



泸州市商业银行

LUZHOU CITY COMMERCIAL BANK

泸州市商业银行股份有限公司*

Luzhou City Commercial Bank Co., Ltd.*

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號：1983 Stock Code: 1983

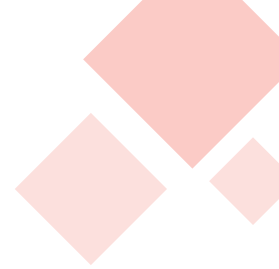
2018

年度報告

Annual Report



- * 泸州市商业银行股份有限公司並非香港法例第155章《銀行業條例》所指認可機構，不受香港金融管理局的監督，亦不獲授權在香港經營銀行／接受存款業務。
- * Luzhou City Commercial Bank Co., Ltd. is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.



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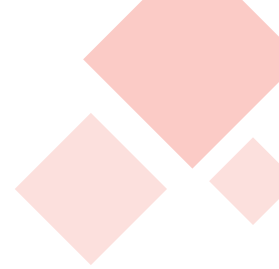
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Corporate Overview

I. CORPORATE PROFILE

- (i) Legal Names
 - 1. Legal Chinese name: 泸州市商业银行股份有限公司
(Abbreviation in Chinese: 泸州市商业银行)
 - 2. Legal English name: Luzhou City Commercial Bank Co., Ltd.
(Abbreviation in English: LUZHOU CITY COMMERCIAL BANK)
- (ii) Issued Capital: RMB2,264,793,385
- (iii) Legal Representative: Mr. YOU Jiang
- (iv) Authorized Representatives: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (v) Joint Company Secretaries: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (vi) Listing place of H shares: The Stock Exchange of Hong Kong Limited
- (vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)
- (viii) Registered Address: No. 1, Section 1 Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, PRC
- (ix) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
- (x) Contact Address:
No. 1, Section 1 Jiucheng Avenue, Luzhou, Sichuan
Post Code: 646000
Website: www.lzccb.cn
- (xi) Address for Inspection of this Annual Report: Office of the Board of Directors of the Bank
- (xii) Auditor: PricewaterhouseCoopers
- (xiii) PRC Legal Advisor: JunHe LLP
- (xiv) Hong Kong Legal Advisor: King & Wood Mallesons
- (xv) Compliance Advisor: TC Capital International Limited
- (xvi) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited
- (xvii) Registration Date: September 15, 1997

Corporate Overview



- (xviii) Registration Authority: Luzhou City Administration for Industry & Commerce in Sichuan Province, the PRC
- (xix) Unified Social Credit Code: 91510500708926271U
- (xx) Financial License Institution Number: B0210H251050001
- (xxi) Customer Service and Complaints Hotline: 0830-96830
- (xxii) Tel: 0830-2362606
- (xxiii) Fax: 0830-3100625
- (xxiv) E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou City Commercial Bank was established on September 15, 1997 as approved by the PBoC. The Bank has one branch in Chengdu, the PRC as well as seven primary sub-branches and 27 secondary sub-branches in Luzhou, the PRC. As at the end of the Reporting Period, our total assets amounted to RMB82,550 million; our total loans and advances to customers amounted to RMB31,279 million, and our total deposits amounted to RMB52,386 million.

Our H shares have been listed on the main board of Hong Kong Stock Exchange on December 17, 2018 (stock code: 1983).

III. MAJOR HONORS ACHIEVED IN 2018

“New Account Application Award (新型賬戶應用獎)” granted by Sichuan Branch of China UnionPay in January 2018.

“2017 Creditworthy Enterprise (2017年度誠信企業)” issued by Luzhou City Leadership Office of Credit System Development (瀘州市社會信用體系建設領導小組辦公室) in July 2018.

4th ranking in “2017 Most Competitive City Commercial Bank with Total Assets less than RMB100 billion (2017年度資產規模1,000億元以下城市商業銀行競爭力排名第四名)” granted in the awards for Chinese most competitive commercial banks in 2017 sponsored by the Banker (銀行家) magazine in September 2018.

Title of “Workers Vanguard of Sichuan (全省工人先鋒號)” awarded in the Awards of “Workers Vanguard of Sichuan” co-organized by Sichuan General Labour Union (四川省總工會) and PBoC Chengdu Branch in October 2018.

“2017 Best Green Finance Award (2017年度最佳綠色金融獎)” granted by Sichuan Banking Association (四川省銀行業協會) in December 2018.

