the Bank; in charge of the Financial Market Department, Bill Center and Investment Banking Department; and assisting the chairman to take charge of the Office of the Board of Directors (the Strategy and Development Department)

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

(I) Changes in Directors

(1) Mr. Chen Aiguo tendered his resignation as an independent non-executive Director, the chairman of the nomination and remuneration committee, a member of strategy and development committee and a member of audit committee of the Board as he intended to focus on other job commitments. His resignation took effect on December 3, 2018.

(2) Mr. Li Hui tendered his resignation as a non-executive Director and a member of the strategy and development committee of the Bank on August 31, 2018 due to work adjustment.

(3) Given the expiration of the first session of the Board of Directors, the Bank convened an extraordinary general meeting on December 3, 2018 to consider and approve the appointment of Mr. Liu Qing and Mr. Wang Wenyong as executive Directors of the Bank, Ms. Wu Changhong, Ms. Zhang Hongxia, Mr. Guo Jirong, Mr. Zhang Youda and Mr. Liu Wanxiang as non-executive Directors of the Bank, and Ms. Tang Xiuli, Ms. Luo Mei, Mr. Wong Sincere, and Mr. Dong Ximiao as independent non-executive Directors of the Bank. Accordingly, the second session of the Board of Directors of the Bank was officially established. In particular, the qualifications of Mr. Liu Qing and Mr. Wang Wenyong were filed with and approved by the relevant regulatory authority in December 2018, and the qualification of Mr. Dong Ximiao was approved by the relevant regulatory authority in March 2019, whereas the qualification of Mr. Liu Wanxiang as a Director is still subject to the approval of the regulatory authority.

(4) Mr. Li Xin, Mr. Lei Tie and Mr. Chen Aiguo, all being Directors of the first session of the Board of Directors of the Bank, retired after the extraordinary general meeting dated December 3, 2018.

(II) Changes in Supervisors

(1) Mr. Zhu Xingjie, a former external Supervisor of the Bank, tendered his resignation to the Board of Supervisors as an external Supervisor of the Bank, and the director of the audit committee and a member of the Supervision committee under the Board of Supervisors on March 27, 2018 because he intended to focus on other affairs. His resignation took effect on June 1, 2018.

(2) At the 2017 annual general meeting of the Bank held on June 1, 2018, the appointment of Mr. Luo Yi as a Supervisor of the Bank was considered and approved by the Shareholders of the Bank, and his appointment took effect on the same day.

(3) Mr. Yang Qian, the former chairman of the Board of Supervisors, resigned from his positions as the chairman of the Board of Supervisors, and a member of the Nomination committee under the Board of Supervisors, a member of the Supervision committee under the Board of Supervisors, a member of the audit committee under the Board of Supervisors and an employee representative Supervisor of the Bank on April 24, 2018 as he had reached his retirement age.

(4) Given the expiration of the first session of the Board of Supervisors, the Bank convened an extraordinary general meeting on December 3, 2018 to consider and approve the appointment of Mr. Liu Yongchong, Mr. Li Yongjun and Mr. Liu Xiaoyu as Shareholder Supervisors, Mr. Yang Zhenjun, Mr. Dong Ying and Mr. Luo Yi as External Supervisors. The Bank held an employee representative meeting of the Bank on November 12, 2018, at which, Ms. Tang Lan, Mr. Xu Yongfeng and Mr. Luo Zhenxia were elected as employee representative Supervisors of the second session of the Board of Supervisors of the Bank. Accordingly, the second session of the Board of Supervisors of the Bank was officially established.

(III) Changes in Senior Management Members

(1) At the first meeting of the second session of the Board held on December 3, 2018, the Bank approved the appointment of Mr. Liu Qing as the chairman of the second session of the Board, for a term of three years effective from the date of appointment.

(2) At the first meeting of the second session of the Board held on December 3, 2018, the Bank approved the appointment of Mr. Wang Wenyong, an executive Director of the Bank, as the president of the Bank, for a term of three years and effective from the date of appointment.

(3) At the first meeting of the second session of the Board held on December 3, 2018, the Bank approved the appointment of Ms. Hao Jumei as the secretary to the Board of the Bank.

(4) At the first meeting of the second session of the Board held on December 3, 2018, the Bank considered and approved the appointment of Mr. Qiu Jinhu and Mr. Wang Zhiyuan as the vice presidents of the Bank.

(5) At the first meeting of the second session of the Board held on December 3, 2018, the Bank considered and approved the appointment of Mr. Wang Chunyun as the senior executive of internal control and compliance of the Bank.

III BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

(I) Biographies of Directors

Executive Directors

Mr. Liu Qing (劉青), aged 53, has been an executive Director and the chairman of the Bank since December 3, 2018. Mr. Liu served as a cadre at Agricultural Bank of China Limited ("China Agricultural Bank") Pingliang Branch from December 1984 to December 1987, office secretary of the Administration Office of Pingliang from December 1987 to October 1992, senior staff member at the education department of the Gansu Branch of PBOC from October 1992 to April 1993, deputy general manager of Gansu Securities Company from April 1993 to March 1997, and member of the Party leadership group, vice president, member of the Party committee, vice president and secretary of the discipline inspection commission of the Baiyin Branch of PBOC from March 1997 to December 1998. Mr. Liu also concurrently served as a deputy director-general of the Baiyin Bureau of the State Administration of Foreign Exchange of the PRC from March to September 1997, and director of the discipline inspection group and director of the inspection office of CPC Baiyin Commission for Discipline Inspection Designated to Financial Institutions from September 1997 to October 1998. Mr. Liu served as the deputy chief of Lanzhou Regulatory Office of PBOC, secretary to the Party committee and president of the Baiyin Branch of PBOC from December 1998 to December 2003, secretary to the Party committee and director-general of the CBRC Baiyin Office from December 2003 to December 2005, and a member of the Party committee and deputy director-general of the CBRC Gansu Office from December 2005 to May 2011. Mr. Liu was appointed as deputy secretary to the Party committee and vice president of Dunhuang Bank Co., Ltd. (the former name of the Bank used during the Bank's incorporation process) in May 2011, and has been an executive director of the Bank from October 2011 to November 2017. Mr. Liu also served as a vice president of the Bank from October 2011 to October 2016, and served as the president of the Bank from October 2016 to November 2017. Mr. Liu worked at Gansu Province Rural Credit Union from November 2017 to September 2018, serving as director-general and secretary to the Party committee. Mr. Liu served as secretary to the Party committee of of Bank of Gansu Co., Ltd. from October to December 2018.

Mr. Liu obtained a master's degree from Lanzhou University in Gansu province, the PRC, in June 2014, majoring in business administration.

Mr. Wang Wenyong (王文永), aged 53, has been an executive Director and the president of the Bank since December 3, 2018. Mr. Wang served as an office cadre, office deputy director, deputy director and director of credit card department at Pingliang Central Branch of China Construction Bank Corporation ("China Construction Bank"), successively from December 1988 to December 1997. Mr. Wang served as a cadre, section-level inspector and deputy director of inspection office of Gansu Branch of China Construction Bank from December 1997 to December 2004. Mr. Wang served as president and secretary to the Party committee of Changqing Sub-branch of China Construction Bank from December 2004 to November 2005. He served as president and secretary to the Party committee of Qingyang Branch of China Construction Bank from November 2005 to August 2006. Mr. Wang served as president assistant of Gansu Branch of China Construction Bank from August 2006 to October 2008. He served as secretary of the discipline inspection commission and member of the Party committee of Xinjiang Branch of China Construction Bank from October 2008 to December 2009. Mr. Wang served as vice president and member of the Party committee of Gansu Branch of China Construction Bank from December 2009 to September 2018. Mr. Wang served as deputy party secretary of the Bank of Gansu from October 2018 to December 2018.

Mr. Wang graduated from Wuhan University in Hubei Province, the PRC and obtained a master's degree in business administration in December 2009. He was certified as an economist by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in November 2003 and a senior administration engineer by China Construction Bank in December 2004.

Non-executive Directors

Ms. Wu Changhong (吳長虹), aged 55, has been a non-executive Director since November 20, 2016. Ms. Wu is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Wu has been a member of the Party committee and the deputy general manager of Gansu Highway Aviation Tourism since May 2011, and the chief financial officer of Gansu Highway Aviation Tourism since November 2015. She held a number of positions at Jinchuan Group from July 1984 to May 2011, including accountant of the cost division of the finance department, deputy head and head of the capital division of the finance and audit department, head of the assets management division of the finance and audit department, deputy director of the finance department and general manager of the audit department.

Ms. Wu obtained a bachelor's degree from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in enterprise management. She was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in November 1998.

Ms. Zhang Hongxia (張紅霞), aged 40, has been a non-executive Director since October 15, 2011. Ms. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Zhang has been the director of the office of the board of directors of Baoshang Bank since June 2018. She served as an officer of the human resources department and director of the department of Party affairs of Baoshang Bank from November 1998 to July 2008 and as a deputy director (presiding over the work) of the office of the board of directors of Baoshang Bank from August 2008 to June 2018.

Ms. Zhang obtained a bachelor's degree from Inner Mongolia College of Finance and Economics (currently known as "Inner Mongolia University of Finance and Economics") in the Inner Mongolia Autonomous Region, the PRC, in January 2006, majoring in finance, and a master's degree from Inner Mongolia University of Technology in the Inner Mongolia Autonomous Region, the PRC, in July 2011, majoring in business administration. She was certified as an economist by the Ministry of Human Resources of the PRC (currently known as "Ministry of Human Resources and Social Security of the PRC") in November 2003. Ms. Zhang obtained the certificate of the qualification of senior economist issued by the Bureau of Human Resources and Social Security of Inner Mongolia Autonomous Region in December 2010.

Mr. Guo Jirong (郭繼榮), aged 47, has been a non-executive Director since November 20, 2016. Mr. Guo is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Guo has been the head of the asset operation and management department of Jiuquan Iron & Steel since June 2016 and director of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600307) since August 2017. He served as the deputy head of the capital division of the finance section and head of the accounting and information division of Baiyin Nonferrous Metals Company (now known as "Baiyin Nonferrous Group Co., Ltd.") from July 1995 to November 2002, audit project manager of Wulian United Accounting Firm (now known as "Ruihua Certified Public Accountants") from November 2002 to May 2004, assistant senior staff and deputy senior staff of the finance department, deputy director of the property management commission, deputy director of property management department, director of the directors and supervisors office and deputy director of the asset operation and management department of Jiuquan Iron & Steel from May 2004 to June 2016. Mr. Guo also served as the chief accountant, chief financial officer and chief of the finance section of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. from December 2009 and March 2013.

Mr. Guo obtained a bachelor's degree in economics from Shanxi Institute of Finance and Economics (now known as "Shanxi University of Finance and Economics") in Shanxi province, the PRC, in July 1995, majoring in accounting. Mr. Guo was certified as an accountant by the MOF in May 1998 and a public accountant by the Certified Public Accountant Examination Board of the MOF in March 2004.

Mr. Zhang Youda (張有達), aged 45, has been a non-executive Director since November 20, 2016. Mr. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Zhang has been deputy general manager and chief finance officer of Jinchuan Group since July 2018. He served as deputy head and head of the finance division of the testing center, head of the finance division of the smelting plant of Jinchuan Group, head of the cost division of the finance department, deputy director of the finance department and deputy general manager of the finance department (presiding over the work) of Jinchuan Group from April 2002 to December 2011. Mr. Zhang has been the general manager of the finance department of Jinchuan Group since December 2011. Mr. Zhang has been a non-executive director of Jinchuan Group International Resources Co. Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2362) since August 2017.

Mr. Zhang obtained a bachelor's degree from Lanzhou University of Technology in Gansu province, the PRC, in July 2004, majoring in accounting, and a master's degree from Lanzhou University in Gansu province, the PRC, in June 2010, majoring in business administration. Mr. Zhang was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2009, a senior economist by China Nonferrous Metals Industry Association in November 2008, and a senior accountant by the Gansu Province Professional Title Reform Office in July 2017.

Mr. Liu Wanxiang (劉萬祥), aged 51, has been a non-executive Director of the Bank since December 3, 2018. Mr. Liu will be primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Liu has served as deputy secretary to the Party committee, director and general manager of Gansu Province Electric Power Investment Group Co., Ltd. since June 2018. Mr. Liu served successively as the trainee technician, technician and deputy director of the power supply workshop of Lanzhou Liancheng Aluminum Factory (蘭州連城鋁廠) from July 1989 to January 1998, deputy factory director and factory director of Lanzhou Liancheng Aluminum Power Plant (蘭州連城鋁廠動力廠) from January 1998 to October 2004, and manager of Lanzhou Liancheng Aluminum Industrial Company (蘭州連城鋁公司實業公司) from October 2004 to December 2004. Mr. Liu served as vice chairman, deputy secretary to the Party committee, deputy general manager and general manager of Gansu Aluminum (Group) Co., Ltd. (甘肅鋁業(集團)有限責任公司), deputy chairman of Gansu Huaxing Aluminum Company (甘肅華興鋁業公司), and director, chairman, general manager, member of and secretary to the Party committee of Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) from December 2004 to December 2011. He was the chairman and secretary to the Party committee of Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) of Jiuquan Iron & Steel from December 2011 to December 2012, and deputy general manager of Jiuquan Iron & Steel from December 2012 to June 2018.

Mr. Liu obtained his master's degree in business administration from Lanzhou University in Gansu Province, the PRC, in December 2005 and was certified as a senior engineer by the Gansu Province Professional Title Reform Office in December 2003.

Independent Non-executive Directors

Ms. Tang Xiuli (唐岫立), aged 50, has been an independent non-executive Director since August 12, 2017. Ms. Tang is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performs her duties as a Director through the Board of Directors, audit committee and related party transactions and risk management committee.

Ms. Tang has served as the general manager of Heng Jiu Yuan Asset Management Co., Ltd since January 2016. She also serves as a professor of Dongbei University of Finance and Economics, tutor of master-degree students majoring in economics or finance of Fudan University and Zhejiang University as well as distinguished MBA tutor of Chinese Academy of Social Sciences and EDP distinguished professor of Dongbei University of Finance and Economics and researcher of economic research institute of Beijing Language and Culture University. Ms. Tang has many years of experience in banking regulation in the PRC. She worked at the Heilongjiang Branch and Shenyang Branch and the head office of the PBOC in the 1990s. She also previously worked at the CBIRC for nearly ten years. Ms. Tang was a member of the Party committee and vice president of Bank of Wenzhou Co., Ltd. from July 2012 to December 2015. From September 2016 to April 2018, Ms. Tang served as chief policy officer and senior vice president of Zillion Financial Network Technology Group Limited and has been the independent director of Dandong Rural Commercial Bank Co., Ltd since March 12, 2019.

Ms. Tang obtained a bachelor's degree in economics from Dongbei University of Finance and Economics in Liaoning province, the PRC, in July 1991, majoring in information system, a master's degree in economics from Dongbei University of Finance and Economics in April 2006, majoring in finance, and a doctorate's degree in economics from Dongbei University of Finance and Economics in June 2014, majoring in finance. Ms. Tang was certified as a senior economist by PBOC in November 2003.

Ms. Luo Mei (羅玫), aged 43, has been an independent non-executive Director since August 12, 2017. Ms. Luo is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performs her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transactions and risk management committee.

Ms. Luo joined Tsinghua University in June 2007 and is currently an associate professor and a PHD tutor of the Department of Accounting at the School of Economics and Management of Tsinghua University, and the director of the Research Center for Digital Financial Assets, School of Economics and Management, Tsinghua University and a professor of Schwarzman Scholars in Tsinghua University. She worked at Mellon Capital Management, an assets management company in San Francisco, the United States, and was responsible for the strategy of quantitative investment in the stock market. She also taught at the Department of Accounting in University of Illinois at Urbana-Champaign, the United States. Ms. Luo has been an independent director of Beijing Gehua CATV Network Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600037) since March 2013. Ms. Luo was an independent director of Beijing Baofeng Technology Co., Ltd. (now known as "Baofeng Group Co., Ltd.", a company listed on the Shenzhen Stock Exchange, stock code: 300431) from June 2013 to December 2014.

Ms. Luo obtained a bachelor's degree from the School of Economics and Management of Tsinghua University in Beijing, the PRC, in June 1998, majoring in accounting (international accounting), and a doctorate's degree in business management from the University of California Berkeley in California, the U.S., in December 2004, majoring in accounting and finance. In 2011, Ms. Luo was included in the Marquis Who's Who in America 2011.

Mr. Wong Sincere (黃誠思), aged 54, has been an independent non-executive Director since August 12, 2017. Mr. Wong is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance works, and performs his duties as a Director through the Board of Directors, nomination and remuneration committee and related party transactions and risk management committee.

Mr. Wong became the founder and has been the principal of Sincere Wong & Co. (currently renamed as Wong Heung Sum & Lawyers) since May 2016. He was an in-house counsel for Hutchison Whampoa Group from September 1996 to January 2005 and China Resources Enterprise, Limited (now known as China Resources Beer (Holdings) Company Limited) from February 2005 to November 2006, chief legal officer of Shui On Construction and Materials Limited from November 2006 to June 2010, as well as the head of the legal department and company secretary of Sateri Holdings Limited (a company previously listed on the Hong Kong Stock Exchange, the name of which was later changed to Bracell Limited but has subsequently been privatized) from July 2010 to May 2011. He worked at the Hong Kong Stock Exchange from August 2011 to April 2016, and was a vice president of Listing & Regulatory Affairs Division at the time of his departure from the Hong Kong Stock Exchange, primarily responsible for reviewing listing applications and providing recommendations to the Listing Committee of the Hong Kong Stock Exchange regarding listing applications. Mr. Wong was appointed as an independent non-executive Director of U Banquet Group Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1483) in September 2018.

Mr. Wong obtained a bachelor's degree of social science from the Chinese University of Hong Kong in Hong Kong in December 1986. He passed the Common Professional Examination in Wolverhampton Polytechnic (now known as University of Wolverhampton) in July 1990, and the Solicitors' Final Examination of the Law Society of England and Wales with first class honors in October 1991. Mr. Wong was admitted as a solicitor of Hong Kong and England and Wales in October 1993 and February 1994, respectively.

Mr. Dong Ximiao (董希淼), aged 41, has been an independent non-executive Director since December 3, 2018 and is a senior economist and an associate financial planner. He is currently the vice president of the Chongyang Institute of Financial Studies of Renmin University of China and the deputy director of the Industry Development Research Committee of the China Banking Association. Mr. Dong also serves as a special economic analyst of Xinhua News Agency, a special research fellow of the Banking Research Center of the National Institution for Finance and Development, an adjunct professor of the School of Economics of Lanzhou University, a master's tutor of the School of Finance of Zhongnan University of Economics and Law, and a guest professor of School of Economics of Sichuan Agricultural University. Mr. Dong joined China Construction Bank Corporation ("China Construction Bank") in July 2000 and successively served as the office secretary, deputy business manager and business manager of Zhejiang Branch of China Construction Bank. Since March 2009, he served as the vice president and a senior manager of the private banking department of the sub-branch directly under Zhejiang Branch of China Construction Bank. Mr. Dong served as the executive dean of its Research Institute of Hengfeng Bank Co., Ltd. from July 2015 to October 2018. In December 2017, he was elected as the deputy director of the Industry Development Research Committee of China Banking Association.

Mr. Dong graduated from Lanzhou University in Gansu Province, the PRC, in June 2000 with a dual bachelor's degree in history and laws, and graduated from Zhejiang University of Technology in Zhejiang Province, the PRC in January 2007 with a master's degree in business administration. In December 2010, he was certified as a senior economist by China Construction Bank.

(II) Biographies of Supervisors

Ms. Tang Lan (湯瀾), aged 55, was elected as an employee representative Supervisor on November 12, 2018 and was appointed as the chairman of the Board of Supervisors of the Bank on December 3. Ms. Tang is responsible for overall work of the Board of Supervisors and supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security, institutional construction and work concerning the mass organization. She is also in charge of the Office of the Board of Supervisors, Audit Department, Mass Organization Department, Institutional Management Department and Security Department.

Ms. Tang was a staff member and a senior staff member of the budget division of the Bureau of Finance of Gansu Province from July 1984 to March 1991, a senior staff member and a principal staff member of the office of the Bureau of Finance of Gansu Province from March 1991 to November 1993 and temporarily served as the deputy director-general of the Finance Bureau of Chengguan District, Lanzhou City from March 1992 to October 1992. Ms. Tang served as the deputy director (deputy department-level) of farming support, compensation and financing office of the Bureau of Finance of Gansu Province from November 1993 to October 1995, the deputy director and director of the social security division of the Bureau of Finance of Gansu Province from October 1995 to December 2006 and temporarily served as the deputy director of the social security division of the Guangdong Provincial Bureau of Finance from July 2000 to February 2001 and concurrently served as the director of Social Security Fund Management Centre of Gansu Province from August 2003 to December 2006, the chief of the educational, scientific and cultural division of the Bureau of Finance of Gansu Province from December 2006 to December 2010 and deputy director, member of the Party committee, director and the secretary of the Party committee of the Finance Office of Gansu Province from December 2010 to October 2018. Ms. Tang obtained a bachelor's degree in economics from the department of finance of the Central University of Finance and Economics (formerly known as the Central Institute of Finance and Banking) in July 1984, majoring in finance.

Mr. Xu Yongfeng (許勇鋒), aged 54, has been an employee representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Xu has been the general manager of the Institution Management Department of the Bank since February 2013, and the general manager of the Security Department of the Bank since September 2015.

Mr. Xu joined the Bank in October 2011, and was the deputy secretary to the Party committee and vice president of the Pingliang Branch of the Bank from November 2011 to February 2013. Mr. Xu served as a clerk at the credit unit of the Pingliang Ankou Office of PBOC from November 1981 to July 1984 and a clerk at the credit unit of the Ankou Office of Industrial and Commercial Bank of China from July 1984 to July 1989. He was a staff member, deputy head and head at the integrated division of Pingliang Commission for Institutional Reform of Gansu Province from July 1989 to November 1998, head of the business branch of Pingliang Central Urban Credit Union of Gansu Province from November 1998 to January 2003, chief supervisor of Pingliang Urban Credit Union of Gansu Province from January 2003 to December 2008, and president of Pingliang Commercial Bank from December 2008 to October 2011.

Mr. Xu obtained a bachelor's degree from Gansu Radio & TV University in Gansu province, the PRC, in June 2004, majoring in finance.

Mr. Luo Zhenxia (羅振夏), aged 54, has been an employee representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Luo has been secretary to the Party committee of the Linxia Branch (Hongyuan Road Sub-Branch was upgraded to Linxia Branch in August 2017) of the Bank since January 2015 and president of the Linxia Branch of the Bank since April 2015.

Mr. Luo joined the Bank in October 2011. He was the deputy secretary to the Party committee and vice president of the Baiyin Branch of the Bank from November 2011 to February 2013, and was the general manager of the Security Department of the Bank from February 2013 to January 2015. Prior to joining the Bank, Mr. Luo was a teacher at Guocheng Agricultural Middle School in Huining County of Baiyin City, Gansu province from July 1982 to January 1986, a cadre at the Huining County Committee of the Communist Youth League of China from January 1986 to November 1987, a staff member in the planning division and deputy head of the integrated planning division of the Baiyin Branch of PBOC from November 1987 to November 1994, deputy director and director of Urban Credit Union of Baiyin District of Baiyin City of Gansu Province and member of the Party leadership group, member of the Party committee, deputy general manager, general manager and director of Urban Credit Union of Baiyin City of Gansu Province from November 1994 to November 2010. He was a member of the Party committee, president and director of Baiyin Commercial Bank from November 2010 to November 2011.

Mr. Luo obtained a bachelor's degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in December 1995, majoring in economics.

Mr. Liu Yongchong (劉永翀), aged 52, has been a Shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Liu has been the chief financial officer of Jingyuan Coal Industry Group Limited since June 2015. He served as staff of the finance department, deputy senior staff member, deputy head and head of the assets and finance department and director of the accounting management center of Jingyuan Coal Industry Limited (currently known as "Jingyuan Coal Industry Group Limited") from July 2001 to November 2012. Mr. Liu was the chief financial officer, head of the assets and finance department, director of the accounting management and assets operation and management centers of Gansu Jingyuan Coal Industry and Electricity Power Co., Ltd. from November 2012 to June 2015.

Mr. Liu completed all the courses for the undergraduate self-study examination in financial accounting hosted by Lanzhou Commercial College (now known as "Lanzhou University of Finance and Economics") in Gansu Province, the PRC, in July 1998.

Mr. Li Yongjun (李永軍), aged 50, has been a Shareholder Supervisor of the Bank since October 15, 2011. Mr. Li is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Li has been the chairman of Yong Xin Hua Holdings Group Co., Ltd. since October 1997, and was the general manager of Gansu Yong Xin Construction Installation Engineering Company Limited from April 1991 to October 1997.

Mr. Li completed the master's course for business administration for senior management in Cheung Kong Graduate School of Business in Beijing, the PRC, in September 2008. Mr. Li was certified as a senior engineer by Gansu Province Professional Title Reform Leading Group (甘肅省職稱改革工作領導小組) in January 2001.

Mr. Liu Xiaoyu (劉曉宇), aged 46, has been a Shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Liu has been the head of the planning and financing department of Readers Publishing Group Limited since October 2011. He was a cashier and an accountant in the finance department of Gansu People's Publishing House (later restructured into "Readers Publishing Group Limited") from June 1996 to January 2008, deputy head of the planning and financing department of Readers Publishing Group Limited from February 2008 to December 2009, and deputy head of the finance department of DuZhe Publishing & Media Co., Ltd. from January 2010 to September 2011.

Mr. Liu obtained a bachelor's degree from Shaanxi Institute of Finance and Economics (now known as "School of Economics and Finance of Xi'an Jiaotong University") in Shaanxi province, the PRC, in July 1993, majoring in public finance. He was certified as a senior accountant by the Department of Human Resources of Gansu Province in December 2009.

Mr. Yang Zhenjun (楊振軍), aged 49, has been an external Supervisor of the Bank since August 12, 2017. Mr. Yang is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Yang has been the director of the Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since August 2015, and the secretary of the Party leadership group of Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since February 2016. Mr. Yang was a cadre in Shouyang Township Government of Longxi County, a full-time judicial assistant, a cadre in the county government office, deputy mayor of Gongchang Town, secretary of the Youth League Committee of Longxi County, deputy secretary of the Party committee, mayor and secretary to the Party committee of Shouyang Town, Longxi County, member of the standing committee CPC county and secretary to the politics and law commission of Longxi County of Dingxi District, Gansu province from July 1989 to November 2006. Mr. Yang was a member of the standing committee of CPC Anding District Committee, secretary of the politics and law commission, secretary of the discipline inspection commission and deputy district head of Anding District of Dingxi City, Gansu province from November 2006 to August 2015.

Mr. Yang obtained an associate degree through correspondence study from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in economic management, a bachelor's degree through correspondence study from the Correspondence School of the Party School of Gansu Province Committee of CPC, the PRC, in December 2001, majoring in law, and a master's degree from the Party School of Gansu Province Committee of CPC, the PRC, in June 2009, majoring in jurisprudence.

Mr. Dong Ying (董英), aged 55, has been an external Supervisor of the Bank since August 12, 2017. Mr. Dong is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Dong has been a director of Wuwei Economic Development and Investment (Group) Co., Ltd. ("Wuwei Economic Development and Investment") since June 2015, deputy general manager of Wuwei Economic Development and Investment since May 2013 and executive deputy general manager of Wuwei Economic Development and Investment since November 2016. Mr. Dong has also been an executive director (legal representative) of Wuwei Testing Center of Quality of Urban-Rural Construction Projects since December 2016. Mr. Dong was head of the marketing department of Wuwei Urban Construction & Investment (Group) Co., Ltd. from February 2004 to March 2008, director of the general office of Wuwei Economic Development Investment from March 2008 to July 2015, as well as chairman of the labor union, deputy secretary-general and secretary of the Party branch of Wuwei Economic Development Investment at the same time from September 2010 to June 2015.

Mr. Dong completed the undergraduate course in economic management at the Party School of the Gansu Province Committee of CPC in Gansu Province, the PRC, in December 2002. He was certified as an economist by Professional Title Reform Leading Group of Township Enterprise Management Bureau of Gansu Province (甘肅省鄉鎮企業管理局職稱改革領導小組) and Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2004.

Mr. Luo Yi (羅藝), aged 38, has been an external Supervisor of the Bank since June 1, 2018. Mr. Luo is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Luo has been worked since June 2002 in Law School of Gansu Institute of Political Science and Law where he now serves as an associate professor, and concurrently served as a discipline editor of Western Law Review of Gansu Institute of Political Science and Law from January 2009 to December 2011. Mr. Luo obtained a bachelor's degree in law from Gansu Institute of Political Science and Law in Gansu Province, the PRC in June 2002, majoring in economic law, a master's degree in law from Northwest Normal University in Gansu Province, the PRC in June 2009, majoring in legal theory, and a doctorate's degree in law from Wuhan University in Hubei Province, the PRC in December 2017, majoring in environment and nature resources protection law. Mr. Luo obtained the 2nd prize of Social Science Achievement Award of Gansu Province in 2017 and was honored the title of Outstanding Instructor in the Challenge Cup of Gansu Province.

(III) Biographies of Senior Management Members

For the biography of Mr. Wang Wenyong (王文永), please refer to "– III. Biographies of Directors, Supervisors and Senior Management Members – (I) Biographies of Directors – Executive Directors" in this chapter.

Mr. Qiu Jinhu (仇金虎), aged 54, has been the vice president of the Bank since January 2015. Mr. Qiu is primarily responsible for retail credit business, administrative work, logistical support, operation and management, and work relating to poverty alleviation and support. He is also in charge of the General Office (Office of the Committee) of the Bank, Accounting and Operation Department, Retail Business Financial Service Center, Administration Department and work relating to poverty alleviation and support.

Mr. Qiu served as a credit clerk, an accountant and head of Qinyu Credit Union of Dangchang County, Gansu province from January 1980 to June 1994, head of the business and operation department of Dangchang County Rural Credit Union of Gansu Province from June 1994 to March 1996, deputy head of Dangchang County Rural Credit Union of Gansu Province from March 1996 to October 2000, deputy head of Kang County Rural Credit Union of Gansu Province from October 2000 to September 2004, and secretary to the Party committee and director-general of Xihe County Rural Credit Union of Gansu Province from September 2004 to April 2009. He successively served as the secretary to the Party committee and director-general of Chengguan District Rural Credit Union of Lanzhou City, Gansu Province, and the director of the Party committee office, general manager of the integrated management department and director assistant of Gansu Province Rural Credit Cooperative Union from April 2009 to January 2015.

Mr. Qiu obtained a bachelor's degree through online education from Lanzhou University in Gansu province, the PRC, in January 2013, majoring in finance and a master's degree in business management from Lanzhou University in December 2013.

Mr. Wang Chunyun (王春雲), aged 47, has been the chief risk officer of the Bank since October 2016 and a senior executive officer of the Internal Control and Compliance Department of the Bank since December 3, 2018. Mr. Wang is primarily responsible for risk management, legal compliance as well as the organization, coordination, resolving and disposition of major risks. Mr. Wang also assists the president to take charge of the Risk and Credit Management Department, Asset Preservation Department and Legal and Compliance Department.

Mr. Wang served as the general manager of the Risk and Credit Management Department of the Bank from October 2011 to October 2016. Prior to joining the Bank, between July 1996 and July 2008, he served as a staff member in the project evaluation division and the integrated section of the risk management division, deputy head of the credit information management section of the credit risk management division, business manager of the risk management department, assistant to the general manager of the asset preservation department, deputy general manager of the asset preservation department, and head of the asset preservation department of the Gansu Branch of CCB. Mr. Wang served as the general manager of the risk management department of the Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. from July 2008 to October 2011.

Mr. Wang obtained a bachelor's degree from Hunan University in Hunan province, the PRC, in July 1996, majoring in applied mathematics. Mr. Wang was accredited as an engineer by the Gansu Branch of China Construction Bank Corporation in July 1998.