Financial Summary

Unit: RMB'000

Item	2018	2017	Year-on-year change	2016	2015	2014
Operating results			change (%)			
Net interest income	1,772,398	1,574,335	12.58	1,155,636	885,201	527,997
Net fee and commission income	1,868	(1,890)	N/A	495	2,505	4,749
Operating income	1,934,088	1,679,956	15.13	1,306,982	942,180	689,955
Operating expenses	(686,928)	(543,168)	26.47	(437,427)	(273,227)	(183,881)
Expected credit losses/ Impairment losses	(396,810)	(324,846)	22.15	(155,669)	(89,136)	(84,843)
Profit before tax	853,990	814,486	4.85	716,800	587,646	428,341
Net profit	658,307	618,703	6.40	542,084	451,475	341,439
Net profit attributable to our shareholders	658,307	618,703	6.40	542,084	451,475	341,439
Per share (RMB)			Change			
Net assets per share attributable to our shareholders ⁽¹⁾	2.92	2.65	0.27	2.77	2.53	1.77
Basic earnings per share ⁽²⁾	0.40	0.38	0.02	0.35	0.52	0.47
Diluted earnings per share	0.40	0.38	0.02	0.35	0.52	0.47

Item	2018	2017	Year-on-year change	2016	2015	2014
Scale indicators (RMB'000)			change (%)			
Total assets	82,549,815	70,879,436	16.47	53,280,661	31,763,629	22,828,239
Of which: loans and advances to customers, net ⁽³⁾	30,486,354	18,833,833	61.87	14,159,076	9,703,381	7,415,618
Total liabilities	76,183,029	66,543,721	14.49	49,273,247	28,479,524	21,547,657
Of which: deposits from customers	52,385,604	42,145,297	24.30	31,018,756	20,383,361	14,448,352
Share capital	2,182,933	1,637,193	33.33	1,448,844	1,297,619	724,422
Equity attributable to our shareholders	6,366,786	4,335,715	46.85	4,007,414	3,284,105	1,280,582
Total equity	6,366,786	4,335,715	46.85	4,007,414	3,284,105	1,280,582

Financial Summary

Item	2018	2017	Year-on-year change	2016	2015	2014
Profitability indicators (%)			Change			
Return on average total assets ⁽⁴⁾	0.86	1.00	(0.14)	1.27	1.65	1.80
Return on average equity ⁽⁵⁾	14.66	14.83	(0.17)	14.87	19.68	29.59
Net interest spread ⁽⁶⁾	2.43	2.55	(0.12)	3.19	3.57	3.09
Net interest margin ⁽⁷⁾	2.53	2.65	(0.12)	3.24	3.76	3.23
Net fee and commission income to operating income ⁽⁸⁾	0.10	(0.11)	0.21	0.04	0.27	0.69
Cost-to-income ratio ⁽⁹⁾	34.54	31.89	2.65	31.46	24.27	21.61
Asset quality indicators (%)			Change			
NPL ratio	0.80	0.99	(0.19)	0.53	0.30	0.32
Allowance coverage ratio	319.36	294.49	24.87	486.63	920.63	813.18
Allowance to gross loan ratio	2.54	2.93	(0.39)	2.58	2.75	2.63
Capital adequacy indicators (%)			Change			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	10.69	10.40	0.29	12.68	17.53	10.91
Tier-one capital adequacy ratio ⁽¹⁰⁾	10.69	10.40	0.29	12.68	17.53	10.91
Capital adequacy ratio ⁽¹⁰⁾	13.29	13.69	(0.40)	13.62	18.58	12.01
Other indicators (%)			Change			
Liquidity ratio	73.40	48.42	24.98	44.99	57.72	28.79

Notes:

- (1) Net assets per share attributable to our shareholders = (equity attributable to our shareholders – other equity instruments)/the number of ordinary shares at the end of the period.
- (2) Basic earnings per share are calculated by dividing the net profit for the year/period attributable to shareholders of the Bank by the weighted average number of ordinary shares during the period.
- (3) Net loans and advances to customers = total loan and advances to customers – impairment allowance on loans and advances to customers.
- (4) Return on average total assets = net profit/the average balance of total assets at the beginning and the end of the period.
- (5) Return on average equity = net profit attributable to our shareholders of ordinary shares/the weighted average balance of equity attributable to our shareholders of ordinary shares at the beginning and the end of the period.
- (6) Net interest spread = the average yield on interest-earning assets – the average cost of interest-bearing liabilities.
- (7) Net interest margin = net interest income/the average balance of interest-earning assets.
- (8) Net fee and commission income to operating income = net fee and commission income/operating income.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (10) The capital adequacy ratio related indicators in the above table were calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory requirements.

Chairman's Statement



2018 is an eventful year in the development history of Luzhou City Commercial Bank, in which we experienced complex and ever-changing economic situation and intense industry competition. With the support from our shareholders and various sectors of the society and concerted efforts of more than 800 employees, the Bank earnestly implemented national policies and regulatory requirements and took full advantages of short decision-making chain and high efficiency of the first-grade corporation system, achieving many exciting results.

In 2018, we grasped the opportunity and successfully landed on the international capital market – Hong Kong through 386 days' remitting efforts, and raised nearly HK\$2 billion. As a result, we became the second listed bank in Sichuan and the first listed bank in prefecture-level cities in West China, with capital strength and recognition enhanced significantly. We set up International Business Department, Supply Chain Financing Department, Huirongtong Small Micro Loan Center and other important departments and built the first smart banking outlet in Luzhou. Six

of our sub-branches were approved to be established or commence operation. All of these contributed to our enlarged business scope and improved regional layout.