Mr. Wang Zhiyuan (王志遠), aged 50, has been a vice president of the Bank since December 2017. Mr. Wang is primarily responsible for individual business, Internet finance, information technology and work related to the Party committee. He is also stewarding organization and human resources work, in charge of the Individual Business Department, Internet Finance Department, Information Technology Department, and the Party Committee of the headquarters, and assisting the chairman to take charge of the Human Resources Department (Organization Department of the Party Committee)

Mr. Wang was the principal head of the human resources department of the Bank from April 2012 to June 2012, the head of the organization department of the Party committee and the general manager of the human resources department of the Bank from June 2012 to September 2012, a member of the discipline inspection commission, the head of the organization department of the Party committee and the general manager of the human resources department of the Bank from September 2012 to September 2014, a member of the discipline inspection commission, the head of the organization department of the Party committee, the general manager of the human resources department and the general manager of the strategy and development department of the Bank from September 2014 to December 2016, and a member of the Party committee, a member of the discipline inspection commission, the head of the organization department of the Party committee, the general manager of the human resources department and the general manager of the strategy and development department (concurrently) of the Bank from December 2016 to November 2017. Mr. Wang held a number of positions at China Construction Bank from July 1992 to January 2000, including a staff member of Lanzhou Railway Sub-Branch, office secretary of Gansu Branch, head of the cadre division of the Office of Personnel of Gansu Branch, deputy chief of the Office of Personnel and head of the cadre division of Gansu Branch. Mr. Wang worked at the Lanzhou office of China Cinda Asset Management Corporation (currently known as "China Cinda Asset Management Co., Ltd.") from January 2000 to June 2008, successively serving as senior manager (department-level) of the investment banking department, head of the first business department and director of the integrated management department thereof. Mr. Wang worked at Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. ("SPDB Lanzhou Branch") from July 2008 to June 2009, successively being in charge of the works of the general office of SPDB Lanzhou Branch (in establishment) and serving as the director of the general office of SPDB Lanzhou Branch.

Mr. Wang obtained a bachelor's degree from Lanzhou University in Gansu province, the PRC, in June 1991, majoring in philosophy.

Ms. Hao Jumei (郝菊梅), aged 49, has been the secretary of the Board of Directors of the Bank since December 3, 2018. Ms. Hao is responsible for the daily work of the Board of Directors, and the financial market, investment banking and bill businesses, as well as the coordination and liaison with the controlling company of the Bank. She is in charge of the Financial Market Department, Bill Center, Investment Banking Department, and assists the chairman to take charge of the Office of the Board of Directors (the Strategy and Development Department).

Ms. Hao was the accountant of the accounting department of the Jingyuan sub-branch of the PBOC from July 1989 to April 1994 and the accountant of the Baiyin City branch of PBOC from April 1994 to December 1996. She was the deputy director of Yinxing Urban Credit Union of Baiyin City from December 1996 to July 2002, manager of business department of Urban Credit Union of Baiyin City from July 2002 to December 2003 and assistant to the general manager and director of Urban Credit Union of Baiyin City from December 2003 to April 2004. Ms. Hao was the deputy general manager and director of Urban Credit Union of Baiyin City from April 2004 to December 2009, deputy general manager, director and member of the Party committee of Urban Credit Union of Baiyin City from December 2009 to June 2010, and member of the Party committee, director and vice president of Baiyin City Commercial Bank from June 2010 to February 2012. Ms. Hao was the member of the Party committee of the Baiyin branch of the Bank from February 2012 to March 2012, member of the Party committee and vice president of the Baiyin branch of the Bank from March 2012 to June 2012, deputy general manager of the planning and finance department of the Bank from June 2012 to September 2012, member of the discipline inspection committee and deputy general manager of the planning and finance department of the Bank from September 2012 to June 2014, and member of the discipline inspection committee and general manager of the planning and finance department of the Bank from June 2014 to December 2016. She was a member of the Party committee and general manager of the planning and finance department of the Bank from December 2016 to December 2018. Ms. Hao obtained a bachelor's degree in accounting from Lanzhou University of Technology in Lanzhou City, Gansu Province, the PRC in July 2004.

Company Secretary

Ms. Ng Wing Yan was appointed as the company secretary of the Bank on June 15, 2018. Ms. Ng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited). Ms. Ng obtained a Bachelor of Arts (Hons.) degree from University of Portsmouth in the United Kingdom and is an associate of both of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

IV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration provided by the Bank for its executive Directors, employee representative Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities.

The remuneration of the Directors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the nomination and remuneration committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the Shareholders' general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the Shareholders' general meeting for approval after being approved by the Board of Supervisors.

The Bank's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Bank and the Shareholders, and it is implemented by the Board of Directors.

The incentive and restraint mechanism of the Bank is mainly embodied in the remuneration mechanism for the senior management. The remuneration to the senior management is linked to the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Bank, and better encourage the senior management to contribute to the steady and sustainable development of the Bank.

According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated on a certain percentage of the remuneration cost and paid to the relevant labor and social welfare authorities. The Group cannot withdraw or utilize its fund contribution made to above defined contribution plans under any circumstances.

V. COMPENSATION OF DIRECTORS AND SUPERVISORS AND FIVE INDIVIDUALS WITH THE HIGHEST EMOLUMENTS OF OUR BANK

For detailed compensation of Directors and Supervisors and five individuals with the highest emoluments in the Bank, please refer to notes 12 and 13 to consolidated financial statement included in this annual report.

VI. POSITIONS HELD IN THE SHAREHOLDER COMPANY BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the Party committee, deputy general manager and chief financial officer
Ms. Zhang Hongxia	Non-executive Director	Baoshang Bank	Director of the office of the board of directors
Mr. Guo Jirong	Non-executive Director	Jiuquan Iron & Steel	Head of the asset operation and management department
Mr. Zhang Youda	Non-executive Director	Jinchuan Group	Member of the standing committee of the Party committee, deputy general manager and chief financial officer
Mr. Liu Wanxiang	Non-executive Director	Gansu Electric Power Investment	Deputy secretary to the Party committee, Director and general manager
Mr. Liu Yongchong	Shareholder Supervisor	Jing Coal Group Co., Ltd	Chief financial officer
Mr. Li Yongjun	Shareholder Supervisor	Yong Xin Hua Holdings Group Co., Ltd.	Chairman of the Board of Directors
Mr. Liu Xiaoyu	Shareholder Supervisor	DuZhe Publishing & Media Co., Ltd.	Head of financial planning department
Mr. Yang Zhenjun	External Supervisor	Dingxi Urban Construction and Investment Operation Management Office of Gansu Province	Secretary to the Party committee and director
Mr. Dong Ying	External Supervisor	Wuwei Economic Development and Investment (Group) Co., Ltd.	Deputy general manager

VII. CHANGES IN BIOGRAPHICAL DETAIL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

Save as disclosed above, pursuant to the requirement of Rule 13.51B(1) of the Hong Kong Listing Rule, the changes in the information of Directors, Supervisors and senior management of the Bank are as follows:

(1) Mr. Wong Sincere was appointed as an independent non-executive director of U Banquet Group Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1483) in September 2018.

(2) Mr. Wang Chunyun, a senior manager, has changed his position in the Bank from chief risk officer to the current senior executive of internal control compliance.

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of Directors, Supervisors and senior management which is required to be disclosed pursuant to the requirements of the Rule of 13.51B(1) of the Hong Kong Listing Rules.

VIII. EMPLOYEE, EMPLOYEE COMPENSATION POLICY AND EMPLOYEE TRAINING PROGRAM

(I) Staff Composition

As of December 31, 2018, the Group had 4,121 employees. The table below sets forth its number of full-time employees by function as of the same date:

	Number of employees	Percentage *(%)*
Corporate banking	589	14.29
Retail banking	421	10.21
Financial market operations	40	0.97
Finance and accounting	201	4.87
Risk management, internal audit and legal and compliance	237	5.75
Information technology	142	3.44
Management	140	3.39
Bank Teller	1,954	47.41
Others	397	9.67
Total	**4,121**	**100.00**

We have a young and highly educated team of employees. As of December 31, 2018, the average age of our employees was 32.1, and over 88.82% of them had a bachelor’s degree or higher. The following table sets forth the number of our employees by age as of December 31, 2018.

	Number of employees	Percentage (%)
Under 30 (inclusive)	2,339	56.75
31 to 40 years old	1,082	26.25
41 to 50 years old	614	14.89
Above 50 (exclusive)	86	2.11
Total	**4,121**	**100.00**

The following table sets forth the number of our employees by education degree as of December 31, 2018.

	Number of employees	Percentage (%)
Master's degree or higher	281	6.81
Bachelor's degree	3,380	82.01
Others	460	11.18
Total	**4,121**	**100.00**

(II) Employee Remuneration

Our employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance.

We conduct performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation.

(III) Employee Training Program

We focus on employee career development and provide training programs for employees in different business lines. We have built a team of internal training providers under our human resources department.

(IV) Labor Union

We have established a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that materially affected our operations or public image.

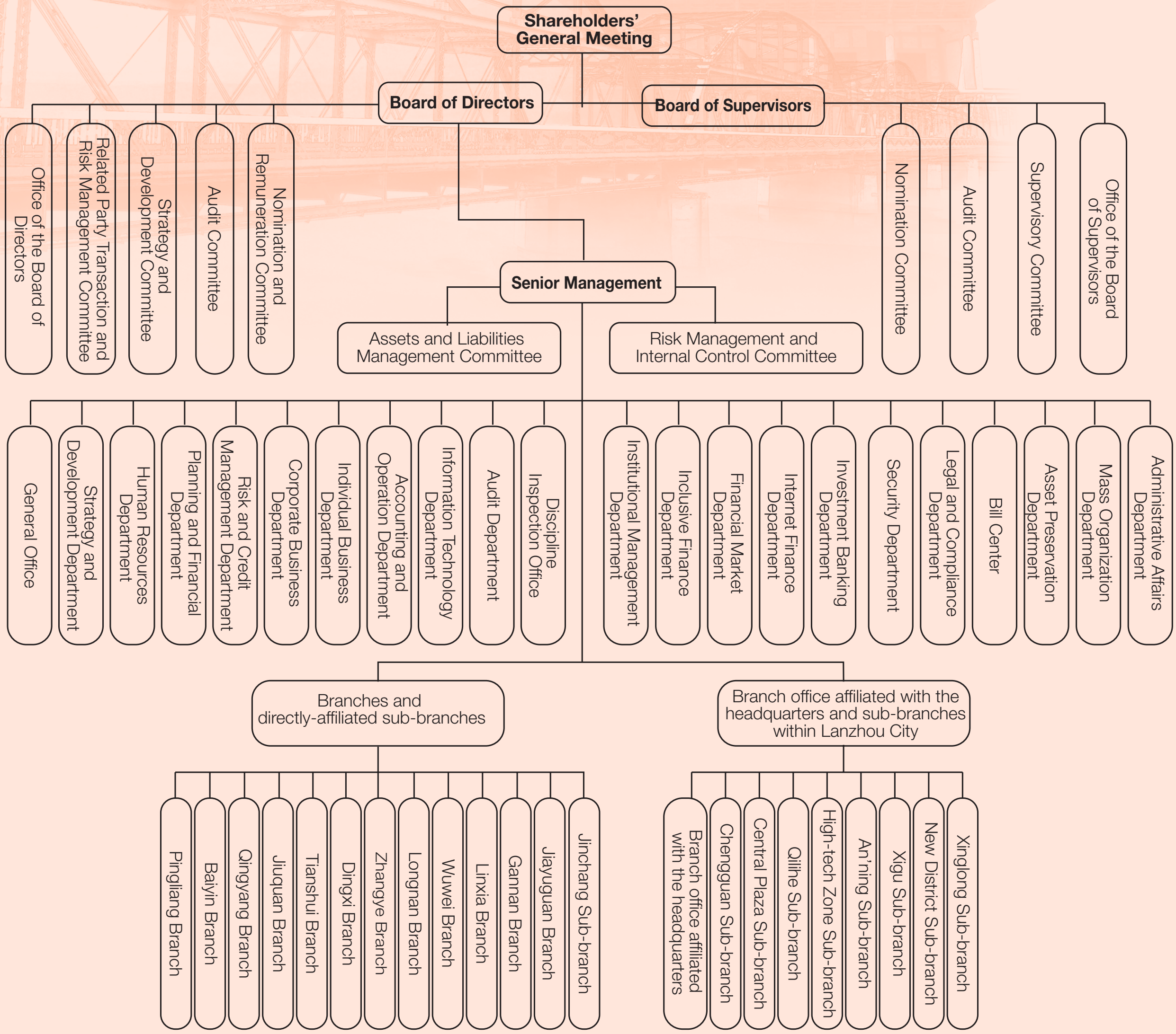
IX. THE SUBSIDIARY OF THE BANK

Jingning Chengji Rural Bank is the sole subsidiary of the Bank. The Bank holds 62.73% equity interest in Jingning Chengji Rural Bank, the financials of which have been consolidated into the Bank's financial statements. Jingning Chengji Rural Bank was established on September 18, 2008, which was originally a subsidiary of Pingliang City Commercial Bank. It offers local corporate and retail customers diversified financial products and services, including loans, deposits and fee and commission-based products and services.

Corporate Governance Report

I. CORPORATE GOVERNANCE STRUCTURE

The following chart sets forth the Bank's principal organizational and management structure:



II. CORPORATE GOVERNANCE

(I) Overview

The Bank believes that maintaining high standards of corporate governance mechanisms and high-quality corporate governance is one of the key factors to improve its core competitiveness and to build a modern city commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of Shareholders and improve the value of the Bank.

The Bank has established a modern corporate governance structure in line with the requirements of its Articles of Association, PRC laws and regulations and the Hong Kong Listing Rules. The Board of Directors is accountable to the Shareholders as a whole and is responsible for, among others, determining the Group's business development strategies, business plans and investment proposals, appointing or removing senior management, and deciding matters such as internal management departments. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related party transactions and risk management committee. The Board of Supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the Directors and senior management and oversee the Group's financial activities, risk management and internal control.

The Bank has incorporated the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the "Guidelines") into the Bank's governance structure and polices. The Corporate Governance Code and Guidelines are well reflected in the Articles of Association and the Terms of Reference of the Shareholders' General Meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties, forming good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

The Bank has established and improved the corporate government structure and established a series of corporate government system according to Corporate Governance Code and Guidelines of the Hong Kong Listing Rules. Our Directors believe, during the Reporting Period, the Bank has complied with all compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

The Bank will review its corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code and the Guidelines and meet the higher expectations from its Shareholders and potential investors.

(II) The Board Nomination and Diversity Policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors for the Bank to achieve sustainable development and its strategic objectives and maintain good corporate governance. In respect of appointing the Directors, the Bank will consider the diversity of the members in various aspects including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service term and any other factors that the Board may consider relevant and applicable from time to time for achieving a diverse Board of Directors. The Directors are appointed on the basis of their qualifications, skills and experience. The Directors are selected according to a series of diversification basis including but not limited to gender, age, cultural and educational background, region, professional skills, knowledge and service term.

The nomination and remuneration committee of the Board is responsible for preparing the selection procedure and standard of the Directors, president and other senior management of the Bank and having preliminary review on the qualification and conditions of Directors, president and other senior management. It reviews the structure, number of members, and composition (including the skills, knowledge and experience) of the Board of Directors and management level according to the experiences, asset scale and shareholding structure of the Bank at least every year and makes recommendations to the Board of Directors relating to the proposed changes to the Board of Directors based on the Bank's strategies.

The Board Diversity Policy shall be complied with when the nomination and remuneration committee of the Board of Directors makes recommendations on the candidates. The nomination and remuneration committee is responsible for monitoring the implementation of the diversity policy and reviewing the policy regularly to ensure its effectiveness. The nomination and remuneration committee of the Board of Directors will discuss any amendments to the diversity policy and make recommendations to the Board of Directors for approval.

During the Reporting Period, the Bank completed election of the new session of the Board of Directors. When identifying the candidate for the member of the Board of Directors, the Bank will first select potential candidates within and beyond the social network of the members of the Board of Directors by means of referrals by its existing Directors, recommendations by third parties as well as by the shareholders of the Company. Then, the suitability of these potential candidates shall be reviewed by the Bank through interview, background investigation, brief introduction and statement before the candidate for the Director is finalised. The Bank fully considered the importance of diversity of the Board members, took into a comprehensive consideration of gender, age, cultural and educational background, region, professional skills, knowledge, tenure and other factors, and paid attention to the diversity, unique insights and valuable contributions that the candidate would bring to the Board of Directors by leveraging his/her experience and expertise. The diversity analysis for the new session of Board of Directors is as follows. Currently, the age of the members of the Board ranges from 40 to 55, and there are four female out of eleven Directors in total. The professional experiences and skills of the Directors cover banking, financial and accounting, finance, economics, law, engineering and other areas. In light of the foregoing, the Board of Directors believes that, during the Reporting Period, its composition, membership background and procedures for selecting new Directors are in compliance with the requirements of the Diversification Policy for the Members of the Board of Directors.

Director	Gender	Age	Seniority	Banking	Accounting and Finance Major	Other majors	Directorship in other companies (Number of companies)
Liu Qing	Male	53	35	✔			
Wang Wenyong	Male	53	38	✔			
Wu Changhong	Female	55	35		✔		1
Zhang Hongxia	Female	40	21	✔		Economics	
Guo Jirong	Male	47	24		✔		1
Zhang Youda	Male	45	28		✔	Economics	1
Liu Wanxiang	Male	51	30			Engineering	1
Tang Xiuli	Female	50	28	✔		Economics	
Luo Mei	Female	43	15		✔		1
Wong Sincere	Male	54	23			Law	1
Dong Ximiao	Male	41	19	✔		Economics	

(III) General Meeting of the Bank

During the Reporting Period, the Bank convened a total of two Shareholders' general meetings, the details of which are set out as follows:

(1) The Annual General Meeting for the year 2017

The annual general meeting of the Bank for the year 2017 was convened on June 1, 2018, at which the following resolutions were considered and approved by the Shareholders.

(i) work report of the Board of Directors for the year 2017

(ii) work report of the Board of Supervisors for the year 2017

(iii) annual report for the year 2017

(iv) final financial report for the year 2017

(v) dividend distribution plan for the year 2017

(vi) annual financial budget for the year 2018

(vii) the resolution regarding the engagement of external auditing firm for the year 2018

(viii) the resolution regarding the election of Mr. Luo Yi as a Supervisor of the Bank

(ix) the resolution regarding the issuance of 2018 financial bonds

(x) the resolution regarding the general mandate to issue new shares

(2) The First Extraordinary General Meeting for 2018

The first extraordinary general meeting of the Bank for 2018 was convened on December 3, 2018, at which the following resolutions were considered and approved by the Shareholders:

(i) the resolution regarding the election of Mr. Liu Qing and Mr. Wang Wenyong as executive Directors of the second session of the Board of Directors of the Bank

(ii) the resolution regarding the election of Ms. Wu Changhong, Ms. Zhang Hongxia, Mr. Guo Jirong, Mr. Zhang Youda and Mr. Liu Wanxiang as non-executive Directors of the second session of the Board of Directors of the Bank

(iii) the resolution regarding the election of Ms. Tang Xiuli, Ms. Luo Mei, Mr. Wong Sincere and Mr. Dong Ximiao as independent non-executive Directors of the second session of the Board of Directors of the Bank

(iv) the resolution regarding the election of Mr. Liu Yongchong, Mr. Li Yongjun and Mr. Liu Xiaoyu as Shareholder Supervisors of the second session of the Board of Supervisors of the Bank

(v) the resolution regarding the election of Mr. Yang Zhenjun, Mr. Dong Ying and Mr. Luo Yi as external Supervisors of the second session of the Board of Supervisors of the Bank

(IV) Board of Directors

The Board of Directors is core to the Bank's corporate governance and is accountable to the Shareholders as a whole. The Board of Directors is an independent decision-making body, which is responsible for implementing the resolutions of the Shareholders' general meeting, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and internal management setup of the Bank, formulating the annual financial budget, final accounts and profit distribution plan and appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs of operation and management. The Board of Directors is also responsible for the performance of the corporate governance functions pursuant to the Corporate Governance Code.

(1) Composition of the Board of Directors

As of the Latest Practicable Date, the Board of Directors consists of 11 members, including:

- Mr. Liu Qing (chairman, executive Director)
- Mr. Wang Wenyong (executive Director)
- Ms. Wu Changhong (non-executive Director)
- Ms. Zhang Hongxia (non-executive Director)
- Mr. Guo Jirong (non-executive Director)
- Mr. Zhang Youda (non-executive Director)
- Mr. Liu Wanxiang (non-executive Director)
- Ms. Tang Xiuli (independent non-executive Director)
- Ms. Luo Mei (independent non-executive Director)
- Mr. Wong Sincere (independent non-executive Director)
- Mr. Dong Ximiao (independent non-executive Director)

The decision-making, authorization and voting procedures of the Board of Directors strictly follow the relevant rules and regulations of regulatory authorities and the Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured operational stability and protected the interests of the Bank and its Shareholders.

(2) Appointment, re-election and removal of Directors

According to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. The term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a Director whose term of office has not expired may be removed by Shareholders' ordinary resolution at a Shareholders' general meeting, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive Directors and independent non-executive Directors shall be the same as that of other Directors and they may be re-elected and re-appointed upon the expiration of their terms of office, provided that such term of office of independent non-executive Directors in the Bank shall not be more than six years on an accumulative basis.

The Directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The nomination and remuneration committee of the Board of Directors is responsible for discussing and reviewing the qualification and experience of each candidate for Director and recommending the suitable candidates to the Board of Directors. After the approval of nomination resolution related to candidates from the Board of Directors, the selected candidates will be recommended for further approval by the Shareholders at a general meeting. As a banking institution regulated by the CBIRC, the qualification of a candidate for the Bank's directorship shall also be approved by the CBIRC.

(3) Relationships among Directors, Supervisors and Senior Management Members

The Directors, Supervisors and senior management members of the Bank are not related to one another in respect of financial business, family or other material/relevant relationships.

(4) Changes of Directors

For changes of Directors, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations – II. Changes in Directors, Supervisors and Senior Management Members" in this annual report.

(5) Operation of the Board of Directors

According to the Articles of Association, the Board of Directors shall convene at least four meetings per year and at least one meeting per quarter. The meetings of the Board of Directors include regular meetings and extraordinary meetings. The regular meetings of the Board of Directors are convened by the chairman and a notice in writing shall be delivered to all Directors and Supervisors 14 days prior to the date of convening the meeting. The notice of an extraordinary meeting of the Board of Directors shall be dispatched to the Directors five business days prior to the date of convening the meeting. In emergency circumstances where an extraordinary meeting of the Board of Directors is required to be convened as soon as possible, the notice of the meeting may be issued through telephone or other verbal means, but the convener shall give an explanation at the meeting. The meetings (including video conference) of the Board of Directors generally conduct voting by way of a show of hands and voting by registered ballot.

Provided that sufficient protection is ensured for the expression of opinions by Directors, the Directors may pass resolutions at an extraordinary meeting of the Board of Directors by communication voting and the resolutions shall be signed by the participating Directors. The conditions and procedures of communication voting are provided in the Articles of Association and the Rules of Procedure for Meetings of the Board of Directors. The Board of Directors shall record the decisions on matters considered at the meetings in the minutes of meetings and the participating Directors and the recorder of minutes shall sign on such minutes. Directors attending the meeting are entitled to request an explanation on record to be made in respect of their verbal comments in the meetings.

The relevant senior management members are invited to attend meetings of the Board of Directors from time to time to provide explanations and answer queries from the Directors. In the meetings of the Board of Directors, the Directors may express their opinions freely, and important decisions should be made after detailed discussions. If any Director has a conflict of interest in a matter to be considered by the Board of Directors, the relevant Director shall abstain from the discussion of and voting on the relevant resolution, and such Director shall not be counted as quorum in voting for that particular resolution.

The Board of Directors has established an office as its operating arm, which is responsible for preparation of general meetings, meetings of the Board of Directors and meetings of Board committees, information disclosure and other daily matters.

(6) Functions and Powers of the Board of Directors

According to the Articles of Association, the Board of Directors exercises the following functions and powers:

(i) to determine the Bank's business development strategies and determine the Bank's business plans and investment plans;

(ii) to consider the Bank's annual report and manage the Bank's external information disclosure;

(iii) to convene general meetings and report work to the general meeting;

(iv) to implement the resolutions of the general meeting;

(v) to prepare the Bank's annual financial budgets plan, final accounts plan, venture capital distribution plan, profit distribution plan and plan for making up the losses;

(vi) to assess and evaluate the performance of the Directors' duties and report to the general meeting;

(vii) to formulate plans for increase or reduction of the registered capital, issue of bonds or other securities and listing plan of the Bank;

(viii) to consider and approve the Bank's plans for external investments, acquisitions and sales of assets, asset collateral, external guarantees, entrusted wealth management and related transactions in accordance with the authorization of the general meeting;

(ix) to formulate a plan for material acquisitions or repurchases of Shares of the Bank or merger, division, dissolution and alternation of corporate form of the Bank and submit it to the general meeting for approval;

(x) to determine the setting, merger and revocation of the internal management department and branch offices of the Bank;

(xi) to consider and approve material related transactions within the scope of the authorization of the general meeting;

(xii) to appoint or dismiss the president of the Bank and the secretary of the Board of Directors in accordance with the nomination of the chairman of the Board; to appoint or dismiss other senior management such as the vice president of the Bank and the person in charge of finance in accordance with the nomination of the president of the Bank;

(xiii) to determine the Bank's risk management and internal control policies and to formulate the Bank's main management system;

(xiv) to regularly assess and improve the Bank's corporate governance;

(xv) to formulate the basic management system of the Bank;

(xvi) to formulate the amendment proposals to the Articles of Association, the rules of procedure for general meetings and the rules of procedure for Board meetings;

(xvii) to be responsible for the Bank's information disclosure and be ultimately responsible for the completeness and accuracy of the Bank's accounting and financial reporting system;

(xviii) to listen to the work report and examine the work of the president;

(xix) to approve the Bank's annual internal audit plans and audit budgets;

(xx) to determine the Directors and members of the respective committees of the Board in accordance with the nomination of the nomination and remuneration committee;

(xxi) to consider and approve the proposals put forward by the respective committees of the Board;

(xxii) to determine the Bank's long-term incentive schemes, remuneration plans and salary plans;

(xxiii) to request the general meeting to engage, reappoint or replace the accounting firm which conducts audit for the Bank;

(xxiv) to have the right to stop the decision made by the president and other senior management of the Bank that may cause significant business risk or loss to the Bank;

(xxv) to carry out the performance appraisal for the president and other senior management of the Bank and determine their remuneration, rewards and penalties and payment methods and decide on the remuneration and payment methods of the Independent Directors and external Supervisors;

(xxvi) to formulate the Bank's policy on the protection of consumer rights and interests, regularly listen to and consider the senior management's report on the protection of consumer rights and interests; and

(xxvii) to consider the approve the money laundering risk management report, develop money laundering risk management strategies and monitor the implementation of the strategies and assume the ultimate responsibility for money laundering risk management; other powers conferred by the laws, administrative regulations, department rules and regulations, the Articles of Association and shareholders' general meeting or required by the supervisory authority to the Board of Directors for exercise.

Unless otherwise stipulated in the Articles of Association, items 7, 9 and 16 shall be passed by more than two-thirds of all Directors, and the rest shall be passed by more than half of all Directors when making the resolutions above.

(7) Responsibilities of the Directors

During the Reporting Period, all the Directors exercised their rights granted by the Bank and domestic and overseas regulatory authorities in a prudent, earnest, and diligent manner. The Directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of the Bank's operation with laws, regulations and the requirements of national economic policies. The Directors have treated all the Shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, and performed other diligence obligations required by the laws, administrative regulations, departmental rules and the Articles of Association.

The independent non-executive Directors make full use of their respective professional expertise to provide professional and independent advice on the corporate governance, operation and management of the Bank.

The Bank also pays attention to the ongoing training of Directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities authorized by the relevant laws and regulatory requirements and the Articles of Association. The Bank has purchased the director liability insurance for all Directors.

(8) Responsibilities assumed by the Directors in the preparation of financial statements

The Directors have acknowledged their responsibilities in the preparation of financial statements of the Bank for the year ended December 31, 2018. The Directors are responsible for reviewing and confirming the financial statements for each accounting period to ensure that the financial statements truly and fairly reflect the financial conditions, operating results and cash flows of the Bank. In preparing the consolidated financial statements of the Bank for the year ended December 31, 2018, the Directors have adopted appropriate accounting policies which have been applied consistently, and prudent and reasonable judgments have been made.

(9) Meetings of the Board of Directors

During the Reporting Period, the Bank has convened nine meetings (including teleconference) of the Board of Directors. Attendance of Directors at the meetings of the Board of Directors, meetings of Board committees and general meetings of the Bank are set out in the table as follows:

	Number of meetings attended in person/attended by proxy/should be attended					
Directors	Board of Directors	Strategy and Development Committee	Audit committee	Nomination and Remuneration Committee	Related Party Transaction and Risk Management Committee	General Meeting (actual attendance)
Mr. Liu Qing[(1)]	2/0/2	0/0/0	–	0/0/0	–	1
Mr. Wang Wenyong[(2)]	2/0/2	0/0/0	–	0/0/0	1/0/1	1
Ms. Wu Changhong	8/1/9	–	2/0/2	–	–	2
Ms. Zhang Hongxia	7/2/9	0/2/2	–	–	–	2
Mr. Guo Jirong	7/2/9	–	0/2/2	–	–	2
Mr. Zhang Youda	9/0/9	2/0/2	–	–	6/0/6	2
Mr. Liu Wanxiang[(3)]	2/0/2	0/0/0	–	–	–	1
Ms. Tang Xiuli	8/1/9	2/0/2	2/0/2	–	6/0/6	2
Ms. Luo Mei	8/1/9	–	1/1/2	3/1/4	5/1/6	2
Mr. Wong Sincere	8/1/9	–	–	3/1/4	5/1/6	2
Mr. Dong Ximiao[(4)]	2/0/2	–	–	0/0/0	1/0/1	1
Mr. Li Xin[(5)]	7/0/7	2/0/2	–	4/0/4	–	1
Mr. Lei Tie[(6)]	7/0/7	2/0/2	–	4/0/4	5/0/5	1
Mr. Li Hui[(7)]	6/1/7	1/1/2	–	–	–	1
Mr. Chen Aiguo[(8)]	5/2/7	0/2/2	0/2/2	1/3/4	–	1

Notes:

(1) Mr. Liu Qing, the former executive Director and president of the Bank, resigned from all his positions in the Bank on November 9, 2017 due to work reallocation, and was appointed as an executive Director and the chairman of the Bank at the 2018 extraordinary general meeting held on December 3, 2018. From December 3, 2018 until December 31, 2018, the strategy and development committee and the nomination and remuneration committee in which he was a member did not convene any meeting.

(2) Mr. Wang Wenyong was appointed as an executive Director and the president of the Bank at the 2018 extraordinary general meeting held on December 3, 2018. From December 3, 2018 until December 31, 2018, the strategy and development committee and the nomination and remuneration committee in which he was a member did not convene any meeting.

(3) Mr. Liu Wanxiang was appointed as a non-executive Director of the Bank at the 2018 extraordinary general meeting held on December 3, 2018. From December 3, 2018 until December 31, 2018, the strategy and development committee in which he was a member did not convene any meeting.

(4) Mr. Dong Ximiao was appointed as an independent non-executive Director of the Bank at the 2018 extraordinary general meeting held on December 3, 2018. From December 3, 2018 until December 31, 2018, the nomination and remuneration committee in which he was a member did not convene any meeting.

(5) Mr. Li Xin retired as the chairman and an executive Director on December 3, 2018.

[6] Mr. Lei Tie retired as an executive Director on December 3, 2018.

[7] Mr. Li Hui resigned as a non-executive Director of the Bank on August 31, 2018.

[8] Mr. Chen Aiguo retired as an independent non-executive Director on December 3, 2018.

(10) Independent Non-executive Directors

The Board of Directors has appointed four independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of the CBIRC, the CSRC and the Hong Kong Listing Rules. The four independent non-executive Directors are not involved in any conflict with the independence issue described in Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive Director the independence confirmation for the period from the Listing Date to (1) March 27, 2019, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2018 or (2) the date of his/her resignation as an independent non-executive Director (as the case may be). Therefore, the Bank confirms that all the independent non-executive Directors have complied with the Hong Kong Listing Rules in respect of their independence.

The Bank's independent non-executive Directors represent the majority of the Bank's audit committee, nomination and remuneration committee, related party transactions and risk management committee and they serve as the chairman of these committees. Ms. Luo Mei, an independent non-executive Director, has appropriate accounting and financial-related management expertise as required by the Hong Kong Listing Rules by virtue of her educational background and working experience.

For the period from the Listing Date to March 27, 2019, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2018, the independent non-executive Directors kept in touch with the Bank's management through various means such as attending meetings. They earnestly participated in meetings of the Board of Directors and the Board committees and actively provided their opinions and emphasized on the interests of minority Shareholders of the Bank. The independent non-executive Directors have fully discharged their responsibilities.