In 2018, our three indicators (assets, deposits and loans) continued to maintain good growth momentum, and our savings deposits outshone those of local counterparts in terms of increase percentage and net increase amount. During the year, our Bank realized net profit of RMB658 million, representing a year-on-year increase of 6.40%, and the non-performing ratio remained below 1%. We started building a comprehensive risk management system, and the Board passed the comprehensive risk management proposal. We innovatively carried out internal inspections and maintained the good record of “zero accident” in 21 years since our establishment. Our risk prevention measures became more scientific and comprehensive. Our development quality was highly recognized by external institutions of audit and regulatory. We were elected as the “4th in Most Competitive City Commercial Bank with Total Assets less than RMB100 billion” by Chinese Banker (中國銀行家) and won “Green Finance Award” and title of “Workers Vanguard of Sichuan”.

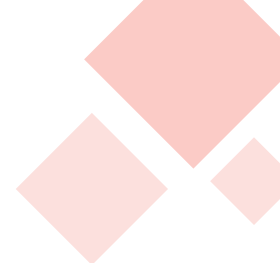
The above cannot be achieved without the efforts of all staff and the support from our customers, investors and friends from the community. I hereby extend our sincere thanks on behalf of the Board to our business management, our staff and all of the friends who care about and support the development of the Bank!

God will help those who help themselves as time marches on. The year 2019 marks a start of our listing, and following Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will work together with our staff to overcome all difficulties, continue to improve our efficiency and forge ahead toward high-quality development with higher standards and stricter requirements to deliver satisfactory results to our investors and the community.

A handwritten signature in black ink, appearing to read 'Jiang 12'.

YOU Jiang
Chairman

President's Statement



The year 2018 is a fruitful year in the development history of Luzhou City Commercial Bank. In the backdrop of economic downturn and stringer regulation, we achieved good results by intensified reform and innovative development under the correct leadership of the Board.

During the year, our total assets reached RMB82,550 million, represented a year-on-year increase of 16.47%; our total deposits amounted to RMB52,386 million, represented a year-on-year increase of 24.30%; our total loans and advances to customers amounted to RMB31,279 million, represented a year-on-year increase of 61.22%. During the year, our Bank realized net profit of RMB658 million, representing a year-on-year increase of 6.40%, and the non-performing ratio was 0.80%, representing a decrease of 0.19 percentage point as compared to the beginning of the year, the lowest among city commercial banks in the province. We launched such new businesses as horoscope card, safe deposit box and precious metal and established strategic partnership with Mashang Consumer Finance, Tianfu Bond Insurance, WeBank and others.

During the year, we actively performed our social responsibilities and lent full support to local economic development. We provided financing for key projects including Luzhou Yunlong Airport and the Inter-city Railway of Southern Sichuan and stepped up support for private business and micro and small enterprises by setting up a Huirongtong small micro loan institution. We took the lead in extending the adjustable rate mortgage loan among all the financial institutions in the city and outstripped local counterparts in the number of loans issued to smart terminal enterprises. In support of Luzhou Municipal Government's intensified reform of "simplifying procedures, decentralizing powers, enhancing supervision, and optimizing public services (放管服)" and "one-time effort (最多跑一次)", we worked with industrial and commercial authority and tax authority to provide enterprises with a series of integrated services including industrial and commercial registration, tax payment, account opening and financing in our outlets.

During the year, we made great efforts to develop fintech and improve our team building. By establishing the IT innovation center and the first smart bank outlet in the city, introducing more smart machines and speeding up transformation of traditional outlets, our off-counter business rate reached 88.77%. Through technological exchange,



we built partnership with numerous quality customers, pointing to an increasingly strong role of technology in business marketing. We established a talent management system focusing on "recruiting, attracting, training and retaining talents" and introduced over 200 top talents throughout the year. We cooperated with many famous colleges and universities to organize a range of talent cultivation activities including middle-level cadre promotion training, on-job postgraduate education and high-end finance certificate exam. With staff age and educational background structures tending to be more rational, the overall quality of our staff was improved further.

In 2019, following the overall strategy and objective formulated by the Board, all of our staff will work hard and diligently to achieve greater results!

XU Xianzhong
President

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

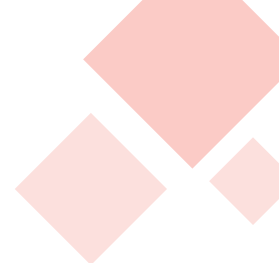
1 ENVIRONMENT AND PROSPECT

Over the forty years of reformation and opening up, China has been one of the world's fastest growing economies and has become the world's second largest economy since 2010. According to the statistics provided by National Bureau of Statistics, China's GDP maintained a middle-to-high growth from RMB59.5 trillion in 2013 to RMB90.03 trillion in 2018, representing an increase of 6.6% when compared with last year. National economic movement maintained at a reasonable range, as increasingly characterized by advancement amid stability on the whole.

Situated at the intersection of Silk Road Economic Belt and Yangtze River Economic Belt, Sichuan Province is known for its large population, abundant resources and high GDP growth. Thanks to the advantageous geographic location, favourable regulatory environment, various policy support in infrastructure construction, trade and economic development, it achieved a continued, rapid economic growth in the last few years. On April 1, 2017, the State Council approved the establishment of China (Sichuan) Pilot Free Trade Zone (中國(四川)自由貿易試驗區), which further propelled the transformation of Sichuan Province from an inland province to the forefront of opening up. At the end of 2018, the GDP of Sichuan Province exceeded RMB4 trillion for the first time, which amounted to RMB4,067.813 billion, representing an increase of 8% as compared to the previous year. The economic aggregate of the whole province came to a new height. New breakthroughs were achieved in economic structure, unleashing new impetus for economic growth. In general, the economy of Sichuan Province advanced amid stability.

Located in the southeast of the Sichuan Province, Luzhou is at the junction of Sichuan, Chongqing, Yunnan and Guizhou and the convergence of the Yangtze River and Tuojiang River. Taking into account its unique geographic location and advanced river-based transportation system, Luzhou is well-positioned to take natural advantage in its economy development. According to the Chengdu and Chongqing City Cluster Development Plan (成渝城市群發展規劃) issued by the National Development and Reform Commission, Luzhou is positioned to be a regional central city in southern Sichuan Province. In 2017, Luzhou became the only prefecture-level city in West China out of a third batch of government endorsed pilot Free Trade Zones, or FTZs, with the launch of Chuannan Lingang FTZ under the Overall Plan for the China (Sichuan) Pilot FTZ (中國(四川)自由貿易試驗區川南臨港片區). Capitalizing on favorable policies and its relevant geographic advantages, Luzhou expedited the development of three key industrial zones in its jurisdiction, namely, Luzhou Hi-Tech Industrial Development Zone (瀘州國家高新區), Luzhou Yangtze River Economic Development Zone (瀘州長江經濟開發區) and China Liquor Golden Triangular Industrial Zone (中國白酒金三角酒業園區), through which, it managed to further enjoy the benefits of development of Yangtze River Economy Belt promoted by the PRC Government. In 2018, the GDP of Luzhou increased to RMB169.5 billion from RMB114.0 billion in 2013, representing a growth of 7.6% as compared to the previous year calculated at comparable prices.

Management Discussion and Analysis



2 DEVELOPMENT STRATEGIES

In 2019, under the basic operation guideline of establishing a bank with “first-class management, excellent operations, competitive compensation and best brand recognition”, we will, by strategic orientation, improve management, explore transformation and innovation, enhance risk control and compliance and actively grasp new opportunities with a new look in the new era to promote our new development and continuously make new breakthroughs.

3 ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial Results Highlights

Unit: RMB'000

Item	2018	2017
Net interest income	1,772,398	1,574,335
Net fee and commission income	1,868	(1,890)
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	159,822	107,511
Operating expenses	(686,928)	(543,168)
Expected credit losses/Impairment losses	(396,810)	(324,846)
Share of profits of associates	3,640	2,544
Profit before tax	853,990	814,486
Income tax expenses	(195,683)	(195,783)
Net profit	658,307	618,703
Of which: net profit attributable to our shareholders	658,307	618,703

In 2018, the Bank's profit before tax amounted to RMB854 million, representing an increase of RMB40 million or 4.85% as compared to the previous year, and the net profit amounted to RMB658 million, representing an increase of RMB39 million or 6.40% as compared to the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before tax for the year 2018.

Unit: RMB'000

Item	Amount
Profit before tax in 2017	814,486
Changes in 2018	
Changes in net interest income	198,063
Changes in net fee and commission income	3,758
Changes in net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	52,311
Changes in operating expenses	(143,760)
Changes in impairment losses on assets	(71,964)
Changes in share of profits of associates	1,096
Profit before tax in 2018	853,990

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

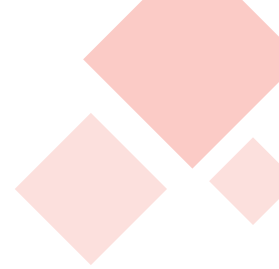
3.2 Operating Income

In 2018, the Bank's operating income amounted to RMB1,934 million, representing an increase of RMB254 million or 15.13% as compared to the previous year, of which net interest income accounted for 91.64%, representing a decrease of 2.07 percentage points as compared to the previous year. Net non-interest income amounted to RMB162 million, accounting for 8.36%. The following table sets forth the year-on-year comparison of the components of the Bank's operating income in the past five years.