(11) Continuing professional development plan for Directors

All newly appointed Directors have been provided with comprehensive relevant materials at the first time when they were nominated to ensure they have proper understanding of the operation and business of the Bank and fully understand the duties and responsibilities of Directors under requirements of the Hong Kong Listing Rules and the applicable laws and regulations.

The Bank has encouraged all Directors to participate in continuing professional development to develop and refresh their knowledge and skills. During the Reporting Period, trainings participated by all the Directors are as follows:

Trainings participated by the Directors are as follows:

Directors	Contents of the trainings
Li Xin, Lei Tie, Wu Changhong, Zhang Hongxia, Li Hui, Guo Jirong, Zhang Youda, Tang Xiuli, Luo Mei, Wong Sincere, Chen Aiguo	Responsibilities and obligations of directors and supervisors of companies listed in Hong Kong and normal compliance matters
Li Xin, Lei Tie, Wu Changhong, Zhang Hongxia, Li Hui, Guo Jirong, Zhang Youda, Tang Xiuli, Luo Mei, Wong Sincere, Chen Aiguo	Administrative measures on equity of commercial banks and auxiliary regulations
Li Xin, Lei Tie, Wu Changhong, Zhang Hongxia, Li Hui, Guo Jirong, Zhang Youda, Tang Xiuli, Luo Mei, Wong Sincere, Chen Aiguo	Standards and requirements for boards of directors and directors of companies listed in Hong Kong
Li Xin, Lei Tie, Wu Changhong, Zhang Hongxia, Li Hui, Guo Jirong, Zhang Youda, Tang Xiuli, Luo Mei, Wong Sincere, Chen Aiguo	Guidelines of Directors by The Hong Kong Institute of Directors
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Liu Wanxiang, Guo Jirong, Zhang Youda, Tang Xiuli, Luo Mei, Wong Sincere, Dong Ximiao	Guidance for Boards and Directors by Hong Kong Stock Exchange (July 2018 edition)

The Bank will provide briefings on the latest developments of the Hong Kong Listing Rules and other applicable regulatory requirements to the Directors from time to time, to ensure that the Directors are aware of the latest regulatory development.

(12) Corporate governance functions of the Board of Directors

The Board of Directors is responsible for the establishment of sound corporate governance practice and procedures for the Bank. During the Reporting Period and up to the date of this annual report, the Board of Directors has:

(i) developed and reviewed the Bank's policies and practices on corporate governance;

(ii) reviewed and monitored the training and continuing professional development of Directors and senior management;

(iii) reviewed and monitored the Bank's policies and practices on compliance with legal and regulatory requirements;

(iv) developed, reviewed and monitored the code of conduct for Directors; and

(v) reviewed the Bank's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

(13) Board Committees

The Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, the Articles of Association and the Hong Kong Listing Rules, the Bank has formed four Board committees, namely the strategy and development committee, audit committee, nomination and remuneration committee and related party transactions and risk management committee.

(i) Strategy and Development Committee

During the Reporting Period, the strategy and development committee consists of Mr. Liu Qing (executive Director, took office on December 3, 2018), Mr. Wang Wenyong (executive Director, appointed on December 3, 2018), Ms. Zhang Hongxia (non-executive Director), Mr. Zhang Youda (non-executive Director, took office on December 3, 2018), Mr. Liu Wanxiang (non-executive Director, appointed on December 3, 2018, but his qualification is still subject to approval), Mr. Li Xin (executive Director, retired on December 3, 2018), Mr. Lei Tie (executive Director, retired on December 3, 2018), Mr. Li Hui (non-executive Director, resigned on August 31, 2018) and Mr. Chen Aiguo (independent non-executive Director, resigned on August 31, 2018). Mr. Li Xin (retired on December 3, 2018) and Mr. Liu Qing (took office on December 13, 2018) successively served as the chairman of the strategy and development committee.

The principal responsibilities of the strategy and development committee include but are not limited to:

- to formulate the business management objectives and long-term development strategy of the Bank; and
- to supervise and review the execution condition of annual business plan and investment plan.

During the Reporting Period, the strategy and development committee held two meetings in total, at which the resolutions regarding the development strategy plan (2018–2020) for Bank of Gansu Co., Ltd., the interim assessment of the three-year development plan, and adjustments to individual indicators, were considered and approved.

(ii) Audit Committee

During the Reporting Period, the audit committee consists of Ms. Wu Changhong (non-executive Director), Mr. Guo Jirong (non-executive Director), Ms. Tang Xiuli (independent non-executive Director), Ms. Luo Mei (independent non-executive Director), Mr. Wong Sincere (independent non-executive Director, took office on August 31, 2018) and Mr. Chen Aiguo (independent non-executive Director, resigned on August 31, 2018). Ms. Luo Mei is the chairman of the audit committee.

The principal responsibilities of the audit committee include but are not limited to:

- to review the accounting policy, financial condition, financial reports, risk and compliance condition;
- to propose to employ or replace external audit agency;
- to supervise the internal audit system and its implementation of the Bank;
- to coordinate the communication between internal audit and external audit; and
- to guarantee the authenticity, accuracy and completeness of audited financial information of the Bank.

During the Reporting Period, the audit committee held two meetings in total, at which the resolutions regarding the financial auditor's report for 2017, the plan for internal audit projects of 2018, the 2018 interim results announcement and the 2018 interim report were considered and approved.

(iii) Nomination and Remuneration Committee

During the Reporting Period, nomination and remuneration committee consists of Mr. Liu Qing (executive Director, took office on December 3, 2018), Mr. Wang Wenyong (executive Director, appointed on December 3, 2018), Ms. Tang Xiuli (independent non-executive Director, took office on August 31, 2018), Ms. Luo Mei (independent non-executive Director), Mr. Dong Ximiao (independent non-executive Director, appointed on December 3, 2018), Mr. Li Xin (executive Director, retired on December 3, 2018), Mr. Lei Tie (executive Director, retired on December 3, 2018), Mr. Wong Sincere (independent non-executive Director, retired on December 3, 2018) and Mr. Chen Aiguo (independent non-executive Director, resigned on August 31, 2018). Mr. Chen Aiguo (resigned on August 31, 2018) and Ms. Tang Xiuli (took office on August 31, 2018) successively served as the chairman of the nomination and remuneration committee.

The principal responsibilities of the nomination and remuneration committee include but are not limited to:

Responsibilities regarding nomination:

- submitting proposals to the Board of Directors in relation to the formation of the Board of Directors based on the business condition, asset size and equity structure of the Bank;
- formulating the standards and the procedures for election of Directors, president and other senior executives of the Bank, and submitting the relevant proposals to the Board of Directors;
- conducting initial review of the qualifications and credentials of the Directors, president and other senior executives, and providing review comments;
- assessing the independence of independent non-executive Directors; and
- developing and, where appropriate, reviewing the diversification policy of the members of the Board of Directors and disclosing the relevant policies or their abstracts in the annual reports. For the summary of the board diversity policy and the implementation thereof, please refer to the section titled "Corporate Governance Report-II. Corporate Governance- (II) The Board Diversity Policy" in this annual report.

Responsibilities regarding remuneration and evaluation:

- making recommendations to the Board of Directors on the remuneration of Directors, Supervisors, president and other senior executives, and supervising the implementation of the proposals;
- making recommendations to the Board of Directors on the remuneration packages of individual executive Directors and senior executives, and the remuneration of non-executive Directors;
- based on the remuneration offered by companies of similar nature, time needed and responsibilities, proposing the employment terms for other positions within the Bank; and
- assessing fulfillment of duties and responsibilities by Directors and senior executives and evaluating their annual performance.

During the Reporting Period, the nomination and remuneration committee held four meetings in total, at which the resolutions regarding the resignation of Chen Aiguo as an independent non-executive Director, adjustment of internal senior management positions, adjustment of certain Directors, remuneration of the senior management (not subject to Direct Management of the Organization Department of Provincial Party Committee) appointed by the Board and the nomination of Directors of the second session of the Board of Directors of Bank of Gansu Co., Ltd. were considered and approved.

(iv) Related Party Transactions and Risk Management Committee

During the Reporting Period, the related party transactions and risk management committee consists of Mr. Wang Wenyong (executive Director, took office on December 3, 2018), Ms. Tang Xiuli (independent non-executive Director), Ms. Luo Mei (independent non-executive Director), Mr. Wong Sincere (independent non-executive Director), Mr. Dong Ximiao (independent non-executive Director, appointed on December 3, 2018), Mr. Lei Tie (executive Director, retired on December 3, 2018) and Mr. Zhang Youda (non-executive Director, retired on December 3, 2018). Mr. Wong Sincere is the chairman of the related party transactions and risk management committee.

The principal responsibilities of the related party transactions and risk management committee include but are not limited to:

Responsibilities regarding management of related party transactions:

- examining and approving the related party transactions within the scope of authorization set by the Board of Directors, or accepting the filing of such related party transactions; and

- assessing the related party transactions outside the scope of authority set by the Board of Directors, and seeking for the approval of such related party transactions by the Board of Directors.

Responsibilities regarding risk management:

- supervising the management of risks by the Bank's senior management;

- evaluating the Bank's risk profile;

- making recommendations regarding our risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties to establish effective systems; and

- actively or as appointed by the Board of Directors, conducting research on key investigation results relating to risk management matters and responses of management to investigation results.

During the Reporting Period, the related party transactions and risk management committee held six meetings in total, at which the resolutions regarding the overall risk report for 2017, the report on the material related party transactions for 2017, the administrative measures on compliance risk of Bank of Gansu Co., Ltd., the related party transaction with insider Mr. Wang Chunyun, the disbursement of loans to Gansu Agricultural Production Co., Ltd. (甘肅省農墾集團有限責任公司) under related party transaction, the disbursement of loans to Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) under related party transaction, the report on the related party/connected transactions for the first half of 2018, the overall risk report for the first half of 2018, the continuing related party transaction on trust business between Bank of Gansu Co., Ltd. and Everbright Xinglong Trust Co., Ltd. and the annual caps under the continuing related party transaction framework agreement, the related party transaction with Xu Wei (許瑋) and other insiders, the entering into of related party transactions between the Bank of Gansu and Jinchuan Group, Jiuquan Iron & Steel and other related parties were considered and approved.

(14) Overview of the annual audit work of the Bank

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited (collectively as "Shinewing") carried out the 2018 audit on the Bank by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, Shinewing conducted the audit on internal control, carried out internal control test at the entity level to the Bank's level and business process level, and evaluated the effectiveness of the internal control design and whether it has been effectively implemented during the audit. Through the interview, Shinewing understood the Bank's control environment, the main operation conditions, business innovation, system updates and fraud risk. Shinewing conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. Shinewing also made a testing and evaluation on the main information system used by the Bank and discussed timely the finding of preliminary audit with the Bank's management. At the end of year-end audit, Shinewing followed up the finding on the preliminary audit stage and conducted detailed audit procedures for all major subjects, and communicated timely the finding of year-end audit with the Bank's management.

In order to successfully complete the audit work in 2018 and issue relevant reports with scheduled time, the audit committee of the Board of Directors authorized the finance department of the Bank to discuss with Shinewing about the planning of audit work, audit progress, scope of consolidation, timing of initial draft and final draft of the auditor's report, etc. During the audited period, the audit committee made multiple rounds of supervision. On March 27, 2019, Shinewing issued the standard unqualified auditor's reports to the Bank within the scheduled time.

The audit committee reviewed the independence, objectivity and audit procedure of Shinewing to ensure that the financial reports issued give a true and fair view. Shinewing has taken the necessary protective measures in accordance with the relevant ethical requirements to prevent possible threats to independence.

(V) Board of Supervisors

The Board of Supervisors, the Bank's supervisory body, aims to guarantee the legitimate interests of the Bank, Shareholders, employees, depositors and other stakeholders and has the obligation to oversee the Bank's financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the Shareholders as a whole.

The term of office of the Supervisors shall be three years. Upon expiry of the current term of office, a Supervisor is eligible for re-election and re-appointment. The cumulative term of office for an external Supervisor of the Bank shall be no more than six years. Shareholder Supervisors and external Supervisors shall be elected, removed or replaced by the general meeting. Employee Supervisors shall be elected, removed or replaced by the employee representative meeting of the Bank.

(1) Composition of the Board of Supervisors

According to the Articles of Association, the Board of Supervisors shall comprise Shareholder Supervisors, employee Supervisors and external Supervisors. The number of the employee Supervisors of the Bank shall not be less than 1/3 of the total number of the Supervisors. During the Reporting Period and up to the date of this annual report, the members of the Board of Supervisors are as follows:

- Ms. Tang Lan (Chairman of the Board of Supervisors, Employee Representative Supervisor)
- Mr. Xu Yongfeng (Employee Representative Supervisor)
- Mr. Luo Zhenxia (Employee Representative Supervisor)
- Mr. Liu Yongchong (Shareholder Supervisor)
- Mr. Li Yongjun (Shareholder Supervisor)
- Mr. Liu Xiaoyu (Shareholder Supervisor)
- Mr. Yang Zhenjun (External Supervisor)
- Mr. Dongying (External Supervisor)
- Mr. Luo Yi (External Supervisor)
- Mr. Yang Qian (Former chairman of the Board of Supervisors and Employee Representative Supervisor, retired)
- Mr. Zhu Xingjie (Former External Supervisor, resigned)

(2) Chairman of the Board of Supervisors

During the Reporting Period, Mr. Yang Qian (retired on April 24, 2018) and Ms. Tang Lan (appointed on December 3, 2018) served as the chairman of the Board of Supervisors. The chairman of the Board of Supervisors shall have the following duties and powers:

- to convene and preside over meetings of the Board of Supervisors;
- to urge and check the implementation of the resolutions of the Board of Supervisors;
- to review and sign reports of the Board of Supervisors and other important documents;
- to report work to the general meetings on behalf of the Board of Supervisors;
- to organize the Board of Supervisors to fulfill obligations; and
- other duties and powers as provided for in laws, administrative regulations and Articles of Association.

(3) Changes of Supervisors

For changes of Supervisors, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations – II. Changes in Directors, Supervisors and Senior Management Members" in this annual report.

(4) Responsibilities of the Board of Supervisors

The Board of Supervisors is a supervising organ of the Bank and accountable to the Shareholders as a whole. The Board of Supervisors shall exercise the following powers:

(i) to review the Bank's report periodically prepared by the Board and give written audit opinions;

(ii) to examine and supervise the Bank's financial affairs;

(iii) to monitor the Directors and senior officers in the performance of their duties, make recommendations on the removal of Directors, president and other senior management who violate the laws, administrative regulations, the Articles of Association or the resolutions of the Shareholders' general meeting;

(iv) to demand rectification from a Director, president and other senior officers when the acts of such persons are detrimental to the interests of the Bank;

(v) to review financial information such as the financial reports, operation reports and profit distribution plans proposed to be submitted by the Board to general meetings; if any queries arise, it may authorize the registered certified public accountants and certified public auditors in the name of the Bank for review;

(vi) to propose to convene an extraordinary general meeting; to convene and preside over the Shareholders' general meeting when the Board of Directors fails to perform the duties of convening and presiding over the general meeting as set out in the Articles of Association;

(vii) to make proposal to the Shareholders' general meeting;

(viii) to assess and evaluate the Supervisors for performance of their duties and report to the Shareholders' general meeting;

(ix) to report to the Shareholders' general meeting;

(x) to supervise and require for rectification regarding the Bank's business decision-making, risk management and internal control;

(xi) to supervise the Bank's internal audit;

(xii) to undertake the resign audit of Directors and senior officers as required;

(xiii) to negotiate with the Directors or file a lawsuit against the Directors and senior officers on behalf of the Bank in accordance with the provisions of the PRC Company Law;

(xiv) to investigate any abnormality found in operations of the Bank, and when necessary, to engage such professionals as accountant firms or law firms to assist in the work, at the expense of the Bank;

(xv) to propose any remuneration (or allowance) arrangement of a Supervisor;

(xvi) to supervise the Directors and senior management personnel in the performance of the anti-money laundering duties according to law and to evaluate the Directors and senior officers in the performance of the risk management of money laundering, and report to the Shareholders' general meeting; and

(xvii) other duties and powers as provided in the laws, administrative regulations, and the Articles of Association or conferred by the general meetings.

The Board of Supervisors fulfills their supervisory responsibilities mainly through the following manners:

- convening regular meetings of the Board of Supervisors;
- attending general meetings and the meetings of the Board of Directors;
- attending the relevant meetings of the senior management;
- reviewing various documents and materials provided by the senior management and listening to the work report prepared by the senior management;
- evaluating annual performance of the Directors and senior management;
- conducting on-site inspections of the Bank's branches, sub-branches and subsidiaries; and
- conducting off-office audits of the Bank's executive Directors and senior management.

Through the above works, the Board of Supervisors monitors and evaluates the Bank's operation and management, risk management, internal controls, and the performance of the Board of Directors and senior management.

(5) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened six meetings and there was no objection to the matters concerning the supervision of the Board of Supervisors.

The following table sets forth the attendance of Supervisors at meetings during the Reporting Period:

Supervisors	Attendance in Person	Attendance through Proxy	No. of Required Attendance
Ms. Tang Lan[1]	2	0	2
Mr. Xu Yongfeng	6	0	6
Mr. Luo Zhenxia	6	0	6
Mr. Liu Yongchong	6	0	6
Mr. Li Yongjun	4	2	6
Mr. Liu Xiaoyu	5	1	6
Mr. Yang Zhenjun	6	0	6
Mr. Dongying	6	0	6
Mr. Luo Yi [2]	6	0	6
Mr. Yang Qian [3]	1	0	1
Mr. Zhu Xingjie [4]	0	1	1

Notes:

(1) The Bank held an employee representative meeting on November 12, 2018, at which Ms. Tang Lan was elected as an employee representative Supervisor of the Bank.

(2) At the 2017 annual general meeting held on June 1, 2018, the appointment of Mr. Luo Yi as an external Supervisor of the Bank was considered and approved by the shareholders of the Bank.

(3) Mr. Yang Qian, the former chairman of the Board of Supervisors of the Bank, tendered his resignation as a Supervisor to the Board of Supervisors of the Bank on April 24, 2018.

(4) Mr. Zhu Xingjie, a former external Supervisor of the Bank, tendered his resignation as a Supervisor to the Board of Supervisors of the Bank on March 27, 2018.

During the Reporting Period, the Board of Supervisors had considered and approved the following resolutions: Work Report of the Board of Directors for 2017; Work Report of the Board of Supervisors for 2017; Adjustment of Some Supervisors; Final Financial Report for 2017 and Annual Financial Budget for 2018; Profit Distribution Proposal for 2017; Auditors' Reports for 2017; Development Strategy Plan of Bank of Gansu Co., Ltd. (2018–2020); Report on the Material Related Party Transactions for 2017; Work Report on Anti-Money Laundering for 2017; Plan for Issuance of Financial Bonds; Overall Risks Report for 2017; Annual Results Announcement for 2017; Annual Report for 2017; Environmental, Social and Governance Report for 2017; Disbursement of loans to Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) under related party transaction; Interim Results Announcement for 2018; Interim Report for 2018; Adjustment of Some Directors of the Bank of Gansu Co., Ltd.; Remuneration Plan for Senior Management (not subject to Direct Management of the Organization Department of Provincial Party Committee) Appointed by the Board of Directors; Opening of Bank Accounts of the Bank of Gansu Co., Ltd. for Dividend Distribution; Related Party/Connected Transactions Reports for the First Half of 2018; Overall Risks Report for the First Half of 2018; Entering into to Continuing Related Party Transactions Framework Agreement between Bank of Gansu Co., Ltd. and Everbright Xinglong Trust Co., Ltd.; Election of New Session of Board of Supervisors; Election of New Session of Board of Directors; Election of the chairman of the Second Session of the Board of Supervisors; Adjustment of the Committees under the Board of Supervisors; and Related Party/Connected Transactions between Bank of Gansu Co., Ltd. with Jinchuan Group and Jiuquan Iron & Steel.

(6) Attendance at the general meetings

During the Reporting Period, the Board of Supervisors designated representatives to attend the annual general meeting of the Bank. The Board of Supervisors presented its report on work and results of performance appraisal of Supervisors, which were approved at the annual general meeting.

(7) Attendance at the meetings of the Board of Directors and senior management

During the Reporting Period, the Board of Supervisors designated representatives to attend the meetings of the Board of Directors and supervised legal compliance of the meetings, procedures of voting, attendance, speech and voting of the Directors. The Board of Supervisors also designated representatives to attend the relevant meetings of the senior management and supervised implementation of resolutions by the Board of Directors.

(8) Committees under the Board of Supervisors

The Board of Supervisors has established three committees, namely the supervisory committee, the nomination committee and the audit committee. These committees operate in accordance with the rules of procedures formulated by the Board of Supervisors.

Supervisory Committee

The supervisory committee consists of five Supervisors, being Mr. Luo Yi, Ms. Tang Lan, Mr. Li Yongjun, Mr. Liu Yongchong and Mr. Luo Zhenxia. Mr. Luo Yi is the chairman of the Supervisory Committee. The principal responsibilities of the supervisory committee include: supervising the Board of Directors in formulating prudent business philosophies and development strategies; formulating and coordinating the implementation of internal inspection and special audit plans with respect to our business decision-making, financial activities, risk management and internal controls; formulating and coordinating the implementation of investigation plans for major emergencies and risk events based on the authorization of our Board of Supervisors; and communicating with external auditors regarding preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

The supervisory committee convened a total of five meetings during the Reporting Period, at which the following resolutions were considered and approved: Work Report of the Board of Directors for 2017; Work Report of the Board of Supervisors for 2017; Development Strategy Plan of Bank of Gansu Co., Ltd. (2018–2020); Report on the Material Related Party Transactions for 2017; Work Report on Anti-Money Laundering for 2017; Annual Results Announcement for 2017; Annual Report for 2017; Adjustment of Some Directors of Bank of Gansu Co., Ltd.; Remuneration Plan for Senior Management (not subject to Direct Management of the Organization Department of Provincial Party Committee) Appointed by the Board of Directors; Opening of Bank Accounts of Bank of Gansu Co., Ltd. for Dividend Distribution; Related Party/Connected Transactions Reports for the First Half of 2018; Overall Risks Report for the First Half of 2018; Entering into of Continuing Related Party Transactions Framework Agreement between Bank of Gansu Co., Ltd. and Everbright Xinglong Trust Co., Ltd.; Election of New Session of Board of Directors; and Related Party/Connected Transactions between Bank of Gansu Co., Ltd. with Jinchuan Group and Jiuquan Iron & Steel.

Nomination Committee

The nomination committee consists of five Supervisors, being Mr. Yang Zhenjun, Ms. Tang Lan, Mr. Luo Yi, Mr. Dong Ying and Mr. Xu Yongfeng. Mr. Yang Zhenjun is the chairman of the nomination committee. The principal responsibilities of the nomination committee include: formulating procedures and standards concerning election and appointment of Supervisors, conducting preliminary review on the qualifications of candidates for Supervisors, and submitting proposals to the Board of Supervisors; supervising the process of election and appointment of the Directors; performing comprehensive evaluation of Directors, Supervisors and senior management and reporting the results of evaluation to the Board of Supervisors; and supervising the objectivity and reasonableness of the remuneration management systems and policies and remuneration plans for senior management.

The nomination committee held three meetings during the Reporting Period, at which the following resolutions were considered and approved: Adjustment of Some Supervisors; Election of New Session of Board of Supervisors; Election of the chairman of the Second Session of the Board of Supervisors; and Adjustment of the Committees under the Board of Supervisors.

Audit Committee

The audit committee consists of five Supervisors, being Mr. Dong Ying, Ms. Tang Lan, Mr. Liu Xiaoyu, Mr. Yang Zhenjun and Mr. Xu Yongfeng. Mr. Dong Ying is the chairman of the audit committee. The principal responsibilities of the audit committee include: supervising and inspecting the Bank's financial position; reviewing the Bank's annual, semi-annual and quarterly financial and operation reports; and analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

The audit committee held a total of two meetings during the Reporting Period, at which the following resolutions were considered and approved: Final Financial Report for 2017 and Annual Financial Budget for 2018; Profit Distribution Plan for 2017; Auditors' Reports for 2017; Annual Results Announcement for 2017; Interim Results Announcement for 2018; and Interim Report for 2018.

(9) Work performed by External Supervisors

The Chairmen of the supervisory committee, the nomination committee and the audit committee of the Board of Supervisors are served by external Supervisors, which strengthens the role of external Supervisors in performing assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the Bank's management quality and governance structure.

During the Reporting Period, external Supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of sustainable development of the Bank and protection of its Shareholders' interests, carefully provided their independent opinions, and fulfilled the responsibilities of external Supervisors in compliance with applicable laws and regulations.

(VI) Senior Management

Under the leadership of the Board of Directors, the president and other senior management of the Bank shall operate and manage the Bank in accordance with the relevant laws and regulations, the Articles of Association and the authorization of Board of Directors. In accordance with the Articles of Association, the president of the Bank shall be nominated, appointed or dismissed by the Board of Directors. Moreover, the Bank has one president and several vice presidents. The vice president and other senior management are nominated by the president, appointed or dismissed by the Board of Directors. The qualifications of the president and other senior management shall be reviewed and approved by the regulatory authority of banking in China.

As at the date of this annual report, the senior management of the Bank includes:

- Mr. Wang Wenyong (President)
- Mr. Qiu Jinhu (Vice President)
- Mr. Wang Chunyun (Senior Executive of Internal Control and Compliance)
- Mr. Wang Zhiyuan (Vice President, General Manager of the Human Resources Department, General Manager of the Strategy and Development Department (concurrent))
- Ms. Hao Jumei (Secretary to the Board)

The president of the Bank shall be responsible to the Board of Directors. The president shall operate and manage the Bank in accordance with the laws, regulations, the Articles of Association and the authorization of the Board of Directors. The vice president shall assist with the president and perform the responsibilities as per the relevant authorizations.

The president of the Bank has the following powers and duties:

(a) to manage the business operations of the Bank and report work to the Board;

(b) to implement resolutions of the Board;

(c) to prepare plans for the establishment of internal management structure of the Bank;

(d) to establish the basic management system of the Bank and to formulate the Bank's specific rules and regulations;

(e) to appoint or remove the head of the functional departments and the branches other than those required to be appointed or removed by the Board;

(f) to propose to the Board for the appointment or removal of the deputy president and other senior officers of the Bank;

(g) to authorize deputy president and other senior officers, the person in charge of the internal functional departments and branches to be engaged in business management activities;

(h) to submit to the Board the annual business plan and investment plan of the Bank, the annual financial budget, the final accounting plan and the profit distribution plan of the Bank on behalf of the senior management, and organize the implementation after approval;

(i) to determine the salary, welfare, reward, punishment and other incentive and restraint programs and implement them after the approval of the Board of Directors;

(j) to decide on the appointment and dismissal of employees of the Bank other than senior officers;

(k) to take urgent measures in the event of a major incident in the Bank and to report immediately to the Board of Directors, the Board of Supervisors and the banking regulatory authorities and the local branches of the PBOC;

(l) in exceptional circumstances, to propose an extraordinary meeting of the Board of Directors; and

(m) other powers which are to be exercised by the president in accordance with the laws, regulations and the provisions of the Articles of Association or the power to be exercised by the president as authorized by the Board.

The president and vice presidents who are not Directors shall have no voting rights at the meetings of the Board of Directors.

Remuneration paid to the senior management (excluding the members of senior management who concurrently served as Directors) for the year ended December 31, 2018 is set out as follows:

Remuneration bands	Number of Persons
Below RMB1.0 million	4
RMB1.0 million–RMB1.5 million	0

(VII) Chairman of the Board of Directors and the President

The roles and duties of the chairman of the Board of Directors and the president of the Bank are assumed by different persons, with their respective responsibilities clearly delineated and in compliance with the requirements under the Hong Kong Listing Rules.

Mr. Li Xin served as the chairman of the Board of Directors of the Bank from October 15, 2011 and December 3, 2018 and retired as an executive Director and the chairman of the Board of Directors of the Bank upon the establishment of the second session of the Board of Directors on December 3, 2018. On the same day, Mr. Liu Qing was appointed as an executive Director and the chairman of the Board of Directors of the Bank, responsible for the overall strategic planning and management of the Board of Directors to ensure the effective operation of the Board of Directors and that all Directors are aware of the current issues and that each issue could be discussed in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board of Directors works with the Bank's senior management to ensure that all Directors receive timely, appropriate, complete and reliable information for their consideration and review.

Mr. Wang Wenyong was appointed as an executive Director and the president of the Bank on December 3, 2018, responsible for the operation of business, the implementation of the strategies and business plans of the Bank. The president of the Bank, being nominated by the chairman of the Board of Directors and appointed by the Board of Directors, reports to the Board of Directors and performs his duties and responsibilities in accordance with the Articles of Association and within the authorization by the Board of Directors. Prior to the appointment of Mr. Wang Wenyong, Mr. Liu Qing, a former executive Director and the president of the Bank, resigned from his positions on November 9, 2017 due to job transfer. At a meeting of the Board of Directors held on November 9, 2017, the Board of Directors designated Mr. Lei Tie to assume the roles and responsibilities of the president of the Bank in the interim prior to the formal appointment of the new president of the Bank.

(VIII) Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and senior management members, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

Having made specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they complied with the Model Code for the period from the Listing Date (January 18, 2018) to December 31, 2018, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2018.

(IX) External Auditors and Remuneration of Auditors

The Group engaged Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as its domestic and international auditors for 2018, respectively. The fees as agreed to be paid by the Group for the audit of the financial statements for the year ended December 31, 2018 are RMB3.0 million.

The audit committee of the Board of Directors was of the view that Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited can complete various engagements of the Bank satisfactorily, stick to the principles of independence, objectiveness and impartiality and comply with the applicable accounting principles and ethical requirements for accountants, and are diligent and responsive when conducting auditing work. During the Reporting Period, there was no occasion where the Board of Directors did not agree with the opinions of the audit committee on the selection and appointment of external auditors.

(X) Company Secretary

Ms. Ng Wing Yan was appointed as the company secretary of the Bank on June 15, 2018. Ms. Ng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited). Ms. Ng obtained a bachelor of arts degree with honours from University of Portsmouth in the United Kingdom. Ms. Ng is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ng Wing Yan took part in relevant professional trainings for no less than 15 hours during the Reporting Period. The main contact person between Ms. Ng Wing Yan and the Bank is Ms. Hao Jumei, the secretary to the Board, Ms. Hao Jumei is also required to report significant events to the chairman of the Board.

Regarding the information about resignation of Ms. Hui Yin Shan, Ms. Ko Nga Kit and Mr. Xu Jianping, the former joint company secretaries of the Bank, please refer to "Report of the Board of Directors – 43. Company Secretaries" of this annual report.

(XI) Communication with Shareholders

The Bank places great importance on its Shareholders' opinions and suggestions and has enhanced understanding and interaction with the Shareholders through a wide range of channels such as the general meeting, reception for visitors, on-site visits and telephone consultations.

General enquiries

For enquiries made to the Board of Directors by the Shareholders and potential investors, please contact:

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu province, the PRC Office of the Board of Directors, Bank of Gansu Co., Ltd.
Telephone: +86 (931) 877 0491
Facsimile: +86 (931) 877 1877

Principal place of business in Hong Kong of the Bank: 40/F, Sunlight Tower, 248, Queen's Road East, Wanchai, Hong Kong

Investors may view this annual report on the website of the Bank (www.gsbankchina.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Enquiries on matters relating to the H Shares

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

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

Enquiries on matters relating to the Domestic Shares

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

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu Province, the PRC Office of the Board of Directors, Bank of Gansu Co., Ltd.
Telephone: +86 (931) 877 0491
Facsimile: +86 (931) 877 1877

(XII) 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 internal controls to provide timely, accurate and fair information for the investors. During the Reporting Period and up to the date of this annual report, no insider dealing was identified.

In accordance with the requirement of Measures for the Information Disclosure of Commercial Banks and Notice on the Normative Content of the Annual Report of the Joint-stock Commercial Banks, the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed.

The Bank has also formulated the Information Disclosure Regulations of Bank of Gansu Co., Ltd. ("Information Disclosure Regulations"), which provide for basic principles of information disclosure, including the disclosure principles in the Bank's prospectus, offering circulars, listing documents, periodic reports and interim reports. The Board of Directors is primarily responsible for the information disclosure of the Bank and the chairman of the Board of Directors is the primary person in charge of the information disclosure of the Bank.

(XIII) Procedures and Regulatory Measures related to Inside Information

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interest of investors by maintaining fairness with regard to information disclosure, the Bank has formulated the Information Disclosure Regulations pursuant to applicable laws, regulations, the Hong Kong Listing Rules and other regulatory requirements. The Information Disclosure Regulations provide for the scope of inside information and the definition of insiders possessing inside information, detailed requirements on management of insiders and inside information, confidentiality of such information and sanction measures for divulgence of inside information.