Unit: %

Item	2018	2017	2016	2015	2014
Net interest income	91.64	93.71	88.42	93.95	76.53
Net fee and commission income	0.10	(0.11)	0.04	0.27	0.69
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	8.26	6.40	11.54	5.78	22.78
Total	100.00	100.00	100.00	100.00	100.00

Management Discussion and Analysis



3.3 Net Interest Income

In 2018, the Bank's net interest income amounted to RMB1,772 million, representing an increase of RMB198 million or 12.58% as compared to the previous year, mainly due to the increase of the scale. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

Item	2018			2017		
	Average balance	Interest income/expense (audited)	Average yield/cost rate	Average balance	Interest income/expense (audited)	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	24,837,537	1,731,365	6.97%	16,262,407	1,045,916	6.43%
Investments ⁽¹⁾	29,455,488	1,808,545	6.14%	28,204,206	1,795,247	6.37%
Deposits and placements with banks and other financial institutions ⁽²⁾	8,470,415	344,017	4.06%	9,205,161	401,372	4.36%
Deposits with central bank	7,276,825	114,787	1.58%	5,666,301	85,939	1.52%
Total	70,040,264	3,998,714	5.71%	59,338,074	3,328,474	5.61%
Interest-bearing liabilities						
Deposits from customers	47,097,756	1,280,020	2.72%	37,225,778	915,406	2.46%
Deposits and placements from banks and other financial institutions ⁽³⁾	8,511,335	355,477	4.18%	10,050,091	413,121	4.11%
Debt securities issued	11,880,896	580,600	4.89%	9,371,307	405,912	4.33%
Others	332,808	10,219	3.07%	684,022	19,700	2.88%
Total	67,822,795	2,226,316	3.28%	57,331,199	1,754,139	3.06%
Net interest income	-	1,772,398	-	-	1,574,334	-
Net interest spread	-	-	2.43%	-	-	2.55%
Net interest margin	-	-	2.53%	-	-	2.65%

Notes:

- (1) Investments for 2018 indicated in section 3.3.3 include credit related financial assets, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost, and investments for 2017 include credit related financial assets, available-for-sale financial assets and financial investments – investments classified as receivables.
- (2) Deposits and placements with banks and other financial institutions indicated in section 3.3.3 include financial assets held under resale agreements.
- (3) Deposits and placements from banks and other financial institutions indicated in section 3.3.3 include financial assets sold under repurchase agreements.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

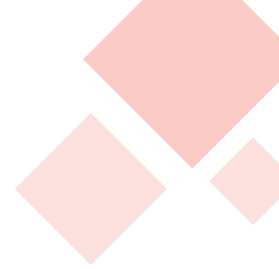
In 2018, the average balance of interest-earning assets was RMB70,040 million, representing an increase of RMB10,702 million or 18.04% as compared to the previous year, mainly due to an increase in the volume of loans and advances to customers and investments. Net interest margin was 2.53%, representing a decrease of 0.12 percentage point as compared to the previous year; and net interest spread was 2.43%, representing a decrease of 0.12 percentage point as compared to the previous year, mainly because the increase of interest expense on interest-bearing liabilities of the Bank outpaced that of interest income from interest-earning assets.

The following table sets forth the distribution of changes in the Bank's interest income and interest expense due to volume and interest rate changes for the periods indicated: the volume changes were measured by changes in average balance; interest rate changes were measured by changes in average interest rate, and changes in interest income and expense due to volume and interest rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB'000

Item	2018 vs. 2017		Net increase (decrease)
	Due to volume	Due to interest rate	
Assets			
Loans and advances to customers	597,752	87,698	685,449
Investments	76,828	(63,530)	13,298
Deposits and placements with banks and other financial institutions	(29,841)	(27,514)	(57,355)
Deposits with central bank	25,405	3,443	28,848
Changes in interest income	670,143	97	670,240
Liabilities			
Deposits from customers	268,300	96,314	364,614
Deposits and placements from banks and other financial institutions	(64,266)	6,623	(57,644)
Debt securities issued	122,639	52,048	(174,688)
Others	(10,784)	1,303	(9,481)
Changes in interest expense	315,889	156,288	472,177
Changes in net interest income	354,254	(156,191)	198,064

Management Discussion and Analysis



3.4 Interest Income

In 2018, the Bank's interest income amounted to RMB3,999 million, representing an increase of RMB670 million or 20.14% as compared to the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Bank.

Interest income from loans and advances to customers

In 2018, the Bank's interest income from loans and advances to customers amounted to RMB1,731 million, representing an increase of RMB685 million or 65.54% as compared to the previous year. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Bank for the periods indicated.

Unit: RMB'000

Item	2018			2017		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	19,522,709	1,423,892	7.29%	11,732,790	783,654	6.68%
Personal loans	5,314,828	307,473	5.79%	4,529,617	262,261	5.79%
Total loans to customers	24,837,537	1,731,365	6.97%	16,262,407	1,045,916	6.43%

Interest income from investments

In 2018, the Bank's interest income from investments amounted to RMB1,809 million, representing an increase of RMB13 million or 0.74% as compared to the previous year, mainly due to an increase in the average balance of investment assets and a decrease in the average yield on investment assets to 6.14% from 6.37% in 2017. The increase in the average balance was primarily due to the increase in our investments in debt securities, money market funds and other financial assets. The decrease in the average yield was primarily due to a decrease in the percentage of financial assets with higher yields and an increase in the percentage of financial assets with higher liquidity and security but lower yields.

Interest income from financial assets held under resale agreements, due from other banks and financial institutions

In 2018, the Bank's interest income from financial assets held under resale agreements, due from other banks and financial institutions amounted to RMB344 million, representing a decrease of RMB57 million or 14.29% as compared to the previous year, mainly due to a decrease in the volume and average yield of deposits and placements with banks and other financial institutions.

Interest income from balances with central bank

In 2018, the Bank's interest income from balances with central bank amounted to RMB115 million, representing an increase of RMB29 million or 33.57% as compared to the previous year, mainly due to an increase in the average balance of balances with central bank as a result of increased statutory deposit reserves with the People's Bank of China ("PBoC") as required resulting from the growth in deposits.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3.5 Interest Expense

In 2018, the Bank's interest expense amounted to RMB2,226 million, representing an increase of RMB472 million or 26.92% as compared to the previous year, mainly due to an increase in the volume and average cost of interest-bearing liabilities. Interest expenses on deposits from customers and debt securities issued constituted the major part of the interest expense of the Bank.

Interest expense on deposits from customers

In 2018, the Bank's interest expense on deposits from customers amounted to RMB1,280 million, representing an increase of RMB365 million or 39.83% as compared to the previous year. The following table sets forth the average balance, interest expense and average cost rate of each component of the Bank's deposits from customers for the periods indicated.

Unit: RMB'000

Item	Average balance	2018 Interest expense	Average cost rate	Average balance	2017 Interest expense	Average cost rate
Corporate deposits						
Demand	21,017,604	323,817	1.54%	18,598,152	260,415	1.40%
Time	6,607,079	150,112	2.27%	5,127,248	125,956	2.46%
Subtotal	27,624,683	473,929	1.72%	23,725,399	386,371	1.63%
Personal deposits						
Demand	2,589,326	12,800	0.49%	2,221,611	11,903	0.54%
Time	16,883,747	793,291	4.70%	11,278,768	517,132	4.59%
Subtotal	19,473,073	806,091	4.14%	13,500,378	529,035	3.92%
Total deposits from customers	47,097,756	1,280,020	2.72%	37,225,778	915,406	2.46%

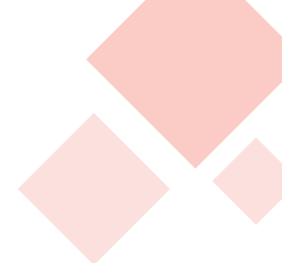
Interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions

In 2018, the Bank's interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions amounted to RMB355 million, representing a decrease of RMB58 million or 13.95% as compared to the previous year, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

In 2018, the Bank's interest expense on debt securities issued amounted to RMB581 million, representing an increase of RMB175 million or 43.04% as compared to the previous year, mainly due to an increase in the volume and cost rate of debt securities issued.

Management Discussion and Analysis



3.6 Net Non-interest Income

In 2018, the Bank's net non-interest income amounted to RMB162 million, representing an increase of RMB56 million or 53.09% as compared to the previous year. The net fee and commission income as a percentage of operating income was 0.10%, representing an increase of 0.21 percentage point as compared to the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2018	2017
Fee and commission income	9,245	8,110
Less: fee and commission expense	7,377	10,000
Net fee and commission income	1,868	(1,890)
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	159,822	107,511
Total net non-interest income	161,690	105,621

3.7 Net Fee and Commission Income

In 2018, the Bank's net fee and commission income amounted to RMB1.868 million, representing an increase of RMB3.758 million as compared to the previous year, mainly due to an increase in the fee income from agency business, guarantee business and investment banking business as well as a decrease in the expense on settlement business fees.

Unit: RMB'000

Item	2018	2017
Fee and commission income		
Fee income from settlement business	1,703	2,328
Fee income from bank card business	2,270	2,385
Fee income from agency business	2,036	1,175
Fee income from guarantee business	2,513	1,320
Fee income from wealth management business	120	888
Fee income from investment banking business	514	–
Fee income from other businesses	89	14
Total	9,245	8,110
Fee and commission expense	(7,377)	(10,000)
Net fee and commission income	1,868	(1,890)

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

In 2018, the Bank's fee income from settlement business amounted to RMB1.703 million, representing a decrease of RMB0.625 million or 26.85% as compared to the previous year, mainly due to the reduction or exemption of some quality customers and some settlement business fees. Fee income from bank card business amounted to RMB2.270 million, representing a decrease of RMB0.115 million or 4.82% as compared to the previous year, mainly due to a decrease in the service fees on cross-bank withdrawals. Fee income from agency business amounted to RMB2.036 million, representing an increase of RMB0.861 million or 73.28% as compared to the previous year, mainly due to an increase in the volume of collection business. Fee income from guarantee business amounted to RMB2.513 million, representing an increase of RMB1.193 million or 90.38% as compared to the previous year, mainly due to the fee income from letters of guarantee business. Fee income from wealth management business amounted to RMB0.12 million, representing a decrease of RMB0.768 million or 86.49% as compared to the previous year, mainly due to a decrease in the fee income from non-principal protected wealth management products issued. Fee income from investment banking business amounted to RMB0.514 million, representing the income from new advisory and consulting business during the year. Fee income from other businesses amounted to RMB0.089 million, representing an increase of RMB0.075 million or 535.71% as compared to the previous year.