(XIV) Amendment to the Articles of Association during the Reporting Period

During the Reporting Period, the Bank amended certain articles of the Articles of Association to comply with the applicable laws, regulations, administrative measures and the Hong Kong Listing Rules with respect to the listing of its H Shares on the Hong Kong Stock Exchange. The amended Articles of Association became effective from the Listing Date. Investors may review the amended Articles of Association on the website of the Bank (www.gsbankchina.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(XV) Rights of Shareholders

(1) Convening of extraordinary general meeting at the request of Shareholders

The Shareholders (the "Proposal Shareholders") of the Bank who individually or jointly hold 10% or more (calculated based on the shareholding from the date when such written request is made by such Shareholders) of the total voting Shares of the Bank may request in writing to convene an extraordinary general meeting. The following procedures shall be followed if the Proposal Shareholders request an extraordinary general meeting or class meeting:

(i) Two or more Shareholders jointly holding the shares carrying more than 10% (inclusive) and the voting rights in the meeting to be held can execute one or several copies of written requirements in the same format for requiring the Board of Directors to convene the extraordinary general meeting or class meeting and clarify the meeting subject. The Board shall respond in writing to decide to convene such meeting or not within ten days upon receipt of such written proposal in accordance with the laws, rules and regulations and the Articles of Association. The number of shares aforesaid shall be calculated from the date when such written request is made by the Shareholders.

Where the Board agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days after the Board makes such resolution, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposals.

(ii) Where the Board does not agree to convene an extraordinary general meeting or does not respond within ten days upon receipt of the request, the Shareholders who individually or jointly hold more than 10% of the Shares of the Bank shall have the right to propose to the Board of Supervisors to convene an extraordinary general meeting and make such proposal in writing to the Board of Supervisors.

Where the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days upon receipt of such request, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposal.

Where the Board of Supervisors fails to give a notice of the general meeting in specified period, the Board of Supervisors shall be deemed not to agree to convene and preside over the general meeting. The Shareholders individually or jointly holding more than 10% of the Shares of the Bank for over 90 consecutive days (the "Convening Shareholder") may convene and preside over a general meeting.

Where the Board fails to respond to the request of the Shareholder to hold a general meeting, any reasonable expenses incurred by the Shareholder to convene and preside over such meeting shall be borne by the Bank and deducted from any sums owed by the Bank to the Directors who have defaulted on their duties.

If the Board of Supervisors or Shareholders decide to convene the general meeting, it shall notify the Board of Directors in writing, and report to and file with the banking regulatory authority of the place where the Bank is located. The content of the notice of convening the extraordinary general meeting shall comply with the following requirements:

(A) The proposal shall not be added with the new content; or otherwise the Proposal Shareholders shall make a new request to the Board of Directors to convene a general meeting in accordance with the aforesaid procedures;

(B) The meeting shall be held at the venue where the Bank is located.

For the general meeting convened and presided over by Shareholders on their own initiatives, the shareholding proportion of the Convening Shareholders before the announcement of the resolutions passed at the general meeting shall not be less than 10%. The Board of Supervisors or Convening Shareholders shall submit the relevant evidentiary materials to the local banking regulatory authorities in the jurisdiction in which the Bank is situated upon the issuance of the notice of a general meeting or the announcement of the resolution of a general meeting.

(2) Proposing resolutions at Shareholders' general meetings

Shareholders who individually or jointly hold more than 3% of the total voting Shares of the Bank may submit provisional proposals to the conveners in writing 10 days before the date of the general meeting. The conveners shall issue a supplemental notice of general meeting setting out the contents of the provisional proposals within two days upon receiving the proposals.

Shareholders who individually or jointly hold more than 3% of the total voting Shares of the Bank may nominate candidates for Directors and Supervisors to the Board of Directors and Board of Supervisors.

Shareholders who individually or jointly hold more than 1% of the total voting Shares of the Bank may nominate candidates for independent Directors. One Shareholder can only nominate one candidate for independent Director and a Shareholder who has nominated a candidate for Director shall not nominate any candidate for independent Director. The qualifications of the nominated candidates for independent Director shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, wherein the key points of review shall include the independence, expertise, experience, capabilities. The nominators for independent Director shall obtain the consent of the nominee before nomination and the nominating Shareholder shall be fully aware of the occupation, academic experiences, professional qualifications, detailed work experiences, all spare-time jobs and other information of the nominee and shall express opinions on the qualification and independence of the nominee as independent Director. In case the Board of Directors has the different views on the particulars of the nominee, written opinions of Board of Directors shall be issued.

(3) Making inquiries to the Board of Directors

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

(4) Inspection rights of the Shareholders

Shareholders are entitled to access the following information in accordance with the applicable laws, regulations, departmental rules, normative documents, regulations promulgated by the securities regulatory authorities of the place where the Bank's Shares are listed and the Articles of Association, including:

(i) to obtain a copy of the Articles of Association after its cost has been paid;

(ii) to have access to and copy the following documents after a reasonable fee has been paid:

(A) the Shareholder register;

(B) the personal information of Directors, Supervisors, president and other senior management of the Bank;

(C) status of the share capital of the Bank;

(D) reports on the aggregate par value, number of Shares, and highest and lowest prices of each class of Shares in relation to any repurchase by the Bank of its own Shares since the last accounting year, as well as all the expenses paid by the Bank in relation to such repurchases;

(E) minutes of the general meetings;

(F) special resolutions of the Bank;

(G) the latest audited financial statements and the Board reports, auditor's reports and the Board of Supervisors' Reports of the Bank;

(H) the copy of the latest annual return submitted to the State Administration for Market Regulation or other competent authorities for filing.

In accordance with the requirements of Hong Kong Listing Rules, the Bank shall make the documents above (save for item (B) above) available for free inspection by the public and Shareholders of H Shares at the address of the Bank in Hong Kong, of which the documents referred to in item (E) shall be available for inspection by Shareholders only.

If any Shareholder makes a request to obtain a copy of the relevant documents from the Bank, the Bank shall send a copy of the requested documents within seven days upon the receipt of a reasonable fee. The Bank may refuse to provide any documents if such documents or the copies thereof requested involve any business secrets and/or include sensitive information about share price of the Bank.

Risk Management, Internal Control and Internal Audit

I. OVERVIEW

The Bank emphasizes prudent business management and believes that effective risk management and internal control are critical to its sustainable business growth:

- The Bank has established a comprehensive risk management, internal control reporting, announcement and appraisal system. In particular, the Bank has set up a vertical risk management structure by establishing risk management departments and positions at its head office and at each branch and sub-branch.

- The Bank has developed different risk management strategies based on the nature and characteristics of major risk categories. It also provides regular risk management training to its employees by conducting bank-wide on-site training and inviting law firms and professional institutions to provide training.

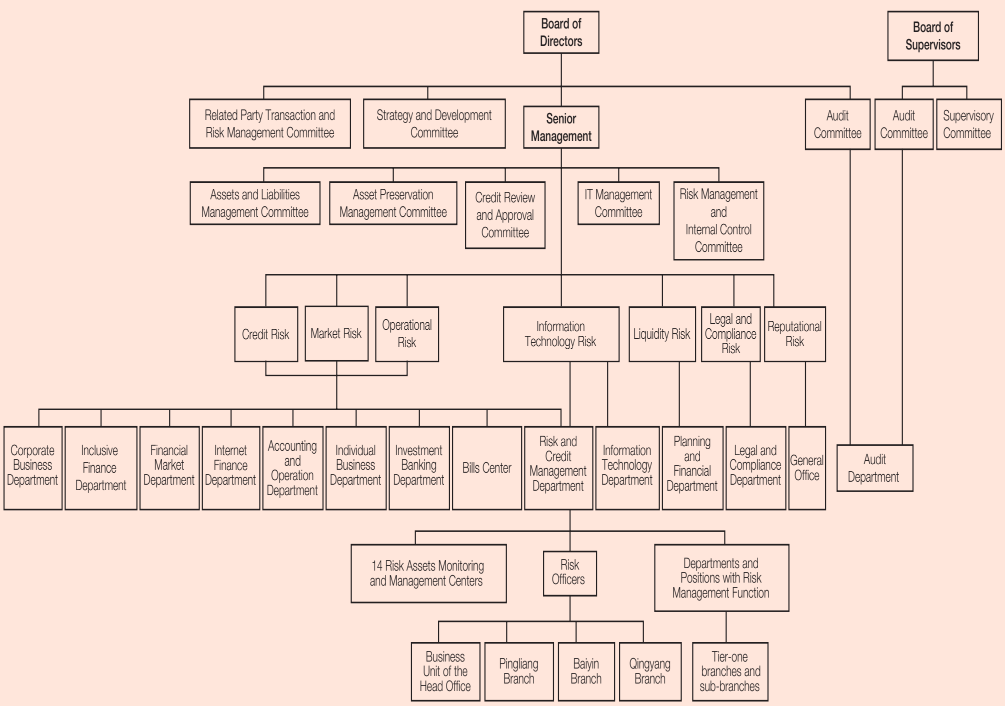
The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Bank has implemented prudent risk management and internal control to ensure good asset quality. As of December 31, 2016 and 2017 and 2018, the Bank's non-performing loan ratio was 1.81%, 1.74% and 2.29%, respectively; and the Bank's provision coverage ratio was 192.72%, 222.00% and 169.47%, respectively.

II. RISK MANAGEMENT AND INTERNAL CONTROL OF THE BANK

(I) Organizational System

As of the date of this annual report, the organizational structure of the Bank's risk management is as follows:



(1) Board of Directors and Special Committees of the Board of Directors

The Board of Directors is ultimately responsible for the Bank's risk management and internal control. The Board is primarily responsible for (i) cultivating the Bank's risk management culture, philosophy, values and code of conduct; (ii) formulating risk management strategies; (iii) determining the Bank's overall risk appetite and risk limits; (iv) reviewing and approving risk management policies and procedures; (v) supervising the performance of risk management responsibilities by the Bank's senior management; (vi) reviewing risk management reports; (vii) reviewing and approving disclosures regarding the Bank's exposure to major risks and overall risk exposure; and (viii) appointing the Bank's chief risk officer. The Bank has established a related party transactions and risk management committee, strategy and development committee and audit committee under its Board of Directors.

Related Party Transaction and Risk Management Committee

The Bank's related party transactions and risk management committee is primarily responsible for (i) supervising the control of risks by the Bank's senior management; (ii) evaluating the Bank's risk profile; (iii) making recommendations regarding the Bank's risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties of establishing effective systems; (iv) conducting research on key investigation results relating to risk management matters and management responses to investigation results; (v) reviewing and approving related party transaction filings within the committee's authorized scope as determined by the Board; and (vi) reviewing related party transactions and submitting transactions to the Board for approval.

Audit Committee

The Bank's audit committee is primarily responsible for: (i) reviewing the Bank's accounting policies, financial position, financial reports and risk and compliance conditions; (ii) proposing the engagement or replacement of external auditing firms; (iii) supervising the Bank's internal audit system and the implementation of this system; (iv) coordinating internal and external audits; and (v) ensuring the truthfulness, accuracy and completeness of the Bank's audited financial information.

According to the regulatory requirements, the Board of Directors conducts self-evaluation on the effectiveness of risk management and internal control on an annual basis. During the Reporting Period, the Bank maintained effective risk management and internal control in all material respects, and the Board of Directors was not aware of any significant or material defects in relation to the risk management and internal control. The Board of Directors has conducted a review of the effectiveness of the risk management and internal control systems of the Bank and its subsidiary and considered them effective and adequate.

(2) Board of Supervisors and its Special Committees

The Board of Supervisors shall be accountable to the Shareholders' general meeting, and supervises the Bank's financial position and the legality and compliance of the performance of Directors, presidents and other senior management members in accordance with the laws, regulations and responsibilities prescribed in the Articles of Association, in order to safeguard the legal rights of the Bank and its Shareholders.

There are the supervisory committee, nomination committee and audit committee under the Bank's Board of Supervisors, and the Board of Supervisors has established effective mechanisms for communication with such committees.

Supervisory Committee

The Bank has established a supervisory committee under the Board of Supervisors, which is primarily responsible for (i) supervising the Board of Directors in formulating prudent business philosophies and development strategies; (ii) formulating and coordinating the implementation of internal inspection and special audit plans with respect to the Bank's business decision making, financial activities, risk management and internal controls; (iii) formulating and coordinating plans for major emergencies and risk events based on the authorization by the Board of Supervisors; and (iv) communicating with external auditors regarding the preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

Nomination Committee

The Bank's nomination committee under the Board of Supervisors is primarily responsible for (1) preparing the selection procedures and criteria for Supervisors; making preliminary assessment on the service qualifications and conditions of the candidate for Supervisors, and making recommendations to the Board of Supervisors; (2) supervising the selection procedure of Directors; (3) conducting comprehensive assessment on the performance of Directors, supervisors and senior management and report to the Board of Supervisors; (4) supervising on whether the compensation system and policy of the Bank and the compensation plan of the senior management are scientific and reasonable; (5) other matters authorized by the Board of Supervisors.

Audit Committee

The Bank's audit committee under the Board of Supervisors is primarily responsible for (i) supervising and inspecting the Bank's financial position; (ii) reviewing the Bank's annual, semi-annual and quarterly financial and operating reports; and (iii) analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

(3) Senior Management and its Special Committees

The Bank's senior management implements the risk management policies, strategies and plans set by the Board of Directors. It is primarily responsible for (i) establishing a management structure based on comprehensive risk management strategies, delineating risk management responsibilities among various departments, and developing a coordinated checks-and-balances mechanism among departments; (ii) formulating clear execution and accountability systems for the effective communication and implementation of risk management strategies, preferences and limits; (iii) formulating and implementing overall risk limits based on the Bank's overall risk appetites determined by the Board, based on the relevant industry, region, customer and product; (iv) formulating and adjusting risk management policies and procedures and conducting periodic evaluations; (v) evaluating the Bank's overall risk profile and exposure to specific risks and reporting to the Board; (vi) establishing information management and data quality control systems; and (vii) monitoring breaches of risk appetite limits or violations of risk management policies and procedures, and taking corresponding measures based on the Board's authorization.

The Bank has established five special committees with risk management responsibilities under its senior management: the risk management and internal control committee, asset preservation and management committee, IT management committee, credit review and approval committee, and assets and liabilities management committee.

Risk Management and Internal Control Committee

The Bank's risk management and internal control committee is primarily responsible for (i) formulating risk management and internal control plans and policies as well as risk evaluations to ensure the effective operation of the Bank's risk management and internal control systems; (ii) formulating risk identification, quantification, assessment, monitoring, control and mitigation measures; (iii) formulating plans or proposals to evaluate the sufficiency, compliance and effectiveness of risk management and internal control systems; (iv) overseeing business departments in establishing, improving and implementing internal control systems; (v) conducting feasibility studies with respect to risks associated with the Bank's major business activities; (vi) handling material risk events; (vii) reviewing proposals regarding risk classifications and provisioning for impairments; (viii) reviewing accountability for incidents of employee non-compliance; (ix) submitting risk reports to the related party transactions and risk management committee; and (x) ensuring the implementation of risk management policies and resolutions of the related party transactions and risk management committee.

Asset Preservation and Management Committee

The Bank's asset preservation and management committee is primarily responsible for (i) reviewing asset preservation plans and strategies; (ii) reviewing and approving proposals relating to the collection and disposition of collateral; (iii) reviewing and approving dispositions of non-credit assets; (iv) reviewing and approving proposals for the restructuring of non-performing loans; (v) reviewing and approving proposals of branches and sub-branches for the write-offs of credit and bad debts; (vi) reviewing and approving proposals for asset restructurings, mergers and acquisitions and bankruptcies; and (vii) advising on the protection of creditors' rights and preservation of loan assets, and overseeing the implementation of such advice.

IT Management Committee

The Bank's IT management committee is primarily responsible for (i) formulating the Bank's IT strategic objectives and planning; (ii) supervising the Bank's IT-related work and regularly reporting IT strategic plans, IT budget and IT expenditures to the Board and senior management; (iii) reviewing the Bank's annual IT budget, adjusting IT project priorities and coordinating relevant resources; (iv) considering the Bank's IT policies, systems, standards and principles and urging relevant departments to establish an internal IT management system; (v) implementing the Bank's information safety management decisions and addressing significant information safety incidents; and (vi) supervising the implementation by IT departments of the IT budget and expenditures, IT strategies, standards and flows, IT internal controls, the operation, maintenance and upgrading of IT systems and infrastructure, information safety management, disaster recovery planning as well as IT outsourcing.

Credit Review and Approval Committee

The Bank's credit review and approval committee is primarily responsible for (i) independently performing review and approval duties on matters relating to the Bank's credit business on the basis of the reporting entity's due diligence report and credit business review analysis opinion; and (ii) assessing and reviewing the feasibilities and risks regarding the technology, market and finance relating to the Bank's credit business, paying attention to various factors that may affect credit safety, effectively identifying various risks, and generating review and approval opinions after a comprehensive appraisal of revenue and risks.

Assets and Liabilities Management Committee

The Bank's assets and liabilities management committee is primarily responsible for determining the Bank's asset and liability management policies, to ensure that the Bank maintains reasonable capital adequacy ratios and liquidity and realizes its desired operating results under the changing economic environment and financial markets.

(4) Risk Management Department

The Bank has established a centralized and vertical risk management structure. A number of the Bank's business departments at the head office, such as Risk and Credit Management Department, Corporate Banking Department, Financial Service Center of the Retail Banking Department and Personal Banking Department, are involved in the Bank's daily risk management. These departments are mainly responsible for (i) formulating the Bank's overall risk management policies, covering credit authorizations and policies, credit reviews and approvals, management of non-performing assets and review and approval of loan disbursements; (ii) reviewing and approving the credit business by branches and sub-branches; and (iii) guiding branches and sub-branches in formulating credit policies based on their scale of business, target customers and local economic conditions.

Each of the Bank's branches and sub-branches has established its own risk management department and positions. The Bank has also appointed risk officers for its larger branches, such as the business department of its head office, Pingliang branch, Baiyin branch and Qingyang branch. The risk management departments and positions at the Bank's branches and subbranches are mainly responsible for (i) implementing the risk management policies of the Bank's head office; (ii) monitoring and staying alert of and supervising the risks associated with the Bank's business activities; and (iii) reporting major risk events to the management of the branch or sub-branch and the risk management department of the Bank's head office.

(II) Management of Different Types of Risks

(1) Credit Risk Management

Overview

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. The Bank's credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

The Bank determines the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. The Bank also considers its asset and liability structure and trends in deposit and loan growth. The Bank formulates annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. The Bank also encourages the extension of credit to emerging sectors, such as modern services, new urbanization construction and internet commerce, in accordance with national policy directives. In addition, the Bank may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and its risk preferences.

The Bank categorizes the industries in which a loan applicant operates into different categories and adopts a different credit policy for each industry category. The Bank has also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. The Bank generally updates these policies on an annual basis.

Credit Risk Management of Corporate Loans

The Bank manages credit risks related to its corporate loans through five procedures, including pre-loan investigation, credit review and approval, loan disbursement management, post-disbursement management, and non-performing loan management.

Credit Risk Management for Retail Loans

The Bank's credit risk management procedures for retail loans include pre-loan investigation, credit review and approval, loan disbursement management and post-disbursement management.

Credit Risk Management for Financial Market Operations

The Bank's financial market operations include money market transactions, investment business and wealth management business. The Bank has established various mechanisms to manage credit risks arising from its financial market operations.

Credit Risk Management for Money Market Transactions

The risk and credit management department at the Bank's head office leads the review and approval of credit limits granted to inter-bank customers and adjusts credit limits based on a customer's operating conditions. To timely respond to risk event alerts, the Bank closely monitors changes in the operations of the actual bearers of credit risks and any external factors that could affect their ability to honor contractual obligations.

Credit Risk Management for Standard Investments and Non-Standard Credit Assets Investments

The Bank primarily invests in (i) standard investments such as debt securities issued by the PRC government, PRC policy banks, PRC commercial banks and other financial institutions and corporate issuers, and public funds managed by fund companies, and (ii) non-standard credit assets, such as trust plans, asset management plans, wealth management products.

In terms of debt securities investments, (i) the Bank has formulated strict counterparty selection criteria for its bond investments; and (ii) it only invests in standard debt financing instruments with corporate or facility credit ratings of AA or above, with a focus on bonds issued by state-owned or state-controlled enterprises. The Bank has also established similar risk management procedures for investment funds as those for loans.

The Bank manages credit risks related to its non-standard credit assets investments primarily through procedures including counterparty screening, due diligence, review and approval, classifications and record keeping. In particular, the Bank has established similar risk management procedures for asset management plans and trust plans as those for loans. The Bank also implements strict standards for investment in non-principal-protected wealth management products.

Credit Risk Management for the Wealth Management Business

The Bank manages risks associated with the issuance of wealth management products primarily through measures such as establishing a wealth management team under the investment banking department at the Bank's head office, conducting evaluations of counterparty's eligibility, pre-investment due diligence investigations, risk assessments and post-investment risk management for wealth management products, performing market forecasts and analyses to select appropriate investment targets for wealth management products, and timely disclosing the relevant information to investors, etc.

Credit Risk Management for the Bank's Bill Discounting Business

The Bank has published management measures and procedures for its bill discounting business. The Bank provides discounting of bank acceptance bills and commercial acceptance bills. It manages risks arising from the discounting of bank acceptance bills primarily by verifying the authenticity of the bills and the items recorded on the bills. The measures and procedures adopted by the Bank for commercial bill discounting mainly include approval by corporate credit approval authorizations, verification of the accuracy of the underlying transactions and risk classification by the risk and credit department based on repayment status.

Credit Risk Management for the Bank's Off-Balance-Sheet Business

The Bank strictly reviews the business backgrounds of off-balance-sheet transactions and verifies the authenticity of the related documentation. The Bank also requires strict compliance with its internal procedures to ensure that the deposit amounts, margin ratios and guarantee measures meet its requirements.

Credit Risk Management for Related Party Transactions

In order to control risks arising from related party transactions and ensure compliance with relevant laws and regulations, the Bank has specified in its Articles and internal policies the standards for identifying related parties, the review and approval procedures for related party transactions and the reporting and registration requirements for such transactions.

The Bank rigorously enforces these internal procedures throughout the Bank to identify business relationships between related parties and the Bank and maintain centralized monitoring and management of related party transactions.

Credit Risk Management IT System

The Bank seeks to improve its credit risk management with advanced IT systems. It has improved and upgraded the credit management system to analyze customer data. The system consists of a credit evaluation module, a risk management module, a post-disbursement management module, a credit reporting module and an asset preservation module in accordance with the Bank's internal policies related to the extension of credit and provision of loans.

The Bank's risk and credit management department collects and reports feedback from the Bank's credit business departments to the Bank's senior management and IT department. The Bank has set employee authorization limits to ensure data security and prevent employees from using system functions not related to their duties. Changes in authorization limits for employees at branches must be approved by authorized persons in the risk and credit management department at the relevant branch. Changes in authorization limits for head office employees must be approved by authorized persons in the risk and credit management department at the Bank's head office.

The Bank has also developed a credit risk big data alert system that measures credit risk by analyzing data of its credit businesses, data in the PBOC Credit Reference System and data from third party sources, such as the Internet and media.

(2) Liquidity Risk Management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting the Bank's liquidity include the term structure of its assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to the Bank's statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in its lending, trading and investment activities, as well as in the management of its cash flow positions.

The objective of the Bank's liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of the Bank's assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

The organizational framework of the Bank's liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. The Board of Directors is the ultimate decision-making institution for liquidity risk management and assumes ultimate responsibility for the Bank's liquidity risk management. Senior management is responsible for liquidity risk management, and the Bank's assets and liabilities management committee is responsible for implementing liquidity risk management policies and procedures. The Bank's supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for the Bank's daily liquidity risk management.

The Bank continually improves liquidity risk management, strictly implements regulatory rules, closely monitors liquidity indicators, enhances maturity management of its cash flows, formulates emergency plans and enhances liquidity risk management and stress tests. The Bank manages liquidity risks with instruments such as position provisioning and monitoring, cash flow analyses, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(3) Market Risk Management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. The Bank is exposed to market risks primarily through its banking book and trading book. The market risks associated with the banking book include interest rate risk and exchange rate risk. The primary market risks in the Bank's trading book arise from fluctuations in the value of financial instruments due to changes in interest and exchange rates.

The Bank formulates and adjusts interest rates based on studies and forecasts of interest rate trends in financial markets. It manages the interest rate risk exposure of its RMB-denominated assets and liabilities on its balance sheet primarily by adjusting interest rates and optimizing the maturity profile of its assets and liabilities. The Bank seeks to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits. The Bank uses various measures to evaluate interest rate risks arising from its banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests.

The Bank also seeks to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of its assets and liabilities. In addition, the Bank endeavors to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

The Bank employs a number of risk management techniques to monitor and control market risks in its financial market operations, including monitoring open positions, stop-loss limits and value-at-risk of the Bank's trading book on a daily basis. The Bank analyzes its potential market risks through various methods, including duration analysis, sensibility analysis, scenario analysis and value-at-risk analysis.

(4) Operational Risk Management

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

The Bank's Board of Directors is ultimately responsible for ensuring the effectiveness of the Bank's operational risk management. The Bank's senior management is responsible for coordinating operational risk management through its risk management and internal control committee. The Bank's risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of the Board and senior management. The Bank's audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures. The Bank has also established a GRC system for managing internal control and operational risks.

The Bank manages operation risk primarily through measures including: (i) collecting and analyzing data on operational risk related loss to identify operational risks; (ii) re-assessing risk points for products and businesses which involve frequent occurrences of operational risk events or may incur significant losses from potential operational risk events; (iii) monitoring operational risks, and establishing an alert system to control the frequency of risk events that are likely to result in uncontrollable losses as well as reduce the potential losses from these events; (iv) establishing a comprehensive operational risk reporting system to analyze and report operational risks in a timely manner; and (v) enhancing internal training on operational risk management.

(5) Reputational Risk Management

Reputational risk represents the risk of negative publicity caused by the Bank's operations, management or other activities or external events. The general office of the Bank's head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management. The Bank's reputational risk management measures primarily include (i) formulating detailed reputational risk management policies and guidelines for identifying, reporting and managing significant reputational incidents; (ii) supervising employees' performance of duties in minimizing negative risk events; (iii) analyzing public opinion, investigating reputational risks and analyzing the dissemination channels of reputational risks and related incidents; and (iv) enhancing internal training on reputational risk management.

(6) IT Risk Management

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. The Bank's IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

The Bank's IT management committee supervises and guides the Bank's IT activities. Its risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Its audit department audits IT risks. Its IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

The Bank has adopted a variety of measures to manage IT risk, including (i) establishing systems, procedures and implementation rules for managing IT risks in accordance with relevant regulatory requirements; (ii) setting up an IT outsourcing risk management system with defined outsourcing management principles and strategies to eliminate outsourcing risks; and (iii) enhancing internal training on IT risks.

(7) Legal and Compliance Risk Management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. The Bank has a three-tier legal and compliance risk management structure at its head office, branches and sub-branches.

The legal and compliance department at the Bank's head office is in charge of managing the Bank's overall legal and compliance risks. In addition, the Bank has established discipline inspection, legal and compliance departments at the tier-one branches and sub-branches in charge of the matters in respect of legal compliance and risk management.

The Bank's risk and internal control management committee supervises and leads its legal and compliance work. The Bank systematically manages its internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. The Bank manages legal and compliance risks primarily through measures including (i) formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof; (ii) enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities; (iii) uniformly managing standard contracts and other legal documents; (iv) managing and tracking our legal proceedings; (v) formulating an annual compliance management plan, stipulating the focus and plans for annual compliance work; (vi) managing related parties and related party transactions to control related party transactions in advance; (vii) optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection; (viii) closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and (ix) enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

(8) Anti-money Laundering Management

The Bank has formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and other applicable regulations of the PBOC.

The Board of Directors oversees the Bank's bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of antimony laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and the Bank's overall money-laundering risk profile, and adjusts the Bank's anti-money laundering policies on a timely basis.

The Bank has established anti-money laundering steering groups at its head office, branches and sub-branches. The group is led by the chairman of the Board with the presidents of branches and sub-branches as deputy directors. The group consists of responsible persons from different departments of the Bank including accounting operation department, financial planning department, risk and credit management department, etc.

The Bank conducts due diligence on its customers in accordance with anti-money laundering laws and regulations. The Bank reports large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center through its anti-money laundering information monitoring and reporting management system. The Bank also reports major reasonably suspected money laundering activities and material money laundering cases on the basis of "reasonable suspicion" to the local branch of the PBOC and cooperates with their investigations, and reports to local public security units when necessary.

The Bank provides bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. It also requires all new employees to participate in mandatory anti-money laundering training before commencing employment.

(III) Internal Audits

The Bank believes internal audits are essential to its stable operations and achievement of business objectives. The Bank conducts internal audits to monitor the compliance with laws and regulations and the implementation of its internal policies and procedures, with the objective of controlling risks at an acceptable level.

The Bank also aims to conduct effective risk management as well as optimize internal control compliance and its corporate governance structure, in an effort to improve its operations. The Bank adheres to the principles of independence, importance, prudence, objectiveness and relevance.

The Bank has adopted an independent and vertical internal audit management system, consisting of the audit committee of the Board of Directors, the audit committee of the Board of Supervisors and the audit department of its head office.

The Bank has formulated internal audit rules and systems that contain articles of association and criteria for internal audit. The audit department of its head office formulates annual internal audit plans based on regulatory requirements as well as its operation, management and business profile. The plans may be implemented after being approved by the audit committee of the Board of Directors.

The Bank has also established an audit management system, which may, through standard internal audit methods and procedures, audit its operation and management, information systems, risk profile and performance of employees of key positions, evaluate the effectiveness of its internal controls and corporate governance, and conduct follow-up audits on a timely basis.

III. REGULATION OF THE BANK'S INSIDE INFORMATION

The Bank attaches great importance to information disclosure and insider information management. In order to strengthen the insider information and confidentiality work, safeguard the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated Measures for Information Disclosure of Bank of Gansu Co., Ltd. (《甘肅銀行股份有限公司信息披露辦法》) in accordance with PRC Company Law, PRC Securities Laws, the Hong Kong Listing Rules, and other applicable laws, regulations and normative documents.

The Bank has also formulated the Rules of Registration of Insiders and Confidentiality (《內幕信息知情人登記管理及保密制度》) which provide clear regulations for various aspects, including the coverage of the information that involves the Bank's operation and finance, or that may have significant impact on the market prices of the Bank's Shares and that has not been publicly disclosed on the information disclosure media designated by securities regulatory authorities, and the scope of insiders. In addition, the Bank has specified in detail management of insiders and confidentiality and the penalties for violating the internal measures governing insiders and inside information.

Independent Auditor's Report

信永中和 ShineWing

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To the Shareholders of Bank of Gansu Co., Ltd.
甘肅銀行股份有限公司
(A joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Bank of Gansu Co., Ltd (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 175 to 328, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 December 31, 2018, and of the 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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, we do not provide a separate opinion on these matters.

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

- Expected credit losses of loans and advances to customers
- Consolidation of structured entities
- Valuation of financial instruments

Expected credit losses of loans and advances to customers

Refer to note 22 in the consolidated financial statements and the accounting policies on pages 201 to page 205.

The key audit matter	How the matter was addressed in our audit
Impairment allowances represent management's best estimate of the expected credit losses ("ECL") within the loan portfolios at the balance sheet date. They are assessed based on whether the credit risk has increased significantly since initial recognition and the Group's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Management estimations and judgements are required to determine the whether there are significant increase in credit risk, the probability of default, loss given default and the expected future cash flows related to each loan within the loan portfolios. The audit was focused on impairment due to the materiality of the balances amounted to approximately RMB154,633,858,000 and the subjective nature of the judgement, estimation and calculation involved in the determination of the expected credit losses.	Our procedures were designed to review the management assessment on the expected credit losses model and challenge the reasonableness of the methods and assumptions used to estimate the expected credit losses of loans and advances to customers. We have discussed the judgement in relation to the recognition of 12 months and life time expected credit losses of loan and advance under the 3 different stages and assessed the appropriateness of the modelling policy, assumptions and methodology used for material portfolios independently by reference to the accounting standards and market practices, and model calculations were tested through re-performance. We have challenged the assumptions, critical judgement and statistical models used by the management by assessing the reliability of the management's past estimates and future forecast, and taking into account the ageing at year end and whether any significant increase in credit risk of borrowers. For the collectively assessed ECL, we assessed the reasonableness of the Group's ECL models, including the model input, model design, model performance for significant portfolios. We assessed the reasonableness of the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment. We challenged whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward-looking adjustments, including the economic variables and assumptions used in each of the economic scenarios and their probability weightings. Where changes had been made in model parameters and assumptions, we evaluated the appropriateness of such changes. We also assessed and tested the sensitivity of the credit loss provisions to changes in modelling assumptions. For a sample of exposures that was subject to an individual impairment assessment, we specifically reviewed the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on available market information. We also assessed the financial statement disclosures relating to the Group's exposure to credit risk.