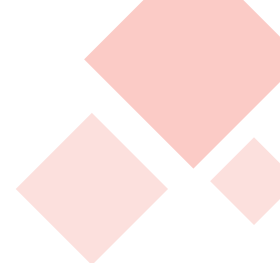
3.8 Net (Losses)/Gains on Trading Activities, Net Gains Arising from Investments and Net Gains/(Losses) from Other Operations

In 2018, the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations amounted to a total gain of RMB160 million, representing an increase of RMB52 million or 48.66% as compared to the previous year. Among which, net (losses)/gains on trading activities increased by RMB24 million as compared to the previous year, mainly due to an increase in valuation as a result of the fair value changes of money market funds and other held-for-trading financial assets. Net gains arising from investments increased by RMB37 million as compared to the previous year, mainly due to an increase in the net gains from disposal of wealth management products measured at fair value through profit or loss. The following table sets forth the major components of the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations for the periods indicated.

Unit: RMB'000

Item	2018	2017
Net (losses)/gains on trading activities	24,111	-
Net gains arising from investments	134,775	97,784
Net gains/(losses) from other operations	936	9,727
Total	159,822	107,511

Management Discussion and Analysis



3.9 Operating Expenses

In 2018, the Bank's operating expenses amounted to RMB687 million, representing an increase of RMB144 million or 26.47% as compared to the previous year, and the cost-to-income ratio was 34.54%, representing an increase of 2.67 percentage points as compared to the previous year. Among which, staff costs (including directors' and supervisors' emoluments) increased by RMB92 million or 29.75% as compared to the previous year, mainly due to an increase in provision for performance-based remuneration. General and administrative expenses increased by RMB25 million or 18.39% as compared to the previous year; business tax and surcharges increased by RMB11 million or 143.10% as compared to the previous year, mainly because there was tax deduction in 2017 due to the changes in value-added tax policies, which returned to normal in 2018. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB'000

Item	2018	2017
Staff costs (including directors' and supervisors' emoluments)	399,518	307,902
General and administrative expenses	162,158	136,971
Depreciation and amortization	58,274	41,707
Operating lease payments	21,080	18,312
Professional service expenses	12,522	11,229
Business tax and surcharges	18,947	7,794
Auditors' remuneration	2,700	875
Non-profit donation expenses	3,862	9,544
Other non-operating expenses	1,448	2,717
Other business expenses	6,419	6,117
Total	686,928	543,168

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3.10 Impairment Losses on Assets

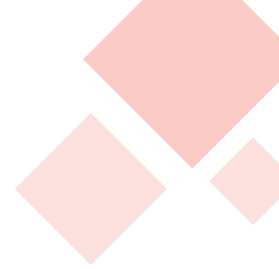
In 2018, the Bank's impairment losses on assets amounted to RMB397 million, representing an increase of RMB72 million or 22.15% as compared to the previous year. The following table sets forth the major components of the Bank's impairment losses on assets for the periods indicated.

Unit: RMB'000

Item	2018	2017
Impairment losses on customer loans		
– Impairment losses on syndicated loans	N/A	134,605
– Impairment losses on individual loans	N/A	81,923
Expected credit losses on loans at amortized cost	331,720	N/A
Expected credit losses on loans at fair value through other comprehensive income	(31,549)	N/A
Impairment losses/Expected credit losses on credit related financial assets	(38,741)	29,839
Impairment losses/Expected credit losses on other financial investments	101,389	76,599
Expected credit losses on guarantee commitment	12,200	N/A
Impairment losses on other assets	21,791	1,880
Total	396,810	324,846

Impairment losses on loans constituted the largest part of impairment losses on assets. In 2018, the impairment losses on loans (including discounted bills) amounted to RMB300 million, representing an increase of RMB84 million or 38.63% as compared to the previous year.

Management Discussion and Analysis



4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of 2018, the Bank's total assets amounted to RMB82,550 million, representing an increase of RMB11,670 million or 16.47% as compared to the end of the previous year, mainly due to the increase of the Bank's loans and advances to customers. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Total customer loans	31,279,187	37.89	19,401,356	27.37
Impairment allowance on loans	N/A	N/A	(567,523)	(0.80)
Credit impairment loss allowance on loans at amortized cost	(792,833)	(0.96)	N/A	N/A
Customer loans, net	30,486,354	36.93	18,833,833	26.57
Cash and balances with central bank	8,373,038	10.14	8,145,703	11.49
Financial assets held under resale agreements, due from other banks and financial institutions	7,633,381	9.25	13,344,757	18.83
Financial investments				
– credit related financial assets	5,821,602	7.05	8,279,379	11.68
Financial investments – fair value through profit or loss	1,841,322	2.23	N/A	N/A
Financial investments – fair value through other comprehensive income	5,867,342	7.11	N/A	N/A
Financial investments – available-for-sale	N/A	N/A	11,376,611	16.05
Financial investments – amortized cost	21,395,762	25.92	N/A	N/A
Financial investments – investments classified as receivables	N/A	N/A	9,340,174	13.18
Investment in associates	36,651	0.04	33,011	0.05
Property, plant and equipment	675,358	0.82	614,772	0.87
Deferred income tax assets	186,871	0.23	244,306	0.34
Other assets	232,134	0.28	666,890	0.94
Total assets	82,549,815	100.00	70,879,436	100.00