Consolidation of structured entities

Refer to note 43 to the consolidated financial statements and the significant accounting policies on page 194.

The key audit matter	How the matter was addressed in our audit
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 trust plans, asset management plans, wealth management products and investment funds. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgment and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. We identified determination of consolidation scope as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controlled the structured entities.	We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. Furthermore, we tested the design and operating effectiveness of the Group's controls over its structured entities, and assessed the adequacy of disclosures being made in the consolidated financial statements required under applicable accounting standards for these consolidated or unconsolidated structured entities.

Valuation of financial instruments

Refer to note 49 to the consolidated financial statements and the accounting policies on page 197 to page 217.

The key audit matter	How the matter was addressed in our audit
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particularly those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at December 31, 2018, financial assets measured at fair value amounted to approximately RMB57,810,070,000 representing 18% of total assets. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs were categorised within level 2 of the fair value hierarchy. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.	We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant disclosures in the consolidated financial statements adequately presented the risk of the Group.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE BANK AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 of the Bank.

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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 Wong Chuen Fai.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
March 27, 2019

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Interest income		15,327,061	14,045,768
Interest expenses		(8,199,277)	(6,560,779)
Net interest income	6	7,127,784	7,484,989
Fee and commission income		362,673	462,750
Fee and commission expenses		(196,618)	(86,079)
Net fee and commission income	7	166,055	376,671
Net trading gains/(losses)	8	1,089,241	(21,937)
Net gains arising from investment securities	9	42,689	116,992
Net exchange gains/(losses)		388,230	(13,203)
Other operating income, net	10	58,240	109,033
Operating income		8,872,239	8,052,545
Operating expenses	11	(2,271,097)	(2,052,230)
Impairment losses on assets, net of reversals	14	(1,962,374)	(1,523,033)
Operating profit		4,638,768	4,477,282
Share of result of an associate		(960)	1,798
Profit before tax		4,637,808	4,479,080
Income tax expense	15	(1,198,164)	(1,115,351)
Profit for the year		3,439,644	3,363,729
Earnings per share			
— Basic and diluted (RMB cents)	16	34.52	44.62

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit for the year		3,439,644	3,363,729
Other comprehensive income/(expenses) for the year:			
Items that will not be reclassified subsequently to profit or loss:			
— Remeasurement of defined benefit obligations		(4,550)	4,430
— Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently		1,138	(1,108)
		(3,412)	3,322
Items that may be reclassified subsequently to profit or loss:			
Debt instrument at fair value through other comprehensive income			
— Amounts reclassified to profit or loss in respect of impairment losses		(45,198)	-
— Change in fair value recognised in investment revaluation reserve		391,898	-
— Income tax relating to item that may be reclassified subsequently		(97,975)	-
Available-for-sale financial assets			
— Change in fair value recognised in investment revaluation reserve		–	(130,909)
— Income tax relating to item that may be reclassified subsequently		–	32,727
		248,725	(98,182)
Other comprehensive income (expenses) for the year, net of income tax		245,313	(94,860)
Total comprehensive income for the year		3,684,957	3,268,869
Profit for the year attributable to:			
— Owners of the Bank		3,435,278	3,358,464
— Non-controlling interests		4,366	5,265
		3,439,644	3,363,729
Total comprehensive income for the year attributable to:			
— Owners of the Bank		3,680,591	3,263,604
— Non-controlling interests		4,366	5,265
		3,684,957	3,268,869

Consolidated Statement of Financial Position

At December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Assets			
Cash and deposits with the central bank	17	31,536,912	29,084,415
Deposits with banks	18	12,927,702	30,811,728
Financial assets held under resale agreements	19	19,523,812	9,819,920
Financial assets at amortised cost	20	45,066,288	–
Interests receivables	21	1,891,235	1,268,593
Loans and advances to customers	22	154,633,858	125,254,681
Financial assets at fair value through profit or loss	23	42,560,973	249,636
Debt instruments at fair value through other comprehensive income	24	15,249,097	–
Available-for-sale financial assets	24	–	13,057,235
Held-to-maturity investments	20	–	8,615,964
Debt securities classified as receivables	20	–	48,182,626
Interest in an associate	25	8,970	9,930
Property and equipment	27	3,006,860	1,752,840
Deferred tax assets	28	1,719,546	1,465,662
Other assets	29	497,118	1,574,387
Total assets		328,622,371	271,147,617
Liabilities and equity			
Liabilities			
Borrowings from the central bank	31	11,650,851	5,290,410
Deposits from banks and other financial institutions	32	15,513,772	20,178,373
Placements from banks and other financial institutions	33	3,300,000	1,050,000
Financial assets sold under repurchase agreements	34	11,716,985	5,817,526
Deposits from customers	35	210,723,317	192,230,603
Accrued staff costs	36	478,344	398,478
Taxes payable		491,170	572,856
Interests payable	37	6,418,933	4,305,460
Debts securities issued	38	41,576,773	23,960,759
Deferred tax liabilities	28	135,263	–
Other liabilities	39	1,369,372	730,113
Total liabilities		303,374,780	254,534,578

Consolidated Statement of Financial Position

At December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Equity			
Share capital	40	10,069,791	7,525,991
Capital reserve	41	4,658,314	1,767,659
Defined benefit plan reserve		(4,156)	(744)
Investment revaluation reserve		261,427	(125,323)
Surplus reserve	41	1,510,052	892,953
General reserve	41	4,423,117	3,631,670
Retained earnings		4,297,780	2,889,067
Total equity attributable to owners of the Bank		25,216,325	16,581,273
Non-controlling interests		31,266	31,766
Total equity		25,247,591	16,613,039
Total liabilities and equity		328,622,371	271,147,617

The consolidated financial statements on pages 175 to 328 were approved and authorised for issue by the board of directors of the Bank on March 27, 2019 and are signed on its behalf by:

Mr. Liu Qing
Director

Mr. Wang Wen Yong
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Bank									
	Share Capital RMB'000	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2018 (Audited)	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039
Change in accounting policy (Note 2)	–	–	–	138,025	(61,310)	–	(556,709)	(479,994)	(2,916)	(482,910)
At January 1, 2018	7,525,991	1,767,659	(744)	12,702	831,643	3,631,670	2,332,358	16,101,279	28,850	16,130,129
Profit for the year	–	–	–	–	–	–	3,435,278	3,435,278	4,366	3,439,644
Other comprehensive (expenses)/ income for the year	–	–	(3,412)	248,725	–	–	–	245,313	–	245,313
Total comprehensive (expenses)/income for the year	–	–	(3,412)	248,725	–	–	3,435,278	3,680,591	4,366	3,684,957
Shareholders' injection (Note 41)	–	500	–	–	–	–	–	500	–	500
Change in share capital										
– Capital contributed by equity shareholders	2,543,800	3,058,642	–	–	–	–	–	5,602,442	–	5,602,442
– Share issue expenses	–	(168,487)	–	–	–	–	–	(168,487)	–	(168,487)
Appropriation of profits										
– Appropriation to surplus reserve	–	–	–	–	678,409	–	(678,409)	–	–	–
– Appropriation to general reserve	–	–	–	–	–	791,447	(791,447)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(1,950)	(1,950)
At December 31, 2018	10,069,791	4,658,314	(4,156)	261,427	1,510,052	4,423,117	4,297,780	25,216,325	31,266	25,247,591

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Bank									
	Share Capital RMB'000	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2017	7,525,991	1,765,183	(4,066)	(27,141)	557,666	3,226,100	271,460	13,315,193	28,451	13,343,644
Profit for the year	–	–	–	–	–	–	3,358,464	3,358,464	5,265	3,363,729
Other comprehensive income/ (expenses) for the year	–	–	3,322	(98,182)	–	–	–	(94,860)	–	(94,860)
Total comprehensive income/(expenses) for the year	–	–	3,322	(98,182)	–	–	3,358,464	3,263,604	5,265	3,268,869
Shareholders' injection (Note 41)	–	2,476	–	–	–	–	–	2,476	–	2,476
Appropriation of profits										
– Appropriation to surplus reserve	–	–	–	–	335,287	–	(335,287)	–	–	–
– Appropriation to general reserve	–	–	–	–	–	405,570	(405,570)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(1,950)	(1,950)
At December 31, 2017	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	4,637,808	4,479,080
Adjustments for:		
Depreciation of property and equipment	329,589	213,619
Amortisation of long term deferred expenses, land use rights and intangible assets	13,611	17,415
Impairment losses on assets	1,962,374	1,523,033
Interest expense on debts securities issued	1,566,339	945,992
Loss/(gain) on disposal of property and equipment	159	(4)
Gain on disposal of repossessed assets	–	(32,319)
Net unrealised trading gains	(262,821)	(3,213)
Net gains arising from investment securities	(42,689)	(116,992)
Government grants	(23,775)	(75,520)
Interest income on investments	(3,812,326)	(4,608,705)
Share of result of an associate	960	(1,798)
	4,369,229	2,340,588
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank	353,157	(3,567,941)
Net decrease/(increase) in deposits with the banks	23,296,018	(24,330,181)
Net (increase)/decrease in financial assets at fair value through profit or loss	(32,268,292)	289,967
Net increase in loans and advances to customers	(31,425,805)	(22,418,062)
Net increase in other operating assets	(2,595,100)	(1,519,680)
	(42,640,022)	(51,545,897)
Changes in operating liabilities		
Net increase/(decrease) in borrowing from central bank	6,360,441	(402,514)
Net decrease in deposits and placements from banks and other financial institutions	(2,414,601)	(14,549,027)
Net increase in financial assets sold under repurchase agreements	5,899,459	1,237,045
Net increase in deposits from customers	18,492,714	21,065,282
Net increase in other operating liabilities	2,720,516	2,037,369
	31,058,529	9,388,155
Cash generated used in operations	(7,212,264)	(39,817,154)
Income tax paid	(1,323,896)	(1,855,279)
NET CASH USED IN OPERATING ACTIVITIES	(8,536,160)	(41,672,433)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Proceeds from disposal and redemption of investments	135,094,122	161,260,436
Interest income received from financial investments	3,538,423	4,334,545
Proceeds from disposal of property and equipment and other assets	3,756	42,787
Payments on acquisition of investments	(132,123,913)	(144,797,792)
Payments on acquisition of property and equipment and intangible assets	(1,401,927)	(586,009)
Deposit paid for acquisition of premises	(200,087)	–
NET CASH GENERATED FROM INVESTING ACTIVITIES	4,910,374	20,253,967
FINANCING ACTIVITIES		
Shareholders' injection	500	2,476
Government grants received	23,775	75,520
Proceeds from capital contribution by equity shareholder	5,602,442	–
Shares issue expense	(168,487)	–
Net proceeds from issue of new debt securities	45,922,603	48,602,356
Repayment of debt securities issued	(28,740,000)	(35,420,000)
Interest paid on debts securities issued	(1,086,709)	(170,775)
Dividends paid	(141)	(296)
Dividends paid to non-controlling interests	(1,950)	(1,950)
NET CASH FROM FINANCING ACTIVITIES	21,552,033	13,087,331
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17,926,247	(8,331,135)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	17,220,882	25,552,017
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 45)	35,147,129	17,220,882
Interest received	14,692,994	7,471,034
Interest paid (excluding interest expense on debts securities issued)	(7,024,642)	(1,149,929)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

1. GENERAL

The Bank was established in Lanzhou, Gansu Province, the People's Republic of China (the "PRC") on September 27, 2011 with the approval of China Banking Regulatory Commission (the "CBRC"). Prior to its establishment, the banking business was carried out by two city commercial banks (the "Predecessor Entities"), each being located in Gansu Province.

Pursuant to reorganisation initiated by the People's Government of Gansu Province, the Bank was established through the merger and reorganisation of the Predecessor Entities.

The Bank obtained its finance permit No. B1228H262010001 from the CBRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Liu Qing and the address of the registered office is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at December 31, 2018, the Bank has a head office, 12 branches, 189 sub-branches, 5 micro-to-small enterprise sub-branches, 2 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in Mainland China.

On January 18, 2018, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 2139).

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Bank and its subsidiary.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for its first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB").

Application of new and amendments to IFRSs

IFRS 9 (2014)	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction
Amendments to IFRS 4	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014 – 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 3 below.

2.1.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial instruments

The directors of the Bank reviewed and assessed the Group's financial assets and financial liabilities as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of IFRS 9 had impact on the Group's financial assets and financial liabilities as regards their classification and measurement thereof are detailed in Note 2.1.2.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including financial assets held under resale agreements, debt instruments at fair value through other comprehensive income, financial assets at amortised cost, interest receivables and loan and advance to customers). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognise an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of financial assets held under resale agreements, interest receivables and loan and advance to customers where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

As at January 1, 2018, the directors of the Bank reviewed and assessed the Group's existing financial assets, financial assets held under resale agreements, debt instruments at fair value through other comprehensive income, financial assets at amortised cost, interest receivables and loan and advance to customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

2.1.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application.

		Reclassification				Remeasurement			
	Closing balance at December 31, 2017 – IAS 39	From Available-for-sale equity investment (a)(i)	From Available-for-sale debt investment (a)(ii)	From Held to maturity investments (b)	From Debt securities classified as receivables (b)	Impairment under ECL model (c)	From amortised cost to fair value (b)	Release of surplus reserve (Note)	Opening balance at January 1, 2018 – IFRS 9 (Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets									
Deposits with banks	30,811,728	–	–	–	–	(4,455)	–	–	30,807,273
Financial assets held under resale agreements	9,819,920	–	–	–	–	(62)	–	–	9,819,858
Financial assets at FVTPL	249,636	10,000	2,754,231	–	7,113,600	–	(97,607)	–	10,029,860
Interest receivable	1,268,593	–	(11,425)	–	–	–	–	–	1,257,168
Loans and advances to customers	125,254,681	–	–	–	–	(52,196)	–	–	125,202,485
Available-for-sale financial assets	13,057,235	(10,000)	(13,047,235)	–	–	–	–	–	–
Held to maturity investments	8,615,964	–	–	(8,615,964)	–	–	–	–	–
Debt securities classified as receivables	48,182,626	–	–	–	(48,182,626)	–	–	–	–
Debt instruments at FVTOCI	–	–	4,425,024	150,000	–	–	(2,385)	–	4,572,639
Financial assets at amortised cost	–	–	6,021,026	8,465,964	41,158,930	(685,091)	–	–	54,960,829
Deferred tax assets	1,465,662	–	(38,262)	–	(22,476)	207,247	24,903	–	1,637,074
Liabilities									
Other liabilities	730,113	–	–	–	–	44,051	–	–	774,164
Equity									
Surplus reserve	892,953	–	–	–	–	–	–	(61,310)	831,643
Non controlling interest	31,766	–	–	–	–	(2,916)	–	–	28,850
Retained earnings	2,889,067	–	10,355	–	67,428	(622,502)	(73,300)	61,310	2,332,358
Investment revaluation reserve	(125,323)	–	93,004	–	–	46,810	(1,789)	–	12,702

Note: As a result of remeasurement of financial assets under IFRS 9, surplus reserve amounted approximately RMB61,310,000 was released to retained earnings.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

2.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) Available-for-sale investments

(i) Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:

For the available-for-sale unlisted equity investments carried at cost less impairment amounting to RMB10,000,000, the Group has not elected the option for designation at FVTOCI and reclassified them to financial assets at FVTPL. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. Due to no significant difference in its fair value and carrying amount as at January 1, 2018, no fair value gain or loss was adjusted to retained earnings as at January 1, 2018.

(ii) Debt investments previously classified as available-for-sale financial assets carried at fair value:

Some of these debt investments amounting to approximately RMB4,425,024,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt investments. Accordingly, these financial assets continue to be subsequently measured at FVTOCI and were reclassified to financial assets at FVTOCI under IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve continue to be subsequently reclassified to profit or loss when the debt investments are derecognised.

Some of these debt investments amounting to approximately RMB6,021,026,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by collecting contractual cash flows. Accordingly, these financial assets were classified to financial assets at amortised cost under IFRS 9, with corresponding reversal of fair value losses of approximately RMB114,784,000 after deducting the effect of deferred tax of approximately RMB38,262,000 accumulated in the investment revaluation reserve.

The remaining debt investments amounting to approximately RMB2,754,231,000 fail the contractual cash flow characteristics test, were reclassified to financial assets at fair value through profit or loss with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under IFRS 9. Related fair value gain of approximately RMB21,780,000 was adjusted from investment revaluation reserve to retained earnings at January 1, 2018. Interest receivables related to these financial assets amounted approximately RMB11,425,000 was adjusted to retained earnings at January 1, 2018.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

2.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(b) Debt investments previously classified as held-to-maturity investments and debt securities classified as receivables previously classified as loan and receivables carried at amortised cost

Some of these held to maturity investments and debt securities classified as receivables amounting to approximately RMB8,465,964,000 and RMB41,158,930,000 respectively are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these investments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon adoption of IFRS 9.

Some of these held to maturity investments amounting to approximately RMB150,000,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt investments. Accordingly, these financial assets were reclassified to financial assets at FVTOCI under IFRS 9, with the fair value gains or losses to be recognised in investment revaluation reserve. On initial application of IFRS 9, fair value loss relating to these investments amounting to approximately RMB1,789,000, after deducting the effect of deferred tax credit of approximately RMB596,000, was adjusted to investment revaluation reserve at January 1, 2018.

The remaining debt securities classified as receivables amounting to RMB7,113,600,000 which fail the contractual cash flow characteristics test or are held within a business model whose objective is neither to collect the contractual cash flows nor to both collect contractual cash flows and sell these financial assets, were reclassified to financial assets at FVTPL under IFRS 9, with the fair value gains or losses to be recognised in profit or loss. On initial application of IFRS 9, amount of approximately RMB67,428,000 reversal of provision of impairment loss after deducting the effect of deferred tax charge of approximately RMB22,476,000 was adjusted to retained earnings at January 1, 2018. Related fair value loss relating to these investments amounting to approximately RMB73,300,000, after deducting the effect of deferred tax credit of approximately RMB24,307,000, was adjusted to retained earnings at January 1, 2018.

All other financial assets and financial liabilities continue to be measured on the same bases as are previously measured under IAS 39.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

2.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(c) Impairment under ECL model

Certain debt instruments at FVTOCI of the Group are listed bonds that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at January 1, 2018, the additional credit loss allowance of approximately RMB578,608,000, after deducting the effect of deferred tax charge amounted approximately RMB207,247,000, has been recognised against retained profit. The additional loss allowance is charged against the respective asset. An impairment loss recognised in financial assets at FVTOCI amounted RMB46,810,000 was reclassified from investment revaluation reserve to retained earnings. An amount of approximately RMB2,916,000 resulted from this remeasurement was debited from retained earnings to non-controlling interest.

All loss allowances for financial assets including loan and advance to customers, deposits with banks, financial asset held under resale agreement, financial asset at amortised cost and bank acceptances and letters of guarantees as at December 31, 2017 reconcile to the opening loss allowance as at January 1, 2018 is as follows:

	Loan and advance to customer RMB'000	Deposits with banks RMB'000	Financial asset held under resale agreement RMB'000	Financial asset at amortised cost RMB'000	Bank acceptances and letters of guarantees RMB'000	Total RMB'000
At December 31, 2017	5,028,961	–	–	2,146,175	–	7,175,136
Reclassification	–	–	–	(89,904)	–	(89,904)
Amounts remeasured through opening retained earnings	52,196	4,455	62	685,091	44,051	785,855
At January 1, 2018	5,081,157	4,455	62	2,741,362	44,051	7,871,087

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below.

In current year, the Group's revenue mainly includes interest income, fee and commission income, among which fee and commission income will be within the scope of IFRS 15, while interest income is within the scope of IFRS 9 for the annual periods beginning on or after January 1, 2018. The directors of the Bank consider that the adoption of IFRS 15 as of January 1, 2018 does not have any material impact on the financial position and the financial result of the Group.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations

As a result of the changes in accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	December 31, 2017 RMB'000	IFRS 9 RMB'000	January 1, 2018 RMB'000
Assets			
Cash and deposits with the central bank	29,084,415	–	29,084,415
Deposits with banks	30,811,728	(4,455)	30,807,273
Financial assets held under resale agreements	9,819,920	(62)	9,819,858
Financial assets at amortised cost	–	54,960,829	54,960,829
Interests receivables	1,268,593	(11,425)	1,257,168
Loans and advances to customers	125,254,681	(52,196)	125,202,485
Financial assets at fair value through profit or loss	249,636	9,780,224	10,029,860
Debt instruments at fair value through other comprehensive income	–	4,572,639	4,572,639
Available-for-sale financial assets	13,057,235	(13,057,235)	–
Held-to-maturity investments	8,615,964	(8,615,964)	–
Debt securities classified as receivables	48,182,626	(48,182,626)	–
Interest in an associate	9,930	–	9,930
Property and equipment	1,752,840	–	1,752,840
Deferred tax assets	1,465,662	171,412	1,637,074
Other assets	1,574,387	–	1,574,387
Total assets	271,147,617	(438,859)	270,708,758

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations (Continued)

	December 31, 2017 RMB'000	IFRS 9 RMB'000	January 1, 2018 RMB'000
Liabilities			
Borrowings from the central bank	5,290,410	–	5,290,410
Deposits from banks and other financial institutions	20,178,373	–	20,178,373
Placements from banks and other financial institutions	1,050,000	–	1,050,000
Financial assets sold under repurchase agreements	5,817,526	–	5,817,526
Deposits from customers	192,230,603	–	192,230,603
Accrued staff costs	398,478	–	398,478
Taxes payable	572,856	–	572,856
Interests payable	4,305,460	–	4,305,460
Debts securities issued	23,960,759	–	23,960,759
Deferred tax liabilities	–	–	–
Other liabilities	730,113	44,051	774,164
Total liabilities	254,534,578	44,051	254,578,629
Equity			
Share capital	7,525,991	–	7,525,991
Capital reserve	1,767,659	–	1,767,659
Defined benefit plan reserve	(744)	–	(744)
Investment revaluation reserve	(125,323)	138,025	12,702
Surplus reserve	892,953	(61,310)	831,643
General reserve	3,631,670	–	3,631,670
Retained earnings	2,889,067	(556,709)	2,332,358
Total equity attributable to owners of the Bank	16,581,273	(479,994)	16,101,279
Non-controlling interests	31,766	(2,916)	28,850
Total equity	16,613,039	(482,910)	16,130,129
Total liabilities and equity	271,147,617	(438,859)	270,708,758

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 1 and IAS 8	Definition of Materia[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]
IFRIC 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after January 1, 2019.
2 Effective for annual periods beginning on or after January 1, 2020.
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annal period beginning on or after January 1, 2020.
4 Effective for annual periods beginning on or after January 1, 2021.
5 Effective date not yet been determined.

The directors of the Bank anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the consolidated statement of financial position of the Group.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.

IFRS 16 will become effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB320,062,000 as disclosed in Note 51(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Bank are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The directors of the Bank expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Bank expects that, as a lessor, there will be no significant impact on the consolidated financial statements.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB on the historical cost basis except for certain financial instruments that are measured at fair values and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (i.e. its subsidiary). Control is achieved where the Bank:

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

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

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

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

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

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

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in a subsidiary

Investment in a subsidiary is included in the Bank's statement of financial position at cost less accumulated impairment losses, if any.

Translation of foreign currencies

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

A spot exchange rate is quoted by The People's Bank of China (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 a rate 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 RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in capital reserve.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits with banks 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.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in an associate (Continued)

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1,2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) *Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

(i) Amortised cost and effective interest method (Continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “Net interest income” line item (note 6).

Financial assets at FVTOCI (debt instruments)

The Group measures financial assets subsequently at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Financial assets (Continued)

Financial assets at FVTOCI (debt instruments) *(Continued)*

The Group's debt instruments classified as FVTOCI includes investment in debt securities. Fair value is determined in the manner described in Note 49. Debt instruments are initially measured at fair value plus transaction costs. Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, impairment gains or loss, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investments revaluation reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The gain or loss recognised in profit or loss excludes excludes interest earned on the financial assets and is included in the "Net trading gains" line item. Fair value is determined in the manner described in Note 49.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including loans and advances to customers, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, financial assets measured at amortised cost, financial assets measured at FVTOCI, other receivables, credit commitments and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument (for stage 2 and stage 3). In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date (for stage 1). Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Stage 1 is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Impairment of financial assets (Continued)

Stage 3 is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event under the IAS 39 model. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions or if an external rating is not available, the asset has an internal rating of 'Normal'. Normal means that the counterparty has a strong financial position and there is no significant past due.

For credit commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For undrawn credit commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the credit commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Except for investments in debt instruments that are measured at FVTOCI, credit commitments and financial guarantees contracts, the Group recognises an impairment gain or loss in profit or loss for all other financial instruments by adjusting their carrying amount where the corresponding adjustment is recognised through a loss allowance account.

For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

For financial guarantee contracts and credit commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9 (applicable on or after January 1, 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Financial guarantee contracts

Financial guarantee contract are contracts that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Loan commitment

Loan commitment is provided by the Group to the customer to extend loans to the customer within the commitment period on the agreed term of the contract. The Group normally does not lend at below-market rate or provide customer with loan commitments to be settled in cash or the Group shows the impairment provision for the financial guarantee contracts and loan commitment in provision on a net basis through the delivery or issuance of other financial instruments. Loan commitment recognises impairment losses according the expected credit loss model.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018)

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in interest income arising from financial assets at fair value through profit or loss.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the net trading (losses)/gains in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 49.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans and advances to customers, debt securities classified as receivables and deposits with banks) are stated at amortised cost using the effective interest method, less any identifies impairment losses.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method, less any identified impairment losses.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income is recognised in profit or loss using the effective interest method.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for financial assets because of financial difficulties;

Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Impairment loss on financial assets (Continued)

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a loan mitigation rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of each reporting period but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgement on inherent loss based on management's historical experience.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Impairment loss on financial assets (Continued)

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that loans and receivables have no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loans and receivables are written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off are recovered, the amount recovered is recognised in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Impairment loss on financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into other financial liabilities.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Offsetting financial instruments

Financial assets and liabilities of the Group are offset and the net amount presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial guarantees contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Fair value measurement

When measuring fair value for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IAS 39 (applicable before January 1, 2018) (Continued)

Fair value measurement (Continued)

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

Revenue recognition

Policy applicable to the year ended December 31, 2018 (with application of IFRS 15)

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Policy applicable to the year ended December 31, 2018 (with application of IFRS 15) (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

The Group recognised revenue under IFRS 15 from the following major sources:

- Wealth management service fees
- Bank acceptance bills service fees
- Agency services fees
- Settlement and clearing fees
- Letter of guarantee service fees

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Policy applicable to the year ended December 31, 2018 (with application of IFRS 15) (Continued)

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

Fee and commission income charged for performance obligations performed at specific point of time are recognised when customer obtains control of relevant services, mainly including bank acceptance bills, settlement and clearing, letter of guarantee and other services.

Fee and commission income charged for performance obligations performed during a certain period of time are recognised according to the progress of the performance during that period, mainly including, wealth management service fees and agency services fees.

In current year, the Group's revenue mainly includes interest income and fee and commission income, among which fee and commission income will be within the scope of IFRS 15, while interest income is within the scope of IFRS 9 for the annual periods beginning on or after January 1, 2018.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Policy applicable to the year ended December 31, 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

  The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

- Fee and commission income is recognised in profit or loss when the corresponding service is provided.

- Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

- Other income is recognised on an accrual basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial assets held under resale and repurchase agreements

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

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

Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Property and equipment including buildings and leasehold improvement for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment, other than construction in progress, are as follows:

Classes	Estimated residual value rates	Useful lives
Premises	5%	20 years
Electronic equipment	3%	5 years
Motor vehicles	3%	5 years
Leasehold improvement	0%	3 years or shorter of economic useful lives
Computer software	0%	3 years or shorter of economic useful lives
Office equipment	3%	5 years

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

Land use rights

Land use rights are classified in other assets and amortised over a straight-line basis over their authorised useful lives.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as, a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment on tangible and intangible assets other than goodwill and financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill and financial assets (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Employee benefits

Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- if the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the measurement of the net defined benefit liability (asset).

- if contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

Taxation

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

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

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

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

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Fiduciary activities

The Group acts in a fiduciary activity 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 ("entrusted funds") to the Group, and the Group grants loans to third parties ("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.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses recognition

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.

Other expenses

Other expenses are recognised on an accrual basis.

Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one 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 Group is under common control only from the state and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

(a) the Bank's subsidiary;

(b) investors that exercise significant influence over the Group;

(c) key management personnel of the Group and close family members of such individuals;

(d) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

3. BASIS OF PREPARATION AND PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Government grants

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as a subsequent event.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the directors of the Bank are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Bank have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed. When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

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 tax losses not yet used and 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgement in applying accounting policies (Continued)

Significant influence over an associate

As per Note 25 to the consolidated financial statements, the directors of the Bank considered Gansu Jingchuan CDB Village Bank* ("甘肅涇川國開村鎮銀行股份有限公司", "Gansu Jingchuan"), in which the Group has 16.67% equity interest in, is an associate of the Group as the Group has significant influence over Gansu Jingchuan by virtue of its contractual right to appoint one out of seven directors to the board of directors of Gansu Jingchuan. The Group is able to exercise significant influence in deciding the financial and operating policies of the associate.

Determination of control over investees

Management applies its judgement to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management products and an asset management plans.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest in each case is not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 43.

Legal title of land and buildings

As detailed in Note 27, certain of the Group's premises as at December 31, 2018 and 2017 of which title deeds were not yet finalised by the Group. Although the Group had not obtained the relevant legal titles, the premises were recognised in the consolidated statement of financial position as at December 31, 2018 and 2017 on the grounds that the Group is in substance controlling these land and buildings.

At December 31, 2018, the premises with carrying amount of approximately RMB1,915,117,000 was in the process of finalising title deeds (2017: approximately RMB848,659,000).

* *The English translation is for identification only.*

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Expected Credit losses assessment for all categories of financial assets

The Bank has adopted IFRS 9 on January 1, 2018 to measure and account for financial instruments. For deposits with banks, financial assets held under resale agreements, loans and advances to customers, financial assets at amortised cost, provision for bank acceptances and letters of guarantees, the measurement of expected credit losses uses complex models and a large number of assumptions. These models and assumptions relate to future macroeconomic conditions and borrowers' credit behavior (e.g. the probability of default and the corresponding losses).

According to the requirements of accounting standards, the measurement of expected credit losses involves many critical judgements. For example:

- Judge the standard of significant increase in credit risk;
- Select proper models and assumptions of measurement of expected credit losses;
- For different types of financial instruments, determine the number and weight of forward-looking scenarios to be used in measuring expected credit losses;
- Divide the measurement of expected credit losses into groups by characteristics of financial instruments, and the items with similar credit risk characteristics are grouped into one combination.

As at December 31, 2018, the carrying amount of deposits with banks, financial assets held under resale agreements, loans and advances to customers, financial assets at amortised costs were approximately RMB12,927,702,000, RMB19,523,812,000, RMB154,633,858,000 and RMB45,066,288,000 respectively, net of accumulated impairment loss of RMB4,709,000, nil, RMB6,251,454,000 and RMB2,729,400,000 respectively.

As at December 31, 2018, the carrying amount of provision for bank acceptances and letters of guarantees under financial liabilities were approximately RMB61,454,000.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Expected credit losses assessment for all categories of financial assets (Continued)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

As at December 31, 2018 the financial assets that are measured at fair value on a recurring basis is approximately RMB57,810,070,000 (2017: approximately RMB13,296,871,000).

Impairment of non-financial assets

Non-financial assets (i.e., property and equipment, repossessed assets, deposits paid for acquisitions of premises, land use rights, long term deferred expenses and intangible 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) may not be obtained reliably, the fair value of the asset may not 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 discounting 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.

As at December 31, 2018, the carrying amount of non-financial assets was approximately RMB3,253,589,000 (2017: approximately RMB1,998,690,000), net of accumulated impairment loss of nil (2017: approximately RMB634,000).

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 each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the 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.

As at December 31, 2018, the carrying amount of property and equipment was approximately RMB3,006,860,000 (2017: approximately RMB1,752,840,000), net of accumulated depreciation and impairment losses of approximately RMB871,504,000 (2017: approximately RMB559,367,000).

As at December 31, 2018, the carrying amount of intangible assets was approximately RMB19,008,000 (2017: approximately RMB1,582,000), net of accumulated amortisation of approximately RMB4,661,000 (2017: approximately RMB3,420,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Impairment of interest in an associate

In determining whether the interest in an associate are impaired, the directors of the Bank assesses the recoverable amount of the interest in an associate which is the higher of its fair value less costs of disposal and its value in use. An impairment loss is made if the carrying amount of interest in an associate exceeds its recoverable amount. In determining the recoverable amount of the interest in an associate, the directors of the Bank require an estimation of the future cash flows expected to arise from the expected dividend yield from the associates in order to determine the value in use of the interests in associates.

As at December 31, 2018, the carrying amount of interest in an associate was approximately RMB8,970,000 (2017: approximately RMB9,930,000). No impairment loss was recognised as at December 31, 2018 and 2017.

5. TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Urban maintenance and construction tax

Urban maintenance and construction tax is calculated as 5%-7% of business tax and value added tax.

(b) Education surcharge

Education surcharge is calculated as 3% of business tax and value added tax.

(c) Local education surcharge

Local education surcharge is calculated as 2% of business tax and value added tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate is 15%-25%.

(e) Value added tax

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value added Tax Reform" issued by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation, the Group is required to pay value added tax instead of business tax from May 1, 2016. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.

6. NET INTEREST INCOME

	2018 RMB'000	2017 RMB'000
Interest income arising from		
– Deposits with the central bank	434,322	387,413
– Deposits with banks	692,630	974,517
– Placements with banks and other financial institutions	4,778	1,723
– Financial asset at fair value through profit or loss	–	79,084
– Loans and advances to customers:		
Corporate loans and advances	7,194,282	5,918,470
Personal loans and advances	1,757,676	945,083
Discounted bills	1,019,428	881,212
– Financial assets held under resale agreements	411,619	249,561
– Debt instruments at fair value through other comprehensive income	3,305,577	–
– Financial assets at amortised cost	506,749	–
– Investments (note b)	–	4,608,705
	15,327,061	14,045,768
Less: Interest expenses arising from		
– Borrowing from the central bank	(261,055)	(130,520)
– Deposits from banks and other financial institutions	(1,017,503)	(1,712,482)
– Placements from banks and other financial institutions	(194,796)	(8,973)
– Deposits from customers:		
Corporate customers	(1,933,660)	(1,095,315)
Individual customers	(2,989,641)	(2,437,434)
– Financial assets sold under repurchase agreements	(236,283)	(230,063)
– Debts securities issued	(1,566,339)	(945,992)
	(8,199,277)	(6,560,779)
	7,127,784	7,484,989

Notes:

a) Interest income and interest expense for the year ended December 31, 2018, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVTPL, amounted to RMB15,327,061,000 and RMB8,199,277,000 (2017: RMB13,966,684,000 and RMB6,560,779,000) respectively.

b) Investments include available-for-sale financial assets, held-to-maturity investment and debt securities classified as receivables.

7. NET FEE AND COMMISSION INCOME

	2018 RMB'000	2017 RMB'000
Fee and commission income		
– Wealth management service fees	48,020	193,895
– Bank acceptance bills service fees	19,812	14,676
– Agency services fees	207,307	144,391
– Settlement and clearing fees	68,399	52,997
– Letter of guarantee service fees	4,333	8,442
– Others	14,802	48,349
	362,673	462,750
Fee and commission expenses		
– Settlement and clearing fees	(5,470)	(2,763)
– Bank card service fees	(184,852)	(70,528)
– Others	(6,296)	(12,788)
	(196,618)	(86,079)
	166,055	376,671

All fee and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVTPL.

8. NET TRADING GAINS/(LOSSES)

	2018 RMB'000	2017 RMB'000
Financial assets at FVTPL/trading financial instruments		
– Realised gains/(losses) from debt securities	277,313	(25,150)
– Unrealised gains from debt securities	262,821	3,213
Interest income arising from financial asset at FVTPL	549,107	–
	1,089,241	(21,937)

9. NET GAINS ARISING FROM INVESTMENT SECURITIES

	2018 RMB'000	2017 RMB'000
Net gains on disposal of debt instruments at fair value through other comprehensive income	42,689	–
Net gains on disposal of available-for-sale financial assets	–	116,992
	42,689	116,992

10. OTHER OPERATING INCOME, NET

	2018 RMB'000	2017 RMB'000
Government grants (Note)	23,775	75,520
(Loss) /gain on disposal of property and equipment	(159)	4
Gain on disposal of repossessed assets	–	32,319
Rental income	40,791	1,737
Other operating expenses	(6,167)	(547)
	58,240	109,033

Note: Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

11. OPERATING EXPENSES

	2018 RMB'000	2017 RMB'000
Staff costs (including directors' emoluments)		
– Salaries and bonuses	909,916	869,652
– Staff welfares	35,467	36,330
– Social insurance	209,234	182,985
– Housing allowances	57,057	41,897
– Labor union and staff education expenses	23,466	23,827
– Long term staff welfare expenses	510	860
– Others	4,873	1,782
	1,240,523	1,157,333
Premises and equipment expenses		
– Depreciation of property and equipment	329,589	213,619
– Amortisation of long term deferred expenses	11,058	11,637
– Amortisation of land use rights	1,312	2,878
– Amortisation of intangible assets	1,241	2,900
– Rental and property management expenses	179,866	178,311
	523,066	409,345
Business tax and surcharges	77,684	54,637
Other general and administrative expenses (Note)	429,824	430,915
	2,271,097	2,052,230

Note: Auditor's remuneration for the year ended December 31, 2018 was approximately RMB3,000,000 (2017: approximately RMB3,000,000).

Listing expenses for the year ended December 31, 2017 was approximately RMB9,924,000 (2018: nil).

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax of directors and supervisors of the Bank paid and/or payable by the Group during the year ended December 31, 2018 and 2017 are set out below:

	For the year ended December 31, 2018				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
LI Xin(6), (12), (17)	–	460	123	275	858
LIU Qing(9), (15), (17)	–	197	41	48	286
WANG Wenyong(9), (16), (17)	–	62	14	15	91
LEI Tie(6), (13), (17)	–	467	123	203	793
Non-executive directors					
WU Changhong(18)	–	–	–	–	–
LI Hui(5), (18)	–	–	–	–	–
GUO Jirong(18)	–	–	–	–	–
ZHANG Youda(18)	–	–	–	–	–
ZHANG Hongxia(18)	143	–	–	–	143
LIU Wanxiang(9), (18)	–	–	–	–	–
Independent non-executive directors					
CHEN Aiguo(6), (18)	131	–	–	–	131
TANG Xiuli(18)	143	–	–	–	143
LUO Mei(18)	143	–	–	–	143
WONG Sincere(18)	143	–	–	–	143
DONG Ximiao(9), (18)	–	–	–	–	–
Supervisors					
YANG Qian(11)	–	243	72	149	464
XU Yongfeng	–	388	159	491	1,038
LUO Zhenxia	–	365	144	230	739
LIU Yongchong	–	–	–	–	–
LIU Xiaoyu(1)	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZHU Xingjie(4)	–	–	–	–	–
YANG Zhenjun	–	–	–	–	–
DONG Ying	–	–	–	–	–
LUO Yi(8)	83	–	–	–	83
TANG Lan(10), (14)	–	125	25	30	180
	786	2,307	701	1,441	5,235

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	For the year ended December 31, 2017				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
LI Xin(17)	–	438	72	276	786
LIU Qing(2), (17)	–	364	66	228	658
LEI Tie(17)	–	350	72	225	647
Non-executive directors					
WU Changhong(18)	–	–	–	–	–
LI Hui(18)	–	–	–	–	–
GUO Jirong(18)	–	–	–	–	–
ZHANG Youda(18)	–	–	–	–	–
ZHANG Hongxia(18)	143	–	–	–	143
Independent non-executive directors					
TIAN Ruizhang(3), (18)	95	–	–	–	95
CHEN Aiguo(18)	143	–	–	–	143
ZHANG Ping(3), (18)	95	–	–	–	95
TANG Xiuli(18)	62	–	–	–	62
LUO Mei(18)	62	–	–	–	62
WONG Sincere(18)	62	–	–	–	62
Supervisors					
YANG Qian	–	350	72	225	647
XU Yongfeng	–	383	72	899	1,354
LUO Zhenxia	–	365	65	527	957
LIU Yongchong	–	–	–	–	–
LIU Xiaoyu	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZHU Xingjie	–	–	–	–	–
YANG Zhenjun(7)	–	–	–	–	–
DONG Ying(7)	–	–	–	–	–
	662	2,250	419	2,380	5,711

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(1) Resigned on March 27, 2019.

(2) Resigned on November 9, 2017.

(3) Resigned on July 27, 2017.

(4) Resigned on June 1, 2018.

(5) Resigned on August 31, 2018.

(6) Resigned on December 3, 2018.

(7) Appointed on August 12, 2017.

(8) Appointed on June 1, 2018.

(9) Appointed on December 3, 2018.

(10) Appointed on November 12, 2018.

(11) Ceased to be Chief Supervisor of the Bank under the direction of the People's Government of Gansu Province from March 2018, and resigned as employee representative Supervisor and Chief Supervisor of the Bank since April 2018.

(12) Ceased to be Chairman of the Bank under the direction of the People's Government of Gansu Province from October 2018, and resigned as Executive Director and Chairman of the Bank since December 2018.

(13) Ceased to be Vice President of the Bank under the direction of the People's Government of Gansu Province from October 2018, and resigned as Executive Director and Vice President of the Bank since December 2018.

(14) Appointed as member of the Party committee of the Bank under the direction of the People's Government of Gansu Province and received emolument since November 2018; appointed as Chief Supervisor of the Bank since December 2018.

(15) Appointed as secretary to the Party committee of the Bank under the direction of the People's Government of Gansu Province and received emolument from October 2018; appointed as Executive Director and Chairman of the Bank since December 2018.

(16) Appointed as deputy secretary to the Party committee of the Bank under the direction of the People's Government of Gansu Province from October 2018; appointed as Executive Director, President of the Bank and received emolument since December 2018.

(17) The emolument represent the payments to the directors in respect of their service in connection with management affair of the Group.

(18) The emolument represent the payments to the directors in respect of their service as a director.

Mr. LIU Qing is also the chief executive of the Bank and his emoluments disclosed above include those for services rendered by him as the chief executive.

No directors of the Bank waived or agreed to waive any emolument paid by the Group during the year ended December 31, 2018 and 2017. No emoluments were paid by the Group to the directors of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the year ended December 31, 2018 and 2017.

Discretionary bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics for such financial year.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors or supervisors of the Group whose emolument are disclosed in Note 12 above are the five individuals with the highest emoluments for the years ended December 31, 2018 and 2017.

The emoluments of the five individuals with the highest emoluments in the Group for the years ended December 31, 2018 and 2017 were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	1,705	1,218
Retirement benefits scheme contributions	746	336
Discretionary bonuses	3,151	16,379
	5,602	17,933

Their emoluments were within the following bands:

	2018 No. of employees	2017 No. of employees
RMB1,000,001–1,500,000	5	–
RMB1,500,001–2,000,000	–	2
RMB2,000,001–2,500,000	–	1
RMB2,500,001–3,000,000	–	–
RMB4,500,000–5,000,000	–	1
RMB7,000,000–7,500,000	–	1

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the year (2017: nil).

14. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	2018 RMB'000	2017 RMB'000
Impairment losses, net of reversals on:		
Debt instruments at FVTOCI	(45,198)	–
Financial assets at amortised cost	(11,962)	–
Other receivables, prepayments and repossessed assets	7,507	15,687
Loans and advances to customers	1,994,432	1,262,506
Deposit with banks and other financial institutions	254	–
Property and equipment	–	634
Financial assets held under resale agreements	(62)	–
Bank acceptances and letters of guarantees	17,403	–
Debt securities classified as receivables	–	246,822
Held-to-maturity investments	–	(2,616)
	1,962,374	1,523,033

15. INCOME TAX EXPENSE

(a) Income tax:

	2018 RMB'000	2017 RMB'000
Current tax:		
– PRC Enterprise Income Tax	1,242,210	1,347,028
Over-provision in prior years:		
– PRC Enterprise Income Tax	–	(10,885)
Deferred tax (Note 28)		
– Current year	(44,046)	(220,792)
	1,198,164	1,115,351

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd. ("平涼市靜寧成紀村鎮銀行股份有限公司", "Jingning Chengji Rural Bank"), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15%.

15. INCOME TAX EXPENSE (CONTINUED)

(b) The tax charge for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	4,637,808	4,479,080
Tax at domestic income tax rate of 25%	1,159,452	1,119,770
Tax effect of share of result of an associate	240	(449)
Tax effect of expenses not deductible for tax purpose (Note i)	55,502	16,249
Tax effect of income that are not taxable for tax purpose (Note ii)	(15,701)	(7,668)
Over-provision in respect of prior years	–	(10,885)
Income tax on concessionary rate	(1,329)	(1,666)
Income tax expense	1,198,164	1,115,351

Notes:

(i) Expenses not deductible for tax purpose consists of a portion of expenditures, such as entertainment expenses and donations, which exceed the tax deduction limits in accordance with PRC tax regulation.

(ii) Income not taxable for tax purpose consists of interest income from micro loans to farmers, which is exempted from income tax under the PRC tax regulation.

Details of the deferred taxation are set out in Note 28.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Bank is based on the following data:

	2018 RMB'000	2017 RMB'000
Profit for the year attributable to owners of the Bank (RMB'000)	3,435,278	3,358,464
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	9,951,313	7,525,991

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended December 31, 2018 and 2017.

17. CASH AND DEPOSITS WITH THE CENTRAL BANK

	2018 RMB'000	2017 RMB'000
Cash on hand	432,435	492,372
Deposits with the central bank		
– Statutory deposit reserve (Note a)	24,682,677	25,057,157
– Surplus deposit reserve (Note b)	6,387,471	3,521,880
– Fiscal deposits	34,329	13,006
	31,104,477	28,592,043
	31,536,912	29,084,415

Notes:

(a) The Group places statutory deposit reserves with the PBOC (The People's Bank Of China) in accordance with relevant regulations. As at December 31, 2018 and 2017, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2018	2017
Reserve ratio for RMB deposits	12%	13.5%

The statutory deposit reserves are restricted balances with central bank and are not available for the Group's daily business.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement and other kinds of unrestricted deposits.

18. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	2018 RMB'000	2017 RMB'000
Deposits in Mainland China – Banks	12,626,836	30,693,932
Deposits outside Mainland China – Banks	305,575	117,796
	12,932,411	30,811,728
Less: Provision for impairment loss *(Note a)*	(4,709)	–
	12,927,702	30,811,728

Notes:

a) Provision for impairment losses:

	At December 31, 2018			
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	**Stage 3** **Lifetime ECL** **RMB'000**	Total RMB'000
Gross deposits with banks	12,932,411	–	–	12,932,411
Less: Provision for impairment losses	(4,709)	–	–	(4,709)
	12,927,702	–	–	12,927,702

18. DEPOSITS WITH BANKS (CONTINUED)

Analysed by type and location of counterparty (Continued)

b) Movement of provision for impairment losses:

Provision for impairment losses – Deposit with banks	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018 (note 2)	4,455	–	–	4,455
Changes in the provision for impairment losses				
– Charge to profit or loss	254	–	–	254
Provision for impairment losses at December 31, 2018	4,709	–	–	4,709

c) Reconciliation of provision for impairment losses:

	Total RMB'000
Balance as at the end of December 31, 2017	–
Adjustments under IFRS 9	4,455
Balance as at January 1,2018	4,455
Charge for the year	254
Balance as at December 31,2018	4,709

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	2018 RMB'000	2017 RMB'000
In Mainland China		
– Banks	11,435,057	5,133,772
– Other financial institutions	8,088,755	4,686,148
	19,523,812	9,819,920

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	2018 RMB'000	2017 RMB'000
Debt securities		
– Government	4,705,553	2,084,184
– Banks and other financial institutions	14,818,259	7,735,736
	19,523,812	9,819,920

(c) Provision for impairment losses:

	At December 31, 2018			
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross financial assets held under resale agreements	19,523,812	–	–	19,523,812
Less: Provision for impairment losses	–	–	–	–
	19,523,812	–	–	19,523,812

(d) Movement of provision for impairment losses:

Provision for impairment losses – Financial assets held under resale agreements	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018 (note 2)	62	–	–	62
Changes in the provision for impairment losses				
– Credit to profit or loss	(62)	–	–	(62)
Provision for impairment losses at December 31, 2018	–	–	–	–

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(e) Reconciliation of provision for impairment losses:

	Total RMB'000
Balance as at the end of December 31, 2017	–
Adjustments under IFRS 9	62
Balance as at January 1, 2018	62
Charge for the year	(62)
Balance as at December 31, 2018	–

20. FINANCIAL ASSETS AT AMORTISED COST/HELD TO MATURITY INVESTMENTS/DEBT SECURITIES CLASSIFIED AS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	5,238,228	–
– Banks and other financial institutions	7,348,088	–
– Corporations	5,831,434	–
Trust plans	11,977,738	–
Asset management plans	17,020,474	–
Asset-backed securities issued by bank and other institutions	379,726	
	47,795,688	
Less: Provision for impairment losses (Note a,b)	(2,729,400)	–
	45,066,288	–
Analysed as:		
Listed outside Hong Kong	18,321,494	–
Unlisted outside Hong Kong	26,744,794	–
	45,066,288	–
Fair value	45,163,984	–

20. FINANCIAL ASSETS AT AMORTISED COST/HELD TO MATURITY INVESTMENTS/DEBT SECURITIES CLASSIFIED AS RECEIVABLES (CONTINUED)

	2018 RMB'000	2017 RMB'000
Held to maturity investments at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	–	2,370,315
– Banks and other financial institutions	–	4,479,509
– Corporations	–	1,700,000
Asset-backed securities issued by bank and other institutions	–	86,000
	–	8,635,824
Less: Provision for impairment losses (Note c)	–	(19,860)
	–	8,615,964
Analysed as:		
Listed outside Hong Kong	–	8,529,964
Unlisted outside Hong Kong	–	86,000
	–	8,615,964
Fair value	–	8,439,667
Debt securities classified as receivables		
Trust plans	–	10,260,782
Asset management plans	–	33,556,159
Wealth management products issued by other financial institutions	–	6,492,000
	–	50,308,941
Less: Provision for impairment losses (Note d)	–	(2,126,315)
	–	48,182,626
Analysed as:		
Unlisted outside Hong Kong	–	48,182,626

20. FINANCIAL ASSETS AT AMORTISED COST/HELD TO MATURITY INVESTMENTS/DEBT SECURITIES CLASSIFIED AS RECEIVABLES (CONTINUED)

Note:

a) Provision for impairment losses of financial assets at amortised cost:

	At December 31, 2018			
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	**Stage 3 Lifetime ECL RMB'000**	Total RMB'000
Gross financial assets at amortised cost	38,296,642	6,478,015	3,021,031	47,795,688
Less: Provision for impairment losses	(314,661)	(1,147,068)	(1,267,671)	(2,729,400)
	37,981,981	5,330,947	1,753,360	45,066,288

b) Movements of provision for impairment losses of financial assets at amortised cost:

Provision for impairment losses– financial assets at amortised cost	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	**Stage 3 Lifetime ECL RMB'000**	Total RMB'000
Provision for impairment losses at January 1, 2018 (note 2)	684,077	603,524	1,453,761	2,741,362
Changes in the provision for impairment losses				
– Transfer to stage 1	41,734	(41,734)	–	–
– Transfer to stage 3	–	(2,581)	2,581	–
– Charge (reversal) to profit or loss	(411,150)	587,859	(188,671)	(11,962)
Provision for impairment losses at December 31, 2018	314,661	1,147,068	1,267,671	2,729,400

c) Movements of allowance for impairment losses of held to maturity investments:

	Collective assessed allowance RMB'000
At January 1, 2017	22,476
Impairment losses recognised	(2,616)
At December 31, 2017	19,860

d) Movements of allowance for impairment losses of debt securities classified as receivables:

	Collective assessed allowance RMB'000
At January 1, 2017	1,879,493
Impairment losses recognised	246,822
At December 31, 2017	2,126,315

21. INTERESTS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Interests receivables arising from:		
– Investments	1,055,552	652,220
– Loans and advances to customers	779,388	415,766
– Financial assets held under resale agreements	17,177	12,306
– Deposits and placements with banks and other financial institutions	26,002	175,008
– Deposits with the central bank	13,116	13,293
	1,891,235	1,268,593

22. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	2018 RMB'000	2017 RMB'000
Gross loans and advances to customers		
Corporate loans and advances	113,204,179	97,253,744
Personal loans and advances		
– Personal business loans	7,580,060	6,693,380
– Personal consumption loans	7,647,686	3,962,666
– Residential and commercial mortgage loans	12,797,435	3,982,054
	28,025,181	14,638,100
Discounted bills	19,655,952	18,391,798
	160,885,312	130,283,642
Less: Provision for impairment losses	(6,251,454)	(5,028,961)
	154,633,858	125,254,681

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

	At December 31, 2018		
	Amount RMB'000	Percentage	Loans and advances secured by collaterals RMB'000
Gross loans and advances to customers			
Corporate loans and advances			
– Wholesale and retail	24,169,490	15.02%	13,422,861
– Manufacturing	20,197,228	12.55%	9,192,653
– Real estate	13,124,822	8.16%	12,828,752
– Construction	9,129,223	5.67%	5,871,741
– Mining	8,534,067	5.30%	3,396,803
– Agriculture, forestry, animal husbandry and fishery	8,204,597	5.10%	3,953,977
– Leasing and business services	7,157,594	4.45%	4,739,050
– Water, environment and public facility management	6,051,454	3.76%	2,306,599
– Cultural, sports and entertainment	2,898,150	1.80%	2,281,009
– Accommodation and catering	2,689,370	1.67%	2,124,016
– Electricity, gas and water production and supply	2,509,760	1.56%	427,140
– Transportation, storage and postal services	2,328,873	1.45%	1,208,586
– Health and social services	1,846,173	1.15%	685,340
– Education	1,634,628	1.02%	254,350
– Finance	1,000,000	0.62%	–
– Scientific research, technical services and geological prospecting	927,125	0.58%	879,624
– Resident and other services	622,583	0.39%	318,699
– Information transmission, computer services and software	159,042	0.10%	86,948
– Public administration, social security and social organisations	20,000	0.01%	–
	113,204,179	70.36%	63,978,148
Personal loans and advances	28,025,181	17.42%	13,939,578
Discounted bills	19,655,952	12.22%	–
	160,885,312	100%	77,917,726
Less: Provision for impairment losses	(6,251,454)		
	154,633,858		

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

	At December 31, 2017		
	Amount RMB'000	Percentage	Loans and advances secured by collaterals RMB'000
Gross loans and advances to customers			
Corporate loans and advances			
– Wholesale and retail	18,232,392	13.99%	9,334,702
– Agriculture, forestry, animal husbandry and fishery	15,728,151	12.07%	5,251,893
– Manufacturing	15,743,284	12.08%	7,051,762
– Real estate	13,685,806	10.50%	12,177,921
– Construction	12,101,272	9.29%	7,199,645
– Mining	7,087,525	5.44%	1,821,125
– Water, environment and public facility management	3,133,170	2.41%	1,480,094
– Cultural, sports and entertainment	2,628,010	2.02%	1,995,813
– Electricity, gas and water production and supply	2,545,332	1.95%	771,012
– Leasing and business services	1,695,555	1.30%	1,451,980
– Education	1,384,642	1.06%	315,550
– Transportation, storage and postal services	1,173,820	0.90%	653,740
– Accommodation and catering	1,172,340	0.90%	863,122
– Health and social services	463,376	0.36%	35,500
– Resident and other services	224,364	0.17%	119,724
– Scientific research, technical services and geological prospecting	126,005	0.10%	55,535
– Information transmission, computer services and software	74,300	0.06%	25,200
– Public administration, social security and social organisations	51,400	0.04%	26,400
– Finance	3,000	0.00%	3,000
	97,253,744	74.64%	50,633,718
Personal loans and advances	14,638,100	11.24%	7,762,188
Discounted bills	18,391,798	14.12%	–
	130,283,642	100.00%	58,395,906
Less: Provision for impairment losses	(5,028,961)		
	125,254,681		

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

As at December 31, 2018 and 2017, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At December 31, 2018					
	Gross impaired loans and advances RMB'000	ECL Stage 1 RMB'000	ECL Stage 2 RMB'000	ECL Stage 3 RMB'000	Charge for the year RMB'000	Written-off during the year RMB'000
– Wholesale and retail	1,468,511	402,164	524,177	858,087	651,663	253,110
– Manufacturing	1,779,957	525,897	741,318	579,389	656,576	219,225

	At December 31, 2017				
	Impaired loans and advances ECL RMB'000	Individually assessed provision for impairment losses RMB'000	Collectively assessed provision for impairment losses RMB'000	Impairment charged during the year RMB'000	Written-off during the year RMB'000
– Wholesale and retail	783,701	393,215	675,241	294,944	–
– Agriculture, forestry, animal husbandry and fishery	399,098	193,827	510,702	199,418	–
– Manufacturing	346,352	195,589	540,845	112,053	–
– Real estate	–	–	339,423	113,016	–

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	2018 RMB'000	2017 RMB'000
Gross loans and advances to customers		
Unsecured loans	17,842,633	12,763,254
Guaranteed loans	54,814,533	50,146,555
Collateralised loans	77,917,726	58,395,907
Pledged loans	10,310,420	8,977,926
	160,885,312	130,283,642
Less: Provision for impairment losses	(6,251,454)	(5,028,961)
	154,633,858	125,254,681

(d) Overdue loans analysed by overdue year

	At December 31, 2018				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	1,439,129	57,441	41,569	340	1,538,479
Guaranteed loans	1,825,668	1,097,223	412,040	74,497	3,409,428
Collateralised loans	1,979,333	1,929,763	506,652	130,544	4,546,292
Pledged loans	769,478	716,266	57,831	250	1,543,825
	6,013,608	3,800,693	1,018,092	205,631	11,038,024
As a percentage of gross loans and advances to customers	3.74%	2.36%	0.63%	0.13%	6.86%

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue year (Continued)

	At December 31, 2017				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	38,555	8,766	9,149	11,066	67,536
Guaranteed loans	417,390	286,449	460,083	128,379	1,292,301
Collateralised loans	1,456,890	897,464	741,325	290,800	3,386,479
Pledged loans	129,286	328,498	145,485	17,150	620,419
	2,042,121	1,521,177	1,356,042	447,395	5,366,735
As a percentage of gross loans and advances to customers	1.57%	1.17%	1.04%	0.34%	4.12%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances and provision for impairment losses

	At December 31, 2018			
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross loans and advances to customers	146,085,553	9,765,016	5,034,743	160,885,312
Less: Provision for impairment losses	(1,741,394)	(2,080,219)	(2,429,841)	(6,251,454)
	144,344,159	7,684,797	2,604,902	154,633,858

The Group conducts internal stratified management of asset risk characteristics according to the quality status of assets. Financial assets included in the expected credit losses are further classified into "Normal", "Special mention", "Substandard", "Doubtful" and "Loss" within each stage according to internal rating scales and overdue days, the results of this layered management are used by the Bank for internal credit risk management purposes.

The Group has adopted IFRS 9 from January 1, 2018. As at December 31, 2018, an analysis of the gross amount of loans and advances to customers with the grading of the loan is as follows:

	At December 31, 2018			
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Normal	146,085,553	1,703,700	–	147,789,253
Special mention	–	8,061,316	1,345,989	9,407,305
Substandard	–	–	1,330,164	1,330,164
Doubtful	–	–	1,773,216	1,773,216
Loss	–	–	585,374	585,374
Gross carrying amount	146,085,553	9,765,016	5,034,743	160,885,312
Less: Provision for impairment losses	(1,741,394)	(2,080,219)	(2,429,841)	(6,251,454)
Net carrying amount	144,344,159	7,684,797	2,604,902	154,633,858

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances and provision for impairment losses (Continued)

Loans and advances and provision for impairment losses as at December 31, 2017 as below do not reflect the adoption of IFRS 9 and are not comparable to the loans and advances and provision for impairment losses as at December 31, 2018 which are disclosed on IFRS 9 basis as above.

	At December 31, 2017					
	Loans and advances for which provision are collectively assessed (Note (i)) RMB'000	Impaired loans and advances: For which provision are collectively assessed RMB'000	Impaired loans and advances: For which provision are individually assessed RMB'000 *(Note(ii))*	Impaired loans and advances: Subtotal RMB'000	Total RMB'000	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	128,018,345	930,666	1,334,631	2,265,297	130,283,642	1.74%
Less: Provision for impairment losses	(3,519,527)	(559,928)	(949,506)	(1,509,434)	(5,028,961)	
	124,498,818	370,738	385,125	755,863	125,254,681	

Notes:

(i) These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the individually assessment methods.

(f) Movements of provision for impairment losses

Provision for impairment losses – Loans and advances to customers	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018	1,659,282	1,309,521	2,112,354	5,081,157
Changes in the provision for impairment losses				
– Transfer to stage 1	51,980	(51,972)	(8)	–
– Transfer to stage 2	(40,413)	122,621	(82,208)	–
– Transfer to stage 3	(29,910)	(149,194)	179,104	–
– Write-offs and others	–	(11,378)	(813,460)	(824,838)
– Charge to profit or loss	100,454	860,621	1,033,357	1,994,432
– Recoveries of loans and advances previously written off	–	–	703	703
Provision for impairment losses at December 31, 2018	1,741,393	2,080,219	2,429,842	6,251,454

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses (Continued)

Movement of provision for impairment losses against loans and advances to customers during the year ended December 31, 2017 as below do not reflect the adoption of IFRS 9 and are not comparable to the provision for loans and advances to customers for the year ended December 31, 2018 which are disclosed on IFRS 9 basis as above

	Provision for loans and advances which are collectively assessed RMB'000	Provision for impaired loans and advances which are individually assessed RMB'000	Total RMB'000
At January 1, 2017	3,045,965	709,990	3,755,955
Impairment losses recognised			
Charge for the year	1,033,490	239,516	1,273,006
Reverse for the year	(10,500)	–	(10,500)
	1,022,990	239,516	1,262,506
Recoveries of loans and advances previously written off	10,500	–	10,500
At December 31, 2017	4,079,455	949,506	5,028,961

Reconciliation of provision for impairment losses:

	Total RMB'000
Balance as at the end of December 31, 2017	5,028,961
Adjustments under IFRS 9	52,196
Balance as at January 1,2018	5,081,157
Charge for the year	1,994,432
Write-offs and others	(824,838)
Recoveries of loans and advances previously written off	703
Balance as at December 31,2018	6,251,454

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(g) Analysed by geographical sector

Geographically, the Group mainly conduct their businesses and most of their customers and assets are located in Gansu Province of the PRC.

(h) As at December 31, 2018 and 2017, part of the discounted bills were pledged as security for repurchase agreement as set out in Note 34.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Financial assets held for trading (Note (i))	8,811,736	249,636
Trust plans	263,294	–
Asset management plans	25,341,432	–
Investment funds	6,970,953	–
Other debt securities (Note (ii))	1,173,558	–
	42,560,973	249,636
Analysed as:		
Listed outside Hong Kong	8,811,736	249,636
Unlisted outside Hong Kong	33,749,237	–
	42,560,973	249,636

Notes:

(i) Financial assets held for trading:

	2018 RMB'000	2017 RMB'000
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	8,556,552	–
– Corporations	255,184	249,636
	8,811,736	249,636

As at December 31, 2018, no financial assets at FVTPL were subject to material restrictions on the realisation (2017: nil).

The above debt securities traded on the China Interbank Bond Market are included in "Listed outside Hong Kong".

(ii) Other debt securities

Other debt securities mainly represented investments, financed by the proceeds raised from principal-guaranteed wealth management products issued by the Group.

24. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 RMB'000	2017 RMB'000
Debt instruments at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	4,869,958	–
– Banks and other financial institutions	10,037,993	–
– Corporations	341,146	–
	15,249,097	–
Analysed as:		
Listed outside Hong Kong	15,249,097	–
	15,249,097	–
Available-for-sale financial assets		
Debt securities issued by the following institutions in Mainland China		
– Government	–	2,621,959
– Banks and other financial institutions	–	4,615,162
– Corporations	–	368,645
Asset-backed securities issued by banks and other financial institutions in Mainland China	–	110,973
Trust plans	–	792,030
Asset management plans	–	3,510,178
Wealth management products issued by other financial institutions	–	730,157
Investment funds	–	298,131
	–	13,047,235
Equity investment measured at amortised cost	–	10,000
	–	13,057,235
Analysed as:		
Listed outside Hong Kong	–	7,716,739
Unlisted outside Hong Kong	–	5,340,496
	–	13,057,235

24. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Note:

Movement of provision for impairment losses

Provision for impairment losses–debt instruments at fair value through other comprehensive income	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018	46,810	–	–	46,810
– Charge (reversal) to profit or loss	(45,198)	–	–	(45,198)
Provision for impairment losses at December 31, 2018	1,612	–	–	1,612

Reconciliation of provision for impairment losses:

	Total RMB'000
Balance as at the end of December 31, 2017	–
Adjustments under IFRS 9	46,810
Balance as at January 1,2018	46,810
Charge for the year	(45,198)
Balance as at December 31,2018	1,612

25. INTEREST IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	5,970	6,930
	8,970	9,930

As at December 31, 2018 and 2017, the Group had interests in the following associate:

Name of the bank	Form of entity	Country of establishment/ operation	Class of shares held	Proportion of ownerships interests or participating shares held by the Group		Proportion of voting power held		Principal activity
				2017	2018	2017	2018	
Gansu Jingchuan	Established	PRC	Ordinary share	16.67%	16.67%	16.67%	16.67%	Corporate and retail bank

Note: This associate is directly held by the Bank. The Group is able to exercise significant influence in deciding the financial and operating policies over Gansu Jingchuan because it has the power to appoint a director of that company under the provisions stated in the Article of Association of Gansu Jingchuan.

The financial information and carrying amount of the Group's interest in an associate that is not material and is accounted for using the equity method are set out below:

	2018 RMB'000	2017 RMB'000
The Group's share of (loss)/profit and total comprehensive (expense)/ income for the year	(960)	1,798

	2018 RMB'000	2017 RMB'000
Carrying amount of the Group's interests in the immaterial associate	8,970	9,930

26. PARTICULARS OF SUBSIDIARY

Name of subsidiary	Establishment date	Place of establishment/ operation	Registered and fully paid capital (RMB'000) At December 31, 2017	2018	Proportion of ownership interest held by the Bank At December 31, 2017	2018	Proportion of voting power held by the Bank At December 31, 2017	2018	Principal activity
Jingning Chengji Rural Bank	September 18,2008	PRC	40,250	40,250	62.73%	62.73%	62.73%	62.73%	Corporate and retail banking

The subsidiary is directly held by the Bank and has no material non-controlling interests to the Group.

27. PROPERTY AND EQUIPMENT

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Cost								
At January 1, 2017	61,177	1,064,050	274,227	46,328	213,898	64,311	59,257	1,783,248
Additions	272,126	78	238,109	3,851	22,104	13,295	32,044	581,607
Transfers in/(out) of construction in progress	(12,865)	4,870	–	–	7,995	–	–	–
Disposals	–	(4,588)	(29,681)	(1,768)	–	(3,998)	(12,613)	(52,648)
At December 31, 2017 and January 1, 2018	320,438	1,064,410	482,655	48,411	243,997	73,608	78,688	2,312,207
Additions	1,223,859	27,446	52,671	814	57,937	197,318	27,479	1,587,524
Transfers in/(out) of construction in progress	(1,180,973)	1,180,973	–	–	–	–	–	–
Disposals	–	(5,043)	(12,941)	(842)	–	(1,626)	(915)	(21,367)
At December 31, 2018	363,324	2,267,786	522,385	48,383	301,934	269,300	105,252	3,878,364

27. PROPERTY AND EQUIPMENT (CONTINUED)

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment								
At January 1, 2017	–	94,496	133,140	29,843	44,437	27,213	25,850	354,979
Provided for the year	–	56,074	71,727	7,700	41,030	16,496	20,592	213,619
Impairment loss recognised	–	634	–	–	–	–	–	634
Eliminated on disposals	–	(3,299)	(3,320)	(1,135)	–	(1,001)	(1,110)	(9,865)
At December 31, 2017 and January 1, 2018	–	147,905	201,547	36,408	85,467	42,708	45,332	559,367
Provided for the year	–	79,998	117,919	5,415	93,121	21,873	11,263	329,589
Eliminated on disposals	–	(2,100)	(12,411)	(817)	–	(1,246)	(878)	(17,452)
At December 31, 2018	–	225,803	307,055	41,006	178,588	63,335	55,717	871,504
Carrying value								
At December 31, 2018	363,324	2,041,983	215,330	7,377	123,346	205,965	49,535	3,006,860
At December 31, 2017	320,438	916,505	281,108	12,003	158,530	30,900	33,356	1,752,840

At December 31, 2018, the carrying values of premises of which title deeds were not yet finalised by the Group were approximately RMB1,915,117,000 (2017: approximately RMB848,659,000). Among them, the carrying values of premises that the Group has obtained housing property title certificates issued by the authorities but no land use right certificates were approximately RMB53,482,000 (2017: approximately RMB66,182,000).

The aforementioned premises are located in PRC with medium term leases (10–50 years).

28. DEFERRED TAX ASSETS

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	1,719,546	1,465,662
Deferred tax liabilities	(135,263)	–
	1,584,283	1,465,662

The following are the major deferred tax assets/(liabilities) recognised and movements thereon in the year ended December 31, 2018 and 2017:

	Provision for impairment losses on assets RMB'000 Note (i)	Net losses/ (gains) from fair value changes of financial instruments RMB'000 Note (ii)	Salaries, bonuses and allowances payable RMB'000	Others RMB'000	Net balance of deferred tax assets RMB'000
At January 1, 2017	1,168,694	11,497	32,827	233	1,213,251
Credit/(charge) to profit or loss	232,633	(2,450)	(9,158)	(233)	220,792
Credit/(charge) to other comprehensive income	–	32,727	(1,108)	–	31,619
At December 31, 2017	1,401,327	41,774	22,561	–	1,465,662
Change in accounting policy (Note 2)	184,771	(13,359)	–	–	171,412
At January 1, 2018	1,586,098	28,415	22,561	–	1,637,074
Credit/(charge) to profit or loss	107,804	(65,705)	1,947	–	44,046
Credit/(charge) to other comprehensive income	–	(97,975)	1,138	–	(96,837)
At December 31, 2018	1,693,902	(135,265)	25,646	–	1,584,283

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets As at December 31, 2018 and 2017. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets As at December 31, 2018 and 2017, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

29. OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Other receivables and prepayments (Note (i))	250,189	1,324,824
Clearance of inter-bank accounts	–	3,513
Deposits paid for acquisitions of premises	200,087	204,264
Land use right (Note (ii))	27,634	28,946
Long term deferred expense (Note (iii))	–	11,058
Intangible assets (Note (iv))	19,008	1,582
Other	200	200
	497,118	1,574,387

Notes:

(i) Other receivables and prepayments:

	2018 RMB'000	2017 RMB'000
Other receivables and prepayments	274,620	1,341,748
Less: Provision for impairment losses	(24,431)	(16,924)
	250,189	1,324,824

Movements of provision for impairment loss:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	16,924	1,237
Impairment losses recognised	7,507	15,687
At the end of the year	24,431	16,924

(ii) Movements of land use rights:

	2018 RMB'000	2017 RMB'000
Cost		
At the beginning of the year and at the end of the year	34,415	34,415
Accumulated amortisation		
At the beginning of the year	5,469	2,591
Amortisation for the year	1,312	2,878
At the end of the year	6,781	5,469
Carrying amounts		
At the end of the year	27,634	28,946

These lands are located in the PRC with medium term leases (10–50 years).

29. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(iii) Long-term deferred expenses represent prepaid rent and prepayments for services with average contract terms ranging from one year to five years and amortise at straight line basis over the contract period and fully amortised in year 2018. Amortisation of long-term deferred expenses for the year ended December 31, 2018 was approximately RMB11,058,000 (2017: approximately RMB11,637,000).

Movements of long term deferred expense:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	11,058	2,885
Additions	–	19,810
Amortisation for the year	(11,058)	(11,637)
At the end of the year	–	11,058

(iv) Movements of intangible assets:

	2018 RMB'000	2017 RMB'000
Cost		
At the beginning of the year	5,002	600
Additions	18,667	4,402
At the end of the year	23,669	5,002
Accumulated amortisation		
At the beginning of the year	3,420	520
Amortisation for the year	1,241	2,900
At the end of the year	4,661	3,420
Carrying amounts		
At the end of the year	19,008	1,582

These intangible assets mainly included trademark which are amortised over 1–5 years.

30. PLEDGED ASSETS

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include discounted bills and debt securities, which are for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at December 31, 2018 are approximately RMB10,287,844,000 (2017: approximately RMB13,502,112,000).

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions.

31. BORROWINGS FROM THE CENTRAL BANK

	2018 RMB'000	2017 RMB'000
Borrowings	9,070,000	4,450,000
Re-discounted bills	2,580,851	840,410
	11,650,851	5,290,410

32. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2018 RMB'000	2017 RMB'000
Deposits from the following institutions operating in Mainland China		
– Banks	8,987,200	13,639,682
– Other financial institutions	5,566,589	6,189,315
	14,553,789	19,828,997
Deposits from the following institutions operating outside Mainland China		
– Banks	959,983	349,376
	15,513,772	20,178,373

33. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2018 RMB'000	2017 RMB'000
Placements from the following institutions operating in Mainland China		
– Banks	3,300,000	1,050,000

34. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	2018 RMB'000	2017 RMB'000
In Mainland China		
– Banks	10,873,965	5,817,526
– Other financial institutions	843,020	–
	11,716,985	5,817,526

(b) Analysed by collateral

	2018 RMB'000	2017 RMB'000
Debt securities	11,716,985	3,439,800
Discounted bills	–	2,377,726
	11,716,985	5,817,526

34. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

(c) Transfer of financial assets

In daily operating activities, the Group entered into repurchase agreements with certain counterparties. As at December 31, 2018, there are debt securities with carrying amount of RMB11,716,985,000 under these agreements measured at amortised cost (2017: RMB3,439,800,000). The carrying amount of discounted bills, which were sold by the Group to certain counterparties and were subject to the simultaneous agreements with commitments to repurchase at specified future dates and prices, was nil as at December 31, 2018 (2017: RMB2,377,726,000). The proceeds from selling such debt securities and discounted bills totalling RMB11,716,985,000 as at December 31, 2018 (2017: RMB5,817,526,000).

As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities and bills to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and therefore has not derecognised from the consolidated financial statements but regarded as "collateral" for the secured lending from the counterparties.

35. DEPOSITS FROM CUSTOMERS

	2018 RMB'000	2017 RMB'000
Demand deposits		
– Corporate customers	54,381,432	67,636,099
– Individual customers	24,114,642	22,077,280
	78,496,074	89,713,379
Time deposits		
– Corporate customers	18,058,452	14,793,171
– Individual customers	83,018,474	59,921,755
	101,076,926	74,714,926
Pledged deposits		
– Acceptances	12,936,171	15,462,321
– Guarantees and letters of guarantees	87,232	85,928
– Others	3,476,734	1,899,067
	16,500,137	17,447,316
Others	14,650,180	10,354,982
	210,723,317	192,230,603

36. ACCRUED STAFF COSTS

	2018 RMB'000	2017 RMB'000
Salary and bonus payable	397,749	324,158
Social pension schemes payable	18,615	16,214
Other social insurances payable	17,960	19,646
Supplementary retirement benefits payable (Note (i))	35,150	27,230
Other long-term staff welfare payable (Note (ii))	8,870	11,230
	478,344	398,478

Notes:

(i) Supplementary retirement benefits ("SRB"):

The Group pays SRB for 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 year. The Group's obligations in respect of the SRB were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America).

The balances of SRB of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Present value of SRB obligation	35,150	27,230

Movements of SRB of the Group are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	27,230	29,390
Service cost	2,010	2,200
Interest cost	1,170	1,060
Past service cost	1,350	–
Actuarial losses/(gains)	4,550	(4,430)
Payment made	(1,160)	(990)
At the end of the year	35,150	27,230

36. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(i) Supplementary retirement benefits ("SRB"): (Continued)

Principal actuarial assumptions of the Group are as follow:

	2018	2017
Discount rate	3.50%	4.25%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on SRB	
	2018 RMB'000	2017 RMB'000
Discount rate (increase by 1%)	(610)	(410)
Discount rate (decrease by 1%)	882	574

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

(ii) Other long-term staff welfare payable

The Group pays compensation for termination benefits of 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 year. The Group's obligations in respect of other long-term staff welfare payable were assessed using projected unit credit actuarial cost method by an external independent actuary (a member of Society of Actuaries in America) of Wills Towers Watson.

The balances of other long-term staff welfare payable of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Present value of other long-term staff welfare payable obligation	8,870	11,230

36. ACCRUED STAFF COSTS (CONTINUE)

Notes: (Continued)

(ii) Other long-term staff welfare payable (Continued)

Movements of other long-term staff welfare payable of the Group are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	11,230	13,610
Service cost	510	860
Payment made	(2,870)	(3,240)
At the end of the year	8,870	11,230

Principal actuarial assumptions of the Group are as follow:

	2018	2017
Discount rate	2.75%	3.75%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on long-term staff welfare payable	
	2018 RMB'000	2017 RMB'000
Discount rate (increase by 1%)	(23)	(29)
Discount rate (decrease by 1%)	24	31

Although the analysis does not take account of the full distribution of cash flows expected under other long-term staff welfare payable, it does provide an approximation of the sensitivity of the assumptions shown.

37. INTERESTS PAYABLE

	2018 RMB'000	2017 RMB'000
Deposits from customers	5,825,504	3,844,738
Deposits from banks and other financial institutions	374,091	301,835
Deposits from central bank	21,905	4,347
Debts securities issued	187,318	141,099
Others	10,115	13,441
	6,418,933	4,305,460

38. DEBT SECURITIES ISSUED

	2018 RMB'000	2017 RMB'000
Fixed rates financial bonds (Note (i))	5,996,352	4,496,189
Fixed rate tier-two capital bonds issued (Note (ii))	3,194,430	3,191,851
Interbank deposits (Note (iii))	32,385,991	16,272,719
	41,576,773	23,960,759

Notes:

(i) Fixed rates financial bonds

(a) Fixed rates financial bonds for “three rurals” (the first tranche) at a face value of RMB1,000,000,000 with a term of three years were issued on March 10, 2017. The coupon rate is 4.67%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.71%. As at December 31, 2018, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,327,000 (2017: RMB998,692,000).

(b) Fixed rate financial bonds at a face value of RMB1,000,000,000 with a term of five years were issued on April 19, 2017. The coupon rate is 5.00%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 5.02%. As at December 31, 2018, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,378,000 (2017: RMB999,174,000).

(c) Fixed rate green financial bonds at a face value of RMB1,000,000,000 with a term of three years were issued on May 23, 2017. The coupon rate is 4.90%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.94%. As at December 31, 2018, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,604,000 (2017: RMB999,553,000).

(d) Fixed rate financial bonds for the “three rurals” (the second tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on August 10, 2017. The coupon rate is 4.85%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.94%. As at December 31, 2018, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,498,989,000 (2017: RMB1,498,770,000)

(e) Fixed rate financial bonds for the “three rurals” (the first tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on May 25, 2018. The coupon rate is 4.87%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.88%. As at December 31, 2018, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,054,000. (2017: nil)

(ii) Fixed rate tier-two capital bonds issued

Fixed rate tier-two capital bonds at a face value of RMB3,200,000,000 with a term of ten years were issued on December 11, 2015. The coupon rate is 5.10%. The Group has an option to redeem the debts on December 11, 2020 at the nominal amount. The effective interest rate per annum on the Group’s tier-two capital bonds issued is 5.20%. As at December 31, 2018, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,194,430 (2017: approximately RMB3,191,851,000).

(iii) Interbank deposits

(a) During the year ended December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB45,090,000 and duration between 6 month to 1 year. As at December 31, 2018, the outstanding balance of interbank deposits issued is approximately RMB32,385,991,000. The ranges of effective interest rates per annum on the Group’s interbank deposits issued are 3.35% to 5.35%.

(b) During the year ended December 31, 2017, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB44,980,000,000 and duration between 1 month to 1 year. As at December 31, 2017, the outstanding balance of interbank deposits issued is approximately RMB16,272,719,000. The ranges of effective interest rates per annum on the Group’s interbank deposits issued are 3.10% to 5.42%.

39. OTHER LIABILITIES

	2018 RMB'000	2017 RMB'000
Other payable and accrued expenses	406,822	383,096
Clearance of inter-bank accounts	480,300	78,414
Agency business liabilities	80,762	34,038
Dividend payable	8,560	8,701
Other tax payables	214,873	106,364
Fiscal deposits	12,059	74,991
Provision for bank acceptances and letters of guarantees *(Note)*	61,454	–
Others	104,541	44,509
	1,369,372	730,113

Note:

(a) Movement of provision for bank acceptances and letters of guarantees:

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	**Stage 3 Lifetime ECL RMB'000**	Total RMB'000
Provision for bank acceptances and letters of guarantees at January 1, 2018	44,051	–	–	44,051
Changes in the provision for impairment losses – Charge to profit or loss	17,403	–	–	17,403
Provision for bank acceptances and letters of guarantees at December 31, 2018	61,454	–	–	61,454

(b) Reconciliation of provision for bank acceptances and letters of guarantees:

	Total RMB'000
Balance as at the end of December 31, 2017	–
Adjustments under IFRS 9	44,051
Balance as at January 1,2018	44,051
Charge for the year	17,403
Balance as at December 31,2018	61,454

40. SHARE CAPITAL

Share capital As at December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each:		
– Ordinary shares	10,069,791	7,525,991
At the beginning of the year	7,525,991	7,525,991
Issuance of shares (Notes i)	2,543,800	–
At the end of the year	10,069,791	7,525,991

Note:

(i) On January 18, 2018, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 2139). The total number of H shares issued globally was 2,543,800,000 (including an over-allotment of 331,800,000 H-shares issued on February 5, 2018) at par value RMB1 per share were issued at an offer price of HK$2.69 per share. Total gross proceeds from the share issuance amounted to approximately RMB5,602,442,000 (equivalent to HK$6,842,822,000) giving rise to share premium approximately RMB3,058,642,000 credit to capital reserve. Share issuance expenses approximately RMB168,487,000 was debited to capital reserve.

A summary of movements of the Bank's issued shares (in thousands of shares) during the year is as follows:

	2018		
	As at January 1,	Issuance	As at December 31,
Shareholders:			
Domestic shareholders	7,525,991	–	7,525,991
H shareholders	–	2,543,800	2,543,800
	7,525,991	2,543,800	10,069,791

	2017		
	As at January 1,	Issuance	As at December 31,
Shareholders:			
Domestic shareholders	7,525,991	–	7,525,991

41. RESERVES

(a) Capital reserve

	2018 RMB'000	2017 RMB'000
Share premium	4,339,584	1,449,429
Shareholders' injection (Note)	318,176	317,676
Changes in ownership in a subsidiary without change in control	554	554
	4,658,314	1,767,659

Note:

The promoters of the additional shares issued during the Bank's restructuring injected the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. During the year, net proceed of approximately RMB500,000 (2017: RMB2,476,000) were received as shareholders' injection. As at December 31, 2018, approximately RMB318,176,000 has been recorded as capital reserve (2017: approximately RMB317,676,000).

(b) Surplus reserve

The surplus reserve at December 31, 2018 and 2017 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group As at December 31, 2018 were approximately RMB1,510,052,000 (2017: approximately RMB892,953,000), while other surplus reserve were approximately nil as at December 31, 2018 (2017: nil.).

The statutory surplus reserve fund of the Bank as at December 31, 2018 were approximately RMB1,510,052,000 (2017: approximately RMB892,953,000), while other surplus reserve were approximately nil as at December 31, 2018 (2017: nil). The Bank and its subsidiary are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(c) General reserve

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

42. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of RMB10.22 cents in respect of the year ended December 31, 2018 per share has been proposed by the directors of the Bank and is subject to approval by the shareholders in the forthcoming general meeting.

No dividend was paid or proposed during the year ended December, 31 2017

43. STRUCTURED ENTITIES

(a) Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at December 31, 2018, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB1,132,351,000 (2017: approximately RMB625,800,000).

(b) Unconsolidated structured entities

(i) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include trust fund plans, asset management plans, asset-back securities and wealth management products issued by other financial institutions and investment funds.

The following table set out an analysis of the gross carrying amounts of interests held by the Group as at December 31, 2018 and 2017:

	December 31, 2018			
	Financial assets at FVTPL RMB'000	Financial assets at amortised cost RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	263,294	11,977,738	12,241,032	12,241,032
Asset management plans	25,341,432	17,020,474	42,361,906	42,361,906
Asset-backed securities issued by bank and other financial institutions	–	379,726	379,726	379,726
Investment funds	6,970,953	–	6,970,953	6,970,953
	32,575,679	29,377,938	61,953,617	61,953,617

43. STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities (Continued)

(i) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

	At December 31, 2017			
	Available-for-sale financial assets RMB'000 (Audited)	Debt securities classified as receivables RMB'000 (Audited)	Carrying amount RMB'000 (Audited)	Maximum exposure RMB'000 (Audited)
Trust plans	792,030	10,260,782	11,052,812	11,052,812
Asset management plans	3,510,178	33,556,159	37,066,337	37,066,337
Wealth management products issued by other financial institutions	730,157	6,492,000	7,222,157	7,222,157
Investment funds	308,131	–	308,131	308,131
	5,340,496	50,308,941	55,649,437	55,649,437

(ii) Structured entities sponsored by the Group which the Group do not consolidate but holds an interest in as at December 31, 2018 and 2017:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2018, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial positions.

As at December 31, 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB20,368,883,000 (2017: approximately RMB19,961,511,000).

43. STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities (Continued)

(iii) Unconsolidated structured entities sponsored by the Group during the year which the Group do not have an interest in as at December 31, 2018 and 2017:

During the year ended December 31, 2018, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB40,995,686,000.

During the year ended December 31, 2017, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB16,423,345,000.

44. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the China Banking Regulatory Commission ("CBRC"). The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

44. CAPITAL MANAGEMENT (CONTINUED)

Since January 1, 2013, the Group started computing its capital adequacy ratios in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-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, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP. During the year ended December 31, 2018 and 2017 the Group has complied with all its externally imposed capital requirements.

44. CAPITAL MANAGEMENT (CONTINUED)

The Group's capital adequacy ratios as at December 31, 2018 and 2017 calculated in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	2018 RMB'000	2017 RMB'000
Total core tier-one capital		
Share capital	10,069,791	7,525,991
Qualifying portion of capital reserve	4,658,314	1,767,659
Defined benefit plan reserve	(4,156)	(744)
Investment revaluation reserve	261,427	(125,323)
Surplus reserve	1,510,052	892,953
General reserve	4,423,117	3,631,670
Retained earnings	4,297,780	2,889,067
Qualifying portions of non-controlling interests	17,232	17,374
Core tier-one capital deductions (Note)	(224,973)	(32,482)
Net core tier-one capital	25,008,584	16,566,165
Eligible portion of non-controlling interests	2,298	2,316
Net tier-one capital	25,010,882	16,568,481
Tier-two capital		
Qualifying portion of tier-two capital instruments issued	3,194,430	3,191,851
Surplus provision for loan impairment	2,562,700	2,187,085
Eligible portion of non-controlling interests	4,703	4,633
Net capital base	30,772,715	21,952,050
Total risk weighted assets	227,144,084	190,251,575
Core tier-one capital adequacy ratio	11.01%	8.71%
Tier-one capital adequacy ratio	11.01%	8.71%
Capital adequacy ratio	13.55%	11.54%

Note: Core tier-one capital deductions primarily include other intangible assets excluding land use rights and deferred tax assets recognised for tax losses.

45. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following balances with an original maturity of less than three months:

	2018 RMB'000	2017 RMB'000
Cash on hand	432,435	492,372
Deposits with the central bank	6,387,471	3,521,880
Deposits with banks	8,803,411	3,386,710
Financial assets held under resale agreements	19,523,812	9,819,920
Total	35,147,129	17,220,882

46. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

(a) Related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2018	2017
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	11.49%	15.38%
Baoshang Bank Co., Ltd.	8.39%	11.23%
Jiuquan Iron & Steel (Group) Co., Ltd.	6.30%	8.42%
Gansu Province Electric Power Investment Group Co., Ltd.	6.30%	8.42%
Jinchuan Group Co., Ltd.	6.30%	8.42%

46. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Related parties (Continued)

(ii) 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 40(a)(i) or their controlling shareholders. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and subsidiary

The subsidiary of the Bank is its related parties. The transactions between the Bank and its subsidiary and among the subsidiary are eliminated on consolidation and therefore are not disclosed in this note.

(ii) Transactions between the Group and associate

	2018 RMB'000	2017 RMB'000
Transaction during the year		
Interest income	–	347

46. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Transactions with related parties other than key management personnel (Continued)

(iii) Transactions between the Group and major shareholders

	2018 RMB'000	2017 RMB'000
Transactions during the year		
Interest income	33,187	38,958
Interest expense	25,099	157

	2018 RMB'000	2017 RMB'000
Balances at end of the year		
Loans and advances to customers	–	600,000
Interests receivable	8,859	798
Deposits from customers	2,532,081	548,003
Deposits from banks and other financial institutions	–	770,000
Interests payable	31,448	237

46. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Transactions with related parties other than key management personnel (Continued)

(iv) Transactions between the Group and other related parties:

	2018 RMB'000	2017 RMB'000
Transactions during the year		
Interest income	240,430	126,816
Interest expense	93,680	8,550

	2018 RMB'000	2017 RMB'000
Balances at end of the year		
Loans and advances to customers	3,935,525	2,619,075
Interests receivables	–	4,043
Deposits from customers	1,664,214	687,316
Deposits from banks and other financial institutions	106,510	7,422
Interests payable	17,969	8,037

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, board of directors, the supervisory board and executive officers.

(i) Transactions between the Group and key management personnel

	2018 RMB'000	2017 RMB'000
Transactions during the year		
Interest income	–	589
Interest expense	–	17

46. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

(i) Transactions between the Group and key management personnel (Continued)

	2018 RMB'000	2017 RMB'000
Balances at end of the year		
Loan and advance to customer	–	465
Deposits from customers	14	4,705
Interests payable	–	20

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2018 RMB'000	2017 RMB'000
Fees	786	662
Salaries and allowances	4,499	3,773
Retirement benefits scheme contributions	1,292	713
Discretionary bonuses	2,580	4,551
	9,157	9,699

(d) Loans and advances to directors, supervisors and officers

During the year ended December 31, 2018, there are no loans and advances to directors, supervisors and officers of the Group (2017: nil).

47. SEGMENT REPORTING

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

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee 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 and remittance services.

Financial market operations

This segment covers the Group's financial market operations. The financial market operations enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial market segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

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. Segment income and expenses are determined before 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, land use rights and other long-term assets.

47. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

	Year ended December 31, 2018				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/(expense)	5,264,351	(1,231,966)	3,095,399	–	7,127,784
Internal net interest (expense)/income	(708,266)	2,238,762	(1,530,496)	–	–
Net interest income	4,556,085	1,006,796	1,564,903	–	7,127,784
Net fee and commission income	87,028	19,222	51,338	8,467	166,055
Net trading gains	–	–	1,089,241	–	1,089,241
Net gains arising from investment securities	–	–	42,689	–	42,689
Foreign exchange gain	–	–	–	388,230	388,230
Other operating income, net	–	–	–	58,240	58,240
Operating income	4,643,113	1,026,018	2,748,171	454,937	8,872,239
Operating expenses	(1,190,262)	(262,898)	(702,142)	(115,795)	(2,271,097)
Impairment losses on assets	(1,386,171)	(287,740)	(263,360)	(25,103)	(1,962,374)
Operating profit	2,066,680	475,380	1,782,669	314,039	4,638,768
Share of profits of associates	–	–	–	(960)	(960)
Profit before tax	2,066,680	475,380	1,782,669	313,079	4,637,808
Segment assets	110,549,327	27,819,221	188,347,517	186,760	326,902,825
Deferred tax assets	–	–	–	1,719,546	1,719,546
Total assets	110,549,327	27,819,221	188,347,517	1,906,306	328,622,371
Segment liabilities	92,065,313	112,244,596	98,802,812	118,236	303,230,957
Deferred tax liabilities	–	–	–	135,263	135,263
Dividend payable	–	–	–	8,560	8,560
Total liabilities	92,065,313	112,244,596	98,802,812	262,059	303,374,780
Other segment information					
– Depreciation and amortisation	188,760	44,616	106,392	3,432	343,200
– Capital expenditure	880,655	208,157	496,370	16,009	1,601,191

47. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (Continued)

	Year ended December 31, 2017				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/(expense)	4,821,768	(1,492,356)	4,155,577	–	7,484,989
Internal net interest (expense)/income	(510,045)	2,490,297	(1,980,252)	–	–
Net interest income	4,311,723	997,941	2,175,325	–	7,484,989
Net fee and commission income	143,852	18,329	193,895	20,595	376,671
Net trading losses	–	–	(21,937)	–	(21,937)
Net gains arising from investment securities	–	–	116,992	–	116,992
Foreign exchange loss	–	–	–	(13,203)	(13,203)
Other operating income, net	–	–	–	109,033	109,033
Operating income	4,455,575	1,016,270	2,464,275	116,425	8,052,545
Operating expenses	(1,135,524)	(259,001)	(628,032)	(29,673)	(2,052,230)
Impairment losses on assets	(953,332)	(221,122)	(332,259)	(16,320)	(1,523,033)
Operating profit	2,366,719	536,147	1,503,984	70,432	4,477,282
Share of profits of associates	–	–	–	1,798	1,798
Profit before tax	2,366,719	536,147	1,503,984	72,230	4,479,080
Segment assets	95,401,308	14,576,563	159,634,750	69,334	269,681,955
Deferred tax assets	–	–	–	1,465,662	1,465,662
Total assets	95,401,308	14,576,563	159,634,750	1,534,996	271,147,617
Segment liabilities	111,026,341	85,934,437	57,087,564	477,535	254,525,877
Dividend payable	–	–	–	8,701	8,701
Total liabilities	111,026,341	85,934,437	57,087,564	486,236	254,534,578
Other segment information					
– Depreciation and amortisation	127,069	30,034	71,620	2,311	231,034
– Capital expenditure	322,305	76,182	181,663	5,859	586,009

47. SEGMENT REPORTING (CONTINUED)

(b) Geographical information

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located and therefore revenue is derived from activities in Gansu Province of the PRC.

(c) Information about major customers

During the years ended December 31, 2018 and 2017, no operating income from a customer contributes over 10% of the total operating income of the Group.

48. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(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 bond investment portfolios.

As at December 31, 2017, impairment loss was recognised when there was objective evidence of impairment loss.

After the adoption of IFRS 9 on January 1, 2018, in addition to the credit risk management in prior years, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather 12-month ECL.

Loan and advance to customers and financial asset at amortised cost

The Group has applied the general approach in IFRS 9 to measure ECL. The Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Debt instrument at FVTOCI

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of investment securities measured at FVTOCI is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Deposits with banks

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of deposits with banks and other financial institutions is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Financial assets held under resale agreements

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial assets held under resale agreements is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Credit commitments and financial guarantees

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial guarantees and loans commitment is at Stage 1 of which the loss allowance is measured at 12-month ECL.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Other financial assets

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of other financial assets is at Stage 1 of which the loss allowance is measured at 12-month ECL.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of thirdparty guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit grading information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The nature of the exposure and the type of counterparty are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Other financial assets (Continued)

The five categories classifications in which the Group classifies its loans and advances to customers at amortised cost and trust beneficiary rights and asset management plans measured at amortised cost are set out below:

Category	Description	Basis for recognising ECL
Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.	12-month ECL Lifetime ECL – not credit impaired (Only if more than 30 days pass due)
Special mention	Borrowers are able to repay their loans currently, although repayment may be adversely affected by specific factors.	Lifetime ECL – not credit impaired Lifetime ECL – credit impaired (Only if more than 90 days pass due)
Substandard	Borrowers' ability to repay their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.	Lifetime ECL – credit impaired

The internal credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases, the difference in risk of default between grades changes. Each exposure is allocated to a credit's risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default ("PD") for exposures. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative information that are indicative of risk of default.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The Group established a credit risk management structure which includes the president, chief officers and the risk management committee of the head office, persons-in-charge and risk officers of branches and sub-branches, credit approval committees or groups and the risk management, business, marketing and internal audit departments. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies and authorisation proposals for credit business. Legal and Compliance Department is responsible for formulating the authorisation proposals for credit business. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments such as the Corporate Business Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to overdue loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Financial Market Operations

The Group sets credit limits for financial market operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at December 31, 2018 and 2017.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Financial Market Operations (Continued)

(ii) *Financial assets analysed by credit quality are summarised as follows:*

	At December 31, 2018				
	Loans and advances RMB'000	Deposits with banks RMB'000	Financial assets held under resale agreements RMB'000	Investments (*) RMB'000	Others(**) RMB'000
Impaired					
Individually assessed gross amount	3,933,994	–	–	3,021,031	–
Less: provision for impairment losses	(1,737,742)	–	–	(1,267,670)	–
	2,196,252	–	–	1,753,361	–
Collectively assessed gross amount	1,100,749	–	–	–	–
Less: provision for impairment losses	(692,099)	–	–	–	–
	408,650	–	–	–	–
Overdue but not impaired					
Gross amount					
– Less than three months (inclusive)	5,919,823	–	–	–	–
– Between three months and six months (inclusive)	180,000	–	–	1,373,572	–
– Between six months and one year (inclusive)	–	–	–	2,000,000	–
– More than one year	1,800	–	–	–	–
	6,101,623	–	–	3,373,572	–
Less: provision for impairment losses	(1,072,197)	–	–	(486,788)	–
	5,029,426	–	–	2,886,784	–
Neither overdue nor impaired					
Gross amount	149,748,946	12,932,411	19,523,812	99,211,154	2,165,855
Less: provision for impairment losses	(2,749,416)	(4,709)	–	(974,941)	(24,431)
	146,999,530	12,927,702	19,523,812	98,236,213	2,141,424
	154,633,858	12,927,702	19,523,812	102,876,358	2,141,424

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Financial Market Operations (Continued)

(ii) Financial assets analysed by credit quality are summarised as follows: (Continued)

	At December 31,2017				
	Loans and advances RMB'000	Deposits with banks RMB'000	Financial assets held under resale agreements RMB'000	Investments (*) RMB'000	Others (**) RMB'000
Impaired					
Individually assessed gross amount	1,334,630	–	–	200,000	–
Less: provision for impairment losses	(949,506)	–	–	(200,000)	–
	385,124	–	–	–	–
Collectively assessed gross amount	930,666	–	–	1,986,000	–
Less: provision for impairment losses	(559,928)	–	–	(19,860)	–
	370,738	–	–	1,966,140	–
Overdue but not impaired					
Gross amount					
– Less than three months (inclusive)	1,928,122	–	–	–	–
– Between three months and six months (inclusive)	457,464	–	–	–	–
– Between six months and one year (inclusive)	544,843	–	–	–	–
– More than one year	194,500	–	–	–	–
	3,124,929	–	–	–	–
Less: provision for impairment losses	(245,032)	–	–	–	–
	2,879,897	–	–	–	–
Neither overdue nor impaired					
Gross amount	124,893,417	30,811,728	9,819,920	70,065,636	2,610,341
Less: provision for impairment losses	(3,274,495)	–	–	(1,926,315)	(16,924)
	121,618,922	30,811,728	9,819,920	68,139,321	2,593,417
	125,254,681	30,811,728	9,819,920	70,105,461	2,593,417

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Financial Market Operations (Continued)

(ii) Financial assets analysed by credit quality are summarised as follows: (Continued)

* Investments comprise financial assets at fair value through profit or loss, financial assets at amortised cost and debt instruments at fair value through other comprehensive income, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

** Others comprise interest receivable, other receivables and prepayments in other assets.

(iii) Credit rating

The Group adopts a credit rating approach in managing the credit risk of the listed debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Neither overdue nor impaired		
Ratings		
– AAA- to AAA+	17,368,294	2,378,016
– AA- to AA+	9,101,052	992,938
– A- to A+	–	719,572
– Lower than A	949,882	–
– Unrated (Note)	14,963,099	12,295,699
	42,382,327	16,386,225

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Financial Market Operations (Continued)

(iii) Credit rating (Continued)

The following tables represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic:

	As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Ratings				
– AAA- to AAA+	17,370,397	–	–	17,370,397
– AA- to AA+	9,105,621	–	–	9,105,621
– A- to A+	–	–	–	–
– Lower than A	1,039,466	–	–	1,039,466
– Unrated (Note)	14,963,099	–	–	14,963,099
	42,478,583	–	–	42,478,583
Provision for impairment loss	(96,256)	–	–	(96,256)
	42,382,327	–	–	42,382,327

Note: Debt securities held by the Group mainly issued by the Mainland China government and policy banks which are creditworthy issuers in the market, but not rated by independent rating agencies.

48. FINANCIAL 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, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial market operations. The board assumes ultimate responsibility for management of market risk. The senior management implements market risk management strategies and policies as approved by the board of the Bank. The Group's business departments implement market risk management measures in their daily operations.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

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.

Sensitivity 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.

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.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

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.

Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The planning and finance department is responsible for 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.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury’s investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

(i) *The following tables indicate the assets and liabilities as at December 31, 2018 and 2017 by the expected next repricing dates or by maturity dates, depending on which is earlier:*

	At December 31, 2018					
	Total RMB'000	Non-interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
Assets						
Cash and deposits with the central bank	31,536,912	432,435	31,104,477	–	–	–
Deposits with banks	12,927,702	–	8,903,411	4,024,291	–	–
Financial assets held under resale agreement	19,523,812	–	19,523,812	–	–	–
Interests receivable	1,891,235	1,891,235	–	–	–	–
Loans and advances to customers (Note (i))	154,633,858	5,777,801	67,559,132	55,280,850	24,044,670	1,971,405
Investments (Note (ii))	102,876,358	–	32,099,392	21,347,164	40,491,623	8,938,179
Others	5,232,494	5,232,494	–	–	–	–
	328,622,371	13,333,965	159,190,224	80,652,305	64,536,293	10,909,584
Liabilities						
Borrowing from the central bank	11,650,851	–	4,835,821	6,815,030	–	–
Deposits from banks and other financial institutions	15,513,772	57,428	5,786,344	9,170,000	500,000	–
Placements from banks and other financial institutions	3,300,000	–	–	3,300,000	–	–
Financial assets sold under repurchase agreements	11,716,985	–	11,716,985	–	–	–
Deposits from customers	210,723,317	–	99,502,880	20,943,041	85,410,833	4,866,563
Interests payable	6,418,933	6,418,933	–	–	–	–
Debt securities issued	41,576,773	–	10,516,225	21,869,766	5,993,685	3,197,097
Others	2,474,149	2,474,149	–	–	–	–
	303,374,780	8,950,510	132,358,255	62,097,837	91,904,518	8,063,660
Asset-liability gap	25,247,591	4,383,455	26,831,969	18,554,468	(27,368,225)	2,845,924

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

(i) *The following tables indicate the assets and liabilities as at December 31, 2018 and 2017 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)*

	At December 31, 2017					
	Total RMB'000	Non-interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
Assets						
Cash and deposits with the central bank	29,084,415	492,372	28,592,043	–	–	–
Deposits with banks	30,811,728	–	12,409,928	18,401,800	–	–
Financial assets held under resale agreement	9,819,920	–	9,819,920	–	–	–
Interests receivable	1,268,593	1,268,593	–	–	–	–
Loans and advances to customers (Note (i))	125,254,681	2,001,005	55,350,847	52,337,043	13,952,718	1,613,068
Investments (Note (ii))	70,105,461	–	14,885,188	18,661,409	32,251,226	4,307,638
Others	4,802,819	4,802,819	–	–	–	–
	271,147,617	8,564,789	121,057,926	89,400,252	46,203,944	5,920,706
Liabilities						
Borrowing from the central bank	5,290,410	–	1,787,291	3,503,119	–	–
Deposits from banks and other financial institutions	20,178,373	–	8,236,473	11,341,900	600,000	–
Placements from banks and other financial institutions	1,050,000	–	1,000,000	–	50,000	–
Financial assets sold under repurchase agreements	5,817,526	–	5,817,526	–	–	–
Deposits from customers	192,230,603	–	106,737,790	29,377,220	56,115,593	–
Interests payable	4,305,460	4,305,460	–	–	–	–
Debt securities issued	23,960,759	–	4,991,572	11,281,147	6,696,189	991,851
Others	1,701,447	1,701,447	–	–	–	–
	254,534,578	6,006,907	128,570,652	55,503,386	63,461,782	991,851
Asset-liability gap	16,613,039	2,557,882	(7,512,726)	33,896,866	(17,257,838)	4,928,855

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2018 and 2017 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

Notes:

(i) As at December 31, 2018, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of approximately RMB724,176,000 (2017: approximately RMB370,347,000).

(ii) Investments include financial assets at fair value through profit or loss, financial assets at amortised cost, debt instrument at fair value through other comprehensive income, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity.

The following tables demonstrate the sensitivity as at December 31, 2018 and 2017, assuming other variables remain unchanged, an increase in estimated interest rate, of the Group's net profit and equity.

	Effect on net profit	
	2018 RMB'000	2017 RMB'000
Change in basis points		
Increase 100 basis points	151,115	174,652
Decrease 100 basis points	(151,115)	(174,652)

	Effect on equity	
	2018 RMB'000	2017 RMB'000
Change in basis points		
Increase 100 basis points	419,579	371,636
Decrease 100 basis points	(419,579)	(371,636)

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at December 31, 2018 and 2017 apply to non-derivative financial instruments of the Group.
- At December 31, 2018 and 2017, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months.
- There is a parallel shift in the yield curve with the changes in interest rates.
- There are no other changes to the assets and liabilities portfolio.
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

The Group's foreign currency risk mainly arises from exchange rate fluctuation on its foreign exchange exposures. The Group manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2018 and 2017 are as follows:

	At December 31, 2018			
	RMB'000	USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	Total (RMB'000 equivalent)
Assets				
Cash and deposits with the central bank	31,536,904	3	5	31,536,912
Deposits with banks	12,453,738	216,983	256,981	12,927,702
Financial assets held under resale agreements	19,523,812	–	–	19,523,812
Financial assets at fair value through profit or loss	42,560,973	–	–	42,560,973
Interests receivables	1,846,904	43,413	918	1,891,235
Loans and advances to customers	154,633,858	–	–	154,633,858
Debt instruments at fair value through other comprehensive income	15,249,097	–	–	15,249,097
Financial assets at amortised cost	41,630,920	3,435,368	–	45,066,288
Available-for-sale financial assets	–	–	–	–
Held-to-maturity assets	–	–	–	–
Debt securities classified as receivables	–	–	–	–
Others	5,232,494	–	–	5,232,494
	324,668,700	3,695,767	257,904	328,622,371
Liabilities				
Borrowing from the central bank	11,650,851	–	–	11,650,851
Deposits from banks and other financial institutions	15,456,344	2,801	54,627	15,513,772
Financial assets sold under repurchase agreements	11,716,985	–	–	11,716,985
Placements from banks and other financial institutions	3,300,000	–	–	3,300,000
Deposits from customers	210,722,407	908	2	210,723,317
Interests payable	6,418,933	–	–	6,418,933
Debt securities issued	41,576,773	–	–	41,576,773
Others	2,474,149	–	–	2,474,149
	303,316,442	3,709	54,629	303,374,780
Net position	21,352,258	3,692,058	203,275	25,247,591
Off-balance sheet credit commitments	27,498,842	–	–	27,498,842

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2018 and 2017 are as follows: (Continued)

	At December 31, 2017			
	RMB'000	USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	Total (RMB'000 equivalent)
Assets				
Cash and deposits with the central bank	29,084,380	3	32	29,084,415
Deposits with banks	30,351,756	204,711	255,261	30,811,728
Financial assets held under resale agreements	9,819,920	–	–	9,819,920
Financial assets at fair value through profit or loss	249,636	–	–	249,636
Interests receivables	1,268,076	479	38	1,268,593
Loans and advances to customers	125,254,498	183	–	125,254,681
Available-for-sale financial assets	13,057,235	–	–	13,057,235
Held-to-maturity assets	8,615,964	–	–	8,615,964
Debt securities classified as receivables	48,182,626	–	–	48,182,626
Others	4,802,819	–	–	4,802,819
	270,686,910	205,376	255,331	271,147,617
Liabilities				
Borrowing from the central bank	5,290,410	–	–	5,290,410
Deposits from banks and other financial institutions	20,107,507	2,667	68,199	20,178,373
Financial assets sold under repurchase agreements	5,817,526	–	–	5,817,526
Placements from banks and other financial institutions	1,050,000	–	–	1,050,000
Deposits from customers	192,226,246	4,355	2	192,230,603
Interests payable	4,305,460	–	–	4,305,460
Debt securities issued	23,960,759	–	–	23,960,759
Others	1,701,447	–	–	1,701,447
	254,459,355	7,022	68,201	254,534,578
Net position	16,227,555	198,354	187,130	16,613,039
Off-balance sheet credit commitments	29,892,393	–	578	29,892,971

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The table below indicates the potential effect of 100 basis points appreciation or depreciation of RMB spot and forward exchange rates against all other currencies on net profit.

	Effect on net profit	
	2018 RMB'000	2017 RMB'000
Change in basis points		
Increase 100 basis points	29,215	4
Decrease 100 basis points	(29,215)	(4)

The impact on net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign currency monetary assets and monetary liabilities. Changes in foreign currency exchange rate will not affect other comprehensive income.

The effect on net profit is calculated based on the assumption that the Group's net foreign currency exposure at the end of each reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

48. FINANCIAL 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 sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The planning and finance department is responsible for the development of liquidity risk management strategies, policies, procedures and limits, and routine supervision and monitoring of liquidity risks. It establishes and implements internal control systems relating to liquidity risk management, such as Liquidity Risk Management Measures (流動性風險管理辦法) and Contingency Plan for Liquidity Risks (流動性風險應急預案). The planning and finance department is also responsible for setting annual liquidity management objectives and liquidity management profile plans. It also monitors and adjusts these plans on a quarterly basis in order to maintain a reasonable assets and liabilities structure.

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 stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

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 December 31, 2018 and 2017:

	At December 31, 2018						
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	Total RMB'000
Assets							
Cash and deposits with the central bank	24,717,006	6,819,906	–	–	–	–	31,536,912
Deposits with banks	–	4,038,582	4,864,829	4,024,291	–	–	12,927,702
Financial assets held under resale agreements	–	–	19,523,812	–	–	–	19,523,812
Financial assets at fair value through profit or loss	–	–	24,428,874	8,262,845	8,654,058	1,215,196	42,560,973
Interests receivables	–	13,261	558,885	1,214,680	104,408	1	1,891,235
Loans and advances to customers	3,586,265	2,191,560	18,517,127	65,564,757	46,074,447	18,699,702	154,633,858
Debt instruments at fair value through other comprehensive income	–	–	299,662	8,451,771	6,497,664	–	15,249,097
Financial assets at amortised cost	–	–	7,420,514	13,034,661	23,385,794	1,225,319	45,066,288
Available-for-sale financial assets	–	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–	–
Debt securities classified as receivables	–	–	–	–	–	–	–
Others	5,053,374	–	–	–	179,120	–	5,232,494
	33,356,645	13,063,309	75,613,703	100,553,005	84,895,491	21,140,218	328,622,371
Liabilities							
Borrowing from the central bank	–	–	4,835,821	6,815,030	–	–	11,650,851
Deposits from banks and other financial institution	–	1,093,772	4,750,000	9,170,000	500,000	–	15,513,772
Placements from banks and other financial institutions	–	–	–	3,300,000	–	–	3,300,000
Financial assets sold under repurchase agreements	–	–	11,716,985	–	–	–	11,716,985
Deposits from customers	–	81,896,474	17,606,406	20,943,041	85,410,833	4,866,563	210,723,317
Interests payable	–	5,873,309	124,021	400,377	21,226	–	6,418,933
Debt securities issued	–	–	10,516,225	21,869,766	5,993,685	3,197,097	41,576,773
Others	61,455	1,093,044	1,319,650	–	–	–	2,474,149
	61,455	89,956,599	50,869,108	62,498,214	91,925,744	8,063,660	303,374,780
Long/(short) position	33,295,190	(76,893,290)	24,744,595	38,054,791	(7,030,253)	13,076,558	25,247,591

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

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 December 31, 2018 and 2017: (Continued)

	At December 31, 2017						
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	Total RMB'000
Assets							
Cash and deposits with the central bank	25,070,164	4,014,251	–	–	–	–	29,084,415
Deposits with banks	–	3,121,780	9,288,148	18,401,800	–	–	30,811,728
Financial assets held under resale agreements	–	–	9,819,920	–	–	–	9,819,920
Financial assets at fair value through profit or loss	–	–	249,636	–	–	–	249,636
Interests receivables	–	–	621,592	579,510	67,489	2	1,268,593
Loans and advances to customers	1,630,657	370,347	18,326,795	61,298,093	33,056,263	10,572,526	125,254,681
Available-for-sale financial assets	–	–	1,811,400	5,255,339	4,255,033	1,735,463	13,057,235
Held-to-maturity investments	–	–	85,140	597,929	7,264,895	668,000	8,615,964
Debt securities classified as receivables	–	–	12,861,867	13,288,461	20,111,548	1,920,750	48,182,626
Others	3,535,849	–	–	–	1,266,970	–	4,802,819
	30,236,670	7,506,378	53,064,498	99,421,132	66,022,198	14,896,741	271,147,617
Liabilities							
Borrowing from the central bank	–	–	1,787,291	3,503,119	–	–	5,290,410
Deposits from banks	–	531,473	7,705,000	11,341,900	600,000	–	20,178,373
Placements from banks and other financial institutions	–	–	1,000,000	–	50,000	–	1,050,000
Financial assets sold under repurchase agreements	–	–	5,817,526	–	–	–	5,817,526
Deposits from customers	–	92,713,839	14,023,951	29,377,220	56,115,593	–	192,230,603
Interests payable	–	3,684,093	167,848	312,419	141,100	–	4,305,460
Debt securities issued	–	–	4,991,572	11,281,147	6,696,189	991,851	23,960,759
Others	–	623,749	1,077,698	–	–	–	1,701,447
	–	97,553,154	36,570,886	55,815,805	63,602,882	991,851	254,534,578
Long/(short) position	30,236,670	(90,046,776)	16,493,612	43,605,327	2,419,316	13,904,890	16,613,039

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2018 and 2017:

Note: Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial assets at FVTPL, debt instrument at FVTOCI, financial assets at amortised cost, held-to maturity investment and debt securities classified as receivables and available-for-sale financial assets represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

	At December 31, 2018						
	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years and indefinite RMB'000
Non-derivative financial liabilities							
Borrowings from the central bank	11,650,851	11,805,665	–	4,899,614	6,906,051	–	–
Deposits from banks	15,513,772	16,049,647	1,141,577	4,898,085	9,501,659	508,326	–
Placements from bank and other financial institutions	3,300,000	3,373,494	–	–	3,373,494	–	–
Financial assets sold under repurchase agreements	11,716,985	11,732,522	–	11,732,522	–	–	–
Deposits from customers	210,723,317	215,448,790	81,896,473	17,794,480	21,351,735	89,534,184	4,871,918
Debt securities issued	41,576,773	43,547,206	–	10,563,574	22,284,396	7,170,753	3,528,483
Other liabilities	2,412,695	2,412,695	2,412,695	–	–	–	–
	296,894,393	304,370,019	85,450,745	49,888,275	63,417,335	97,213,263	8,400,401
Off-balance sheet credit commitments	27,498,842	27,498,842	359,224	12,218,314	299,866	14,336,602	284,836

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2018 and 2017: (Continued)

	At December 31, 2017						
	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years and indefinite RMB'000
Non-derivative financial liabilities							
Borrowings from the central bank	5,290,410	5,300,019	–	1,795,931	3,504,088	–	–
Deposits from banks and other financial institution	20,178,373	27,659,503	531,473	8,925,717	17,586,092	616,221	–
Placements from bank and other financial institutions	1,050,000	1,061,395	–	1,004,856	1,789	54,750	–
Financial assets sold under repurchase agreements	5,817,526	5,832,132	–	5,832,132	–	–	–
Deposits from customers	192,230,603	198,435,602	92,711,422	13,206,984	24,370,888	68,146,308	–
Debt securities issued	23,960,759	24,101,858	–	4,991,572	11,281,147	6,837,288	991,851
Other financial liabilities	1,701,446	1,701,446	623,748	1,077,698	–	–	–
	250,229,117	264,091,955	93,866,643	36,834,890	56,744,004	75,654,567	991,851
Off-balance sheet credit commitments	–	29,892,971	–	8,776,564	20,767,034	64,559	284,814

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, settlement, intermediary business and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities

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 policy models or discounted cash flows.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at December 31, 2018 and December 31, 2017.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on the present value of estimated future cash flows at December 31, 2018 and December 31, 2017. 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 December 31, 2018 and December 31, 2017.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available for sale equity investment is stated as cost less impairment losses. Available-for-sale debt investments, debt instrument at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value.

The carrying amount and fair value of financial assets at amortised cost and held-to-maturity investments are disclosed in Note 20 and the carrying value of debt securities classified as receivables approximate to their fair value.

49. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair value measurement (Continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, deposits from customers and debts securities issued.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the consolidated statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. These three types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

49. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

	At December 31, 2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVTPL				
– debt securities held for trading	–	8,811,736	–	8,811,736
– trust plans	–	263,294	–	263,294
– asset management plans	–	25,341,432	–	25,341,432
– investment funds	–	6,970,953	–	6,970,953
– financial assets designated at FVTPL	–	1,173,558	–	1,173,558
Debt instruments at FVOCI				
– debt securities	–	15,249,097	–	15,249,097
	–	57,810,070	–	57,810,070

	At December 31, 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVTPL				
– debt securities held for trading	–	249,636	–	249,636
Available-for-sale financial assets				
– debt securities	–	7,605,766	–	7,605,766
– asset-backed securities	–	110,973	–	110,973
– trust plans	–	792,030	–	792,030
– asset management plans	–	3,510,178	–	3,510,178
– wealth management products issued by other financial institutions	–	730,157	–	730,157
– investment funds	–	298,131	–	298,131
	–	13,296,871	–	13,296,871

During the year ended December 31, 2018, there were no significant transfers among each level (2017: nil).

49. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

(i) The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Bank include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

(ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets	Fair value as at, December 31, 2018 RMB'000	December 31, 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL				
Debt securities – listed	8,811,736	249,636	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Trust plans	263,294	–	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Asset management plans	25,341,432	–	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Investment funds	6,970,953	–	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Other debt securities	1,173,558	–	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Debt instruments at FVOCI				
Debt securities – listed	15,249,097	–	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Available-for-sale financial assets				
Debt securities – listed	–	7,605,766	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model

49. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

(ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below: (Continued)

Financial assets	Fair value as at, December 31, 2018 RMB'000	December 31, 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Asset-back securities – listed	–	110,973	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Trust plans	–	792,030	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Asset management plans	–	3,510,178	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Wealth management products issued by other financial institutions	–	730,157	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Investment funds	–	298,131	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses

50. ENTRUSTED LENDING BUSINESS

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	2018 RMB'000	2017 RMB'000
Entrusted loans	3,739,920	3,462,418
Entrusted funds	3,739,920	3,462,418

51. COMMITMENTS

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The Group provides financial guarantees to guarantee the performance of customers to third parties. 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 the customers.

	2018 RMB'000	2017 RMB'000
Loan commitments	–	24,000
Acceptances	26,418,071	29,352,762
Letters of guarantees	721,547	516,209
Unused credit card commitment	359,224	–
	27,498,842	29,892,971

The Group may be exposed to credit risk in all the above credit businesses. Group 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) Operating lease commitments

As at December 31, 2018 and 2017, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group as lessee

	2018 RMB'000	2017 RMB'000
Within one year	142,223	150,123
In the second to fifth years inclusive	165,992	198,409
Over five years	11,847	24,415
	320,062	372,947

51. COMMITMENTS (CONTINUED)

(c) Capital commitments

At December 31, 2018 and 2017, the Group's authorised capital commitments are as follows:

The Group

	2018 RMB'000	2017 RMB'000
Purchase of property and equipment – Contracted for but not provided	38,655	298,819

52. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at December 31, 2018, in light of court decisions or advice from legal counsels, the directors of the Bank considered it not necessary to provide for potential losses from these claims. The directors of the Bank believe, based on legal advices, the final result of the lawsuits will not have any material impact on the financial position or operations of the Group.

53. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows from financing activities.

	January 1, 2018 RMB'000	Financing cash flows RMB'000	Non-cash change Finance cost incurred RMB'000	December 31, 2018 RMB'000
Liabilities				
Debt securities issued (Note 38)	23,960,759	17,182,603	433,411	41,576,773
Interests payable on debt securities issued (Note 37)	141,099	(1,086,709)	1,132,928	187,318
Dividend payable (Note 39)	8,701	(141)	–	8,560
	24,110,559	16,095,753	1,566,339	41,772,651

53. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

	January 1, 2017 RMB'000	Financing cash flows RMB'000	Non-cash Change Finance cost incurred RMB'000	December 31, 2017 RMB'000
Liabilities				
Debt securities issued (Note 38)	10,134,895	13,182,356	643,508	23,960,759
Interests payable on debt securities issued (Note 37)	9,390	(170,775)	302,484	141,099
Dividend payable (Note 39)	8,997	(296)	–	8,701
	10,153,282	13,011,285	945,992	24,110,559

54. STATEMENTS OF FINANCIAL POSITION OF THE BANK

	Note	2018 RMB'000	2017 RMB'000
Assets			
Cash and deposits with the central bank		31,319,576	28,915,911
Deposits with banks		12,736,474	30,681,679
Financial assets held under resale agreements		19,523,812	9,819,920
Financial assets at amortised cost		45,066,288	–
Interests receivables		1,889,604	1,266,798
Loans and advances to customers		154,013,523	124,638,088
Financial assets at fair value through profit or loss		42,560,973	249,636
Debt instrument at fair value through other comprehensive income		15,249,097	–
Available-for-sale financial assets		–	13,057,235
Held-to-maturity investments		–	8,615,964
Debt securities classified as receivables		–	48,182,626
Interest in an associate		8,970	9,930
Investment in a subsidiary	26	29,250	29,250
Property and equipment		2,998,248	1,742,714
Deferred tax assets		1,713,615	1,462,350
Other assets		492,220	1,569,106
Total assets		327,601,650	270,241,207

54. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

	Note	2018 RMB'000	2017 RMB'000
Liabilities and equity			
Liabilities			
Borrowings from the central bank		11,580,851	5,140,410
Deposits from banks and other financial institutions		15,679,876	20,564,712
Placements from banks and other financial institutions		3,300,000	1,050,000
Financial assets sold under repurchase agreements		11,716,985	5,817,526
Deposits from customers		209,681,708	191,162,096
Accrued staff costs		477,901	396,585
Taxes payable		486,788	568,992
Interests payable		6,406,429	4,295,527
Debts securities issued		41,576,773	23,960,759
Deferred tax liabilities		135,263	–
Other liabilities		1,366,433	727,854
Total liabilities		302,409,007	253,684,461
Equity			
Share capital		10,069,791	7,525,991
Capital reserve	(ii)	4,657,760	1,767,105
Defined benefit plan reserve	(ii)	(4,156)	(744)
Investment revaluation reserve	(ii)	261,427	(125,323)
Surplus reserve	(ii)	1,510,052	892,953
General reserve	(ii)	4,399,431	3,614,058
Retained earnings	(ii)	4,298,338	2,882,706
Total equity		25,192,643	16,556,746
Total liabilities and equity		327,601,650	270,241,207

54. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

Notes:

(i) Investment in a subsidiary

(ii) Reserve of the Bank

	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2018	1,767,105	(744)	(125,323)	892,953	3,614,058	2,882,706	9,030,755
Change in accounting policy	–	–	138,025	(61,310)	–	(551,796)	(475,081)
At January 1, 2018	1,767,105	(744)	12,702	831,643	3,614,058	2,330,910	8,555,674
Profit for the year	–	–	–	–	–	3,431,210	3,431,210
Other comprehensive expenses for the year	–	(3,412)	248,725	–	–	–	245,313
Total comprehensive (expenses)/income for the year	–	(3,412)	248,725	–	–	3,431,210	3,676,523
Shareholders' injection (Note 41)	500	–	–	–	–	–	500
Change in share capital							
Capital contributed by equity shareholders	3,058,642	–	–	–	–	–	3,058,642
Share issue expenses	(168,487)	–	–	–	–	–	(168,487)
– Appropriation of profits							
– Appropriation to surplus reserve	–	–	–	678,409	–	(678,409)	–
– Appropriation to general reserve	–	–	–	–	785,373	(785,373)	–
Dividends paid	–	–	–	–	–	–	–
At December 31, 2018	4,657,760	(4,156)	261,427	1,510,052	4,399,431	4,298,338	15,122,852

54. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

Notes: (Continued)

(ii) Reserve of the Bank (Continued)

	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2017	1,764,629	(4,066)	(27,141)	557,666	3,213,847	265,325	5,770,260
Profit for the year	–		–	–	–	3,352,879	3,352,879
Other comprehensive income/ (expenses) for the year	–	3,322	(98,182)	–	–	–	(94,860)
Total comprehensive income/(expenses) for the year	–	3,322	(98,182)	–	–	3,352,879	3,258,019
Shareholders' injection (Note 40)	2,476	–	–	–	–	–	2,476
Appropriation of profits							
– Appropriation to surplus reserve	–	—		335,287	–	(335,287)	–
– Appropriation to general reserve	–	–	–	–	400,211	(400,211)	–
At December 31, 2017	1,767,105	(744)	(125,323)	892,953	3,614,058	2,882,706	9,030,755

55. EVENT AFTER THE REPORTING PERIOD

Subsequent to December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB9,760,000,000. The details set out in the announcement dated on March 27, 2019.

Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1. LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (%)

	At December 31, 2018	Average for the year ended December 31, 2018
Liquidity coverage ratio (RMB and foreign currency)	198.28%	183.90%

	At December 31, 2017	Average for the year ended December 31, 2017
Liquidity coverage ratio (RMB and foreign currency)	159.47%	162.77%

Leverage Ratio

	At December 31, 2018
Leverage Ratio (RMB and foreign currency)	7.02%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the China Banking Regulatory Commission ("CBRC") and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

Pursuant to the Leverage Ratio Management of Commercial Banks issued by CBRC and was effective since April 1, 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 CBRC and based on the financial information prepared in accordance with the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP").

(Amounts in thousands of Renminbi, unless otherwise stated)

2. CURRENCY CONCENTRATIONS

	At December 31, 2018		
	USD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	3,695,767	257,904	3,953,671
Spot liabilities	(3,709)	(54,629)	(58,338)
Net position	3,692,058	203,275	3,895,333

	At December 31, 2017		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	205,376	255,331	460,707
Spot liabilities	(7,022)	(68,201)	(75,223)
Net position	198,354	187,130	385,484

The above information is computed in accordance with the provisions of the CBRC. The Group has no structural position as at December 31, 2018 and 2017.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within People's Republic of China ("PRC"), and regards all claims on third parties outside PRC as international claims.

International claims include loans and advances to customers, deposits with the central bank, amounts due from banks and other financial institutions.

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.

	At December 31, 2018	2017
Deposit with banks		
Asia Pacific excluding mainland China	305,575	117,796
Europe	–	–
	305,575	117,796

4. LOANS AND ADVANCES OVERDUE FOR MORE THAN 90 DAYS BY GEOGRAPHICAL SEGMENTS

	At December 31, 2018	2017
Gansu Region	3,625,765	3,168,062
Mainland China excluding Gansu Region	1,398,652	156,553
Total	5,024,417	3,324,615

(Amounts in thousands of Renminbi, unless otherwise stated)

5. GROSS AMOUNT OF LOANS AND ADVANCES OVERDUE FOR MORE THAN 90 DAYS

	At December 31, 2018	2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– Between three months and six months (inclusive)	2,486,766	584,606
– Between six months and one year (inclusive)	1,313,927	936,572
– Between one year and three years	1,018,092	1,356,042
– Over three years	205,631	447,395
Total	5,024,416	3,324,615
As a percentage of total gross loans and advances		
– Between three months and six months (inclusive)	1.55%	0.45%
– Between six months and one year (inclusive)	0.81%	0.72%
– Between one year and three years	0.63%	1.04%
– Over three years	0.13%	0.34%
Total	3.12%	2.55%

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

6. NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At December 31, 2018 and 2017, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.

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