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Loans and advances to customers

As of the end of 2018, the Bank's total loans and advances to customers amounted to RMB31,279 million, representing an increase of RMB11,878 million or 61.22% as compared to the end of the previous year; net loans and advances to customers amounted to RMB30,486 million, representing an increase of RMB11,653 million or 61.87% as compared to the end of the previous year. The following table sets forth the loans and advances to customers of the Bank by product type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate loans	24,784,475	79.24	11,951,162	61.60
Discounted bills	644,908	2.06	2,481,153	12.79
Personal loans	5,736,144	18.34	4,969,041	25.61
Interest receivable	113,660	0.36	N/A	N/A
Total customer loans	31,279,187	100.00	19,401,356	100.00
Less: impairment allowance	N/A	/	(567,523)	/
Less: credit impairment loss allowance on loans at amortized cost	(792,833)	/	N/A	/
Customer loans, net	30,486,354	/	18,833,833	/

Corporate loans

As of the end of 2018, the Bank's total corporate loans amounted to RMB24,784 million, representing an increase of RMB12,833 million or 107.38% as compared to the end of the previous year, accounting for 79.24% of the total loans and advances to customers, representing an increase of 17.64 percentage points as compared to the end of the previous year. In 2018, the Bank continuously optimized the regional allocation of credit resources, served the real economy and increased credit support for small and micro enterprises, agriculture-related economy, people's livelihood projects and urban infrastructure construction by serving the economy of Luzhou and actively expanding its cross-regional business, achieving a fast growth in its corporate loans.

Discounted bills

As of the end of 2018, the Bank's total discounted bills amounted to RMB645 million, representing a decrease of RMB1,836 million or 74.01% as compared to the end of the previous year, accounting for 2.06% of the total loans and advances to customers, representing a decrease of 10.73 percentage points as compared to the end of the previous year. The decrease in the balance of the Bank's discounted bills was primarily due to the successive maturity of the Bank's existing discounted bills, and the Bank's reduced holding of discounted bills to rebalance its credit asset structure, taking into account market competition and its loan balance.



Management Discussion and Analysis

Personal loans

As of the end of 2018, the Bank's personal loans amounted to RMB5,736 million, representing an increase of RMB767 million or 15.44% as compared to the end of the previous year, accounting for 18.34% of the total loans and advances to customers, representing a decrease of 7.27 percentage points as compared to the end of the previous year. The continual increase in the Bank's personal loans was primarily due to the Bank's successful development and marketing of its personal loan business, in particular, personal business loans and personal consumption loans. However, due to a greater percentage of the corporate loan business, the percentage of personal loans experienced a decrease.

Investments

As of the end of 2018, the carrying value of the Bank's investments amounted to RMB34,926 million, representing an increase of RMB5,930 million or 20.45% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Financial investments – credit related financial assets	5,821,602	16.67	8,279,379	28.55
Financial investments – fair value through profit or loss	1,841,322	5.27	N/A	N/A
Financial investments – fair value through other comprehensive income	5,867,342	16.80	N/A	N/A
Financial investments – available-for-sale	N/A	N/A	11,376,611	39.23
Financial investments – amortized cost	21,395,762	61.26	N/A	N/A
Financial investments – investments classified as receivables	N/A	N/A	9,340,174	32.22
Total	34,926,028	100.00	28,996,164	100.00

The Bank has adopted International Financial Reporting Standards 9 – Financial Instruments (IFRS 9) since January 1, 2018. Prior to January 1, 2018, the Bank adopted International Accounting Standards 39 – Financial Instruments: Recognition and Measurement (IAS 39). The implementation of IFRS 9 has resulted in changes in the recognition, classification and measurement of the Bank's financial assets and financial liabilities, as well as related accounting policies for impairment of financial assets.

According to IFRS 9, the Bank's financial investments – available-for-sale were re-classified to financial investments – fair value through profit or loss, financial investments – fair value through other comprehensive income and financial investments – amortized cost. Meanwhile, financial investments – investments classified as receivables were re-classified to financial investments – amortized cost.

In addition, the Bank's accounting treatment of financial investments – credit related financial assets was the same as financial investments – investments classified as receivables under IAS 39 adopted prior to January 1, 2018 and financial investments – amortized cost under IFRS 9 adopted after January 1, 2018.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Financial investments – credit related financial assets

The Bank's credit related financial assets are corporate loans extended through consolidated structured entities (trust plans and asset management plans). The following table sets forth the components of the Bank's credit related financial assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – credit related financial assets		
– Trust plans	3,620,100	5,371,050
– Asset management plans	2,275,900	3,033,000
Impairment allowances	N/A	(124,671)
ECL allowance	(88,410)	N/A
Accrued interest	14,012	N/A
Total	5,821,602	8,279,379

Financial investments – fair value through profit or loss

The following table sets forth the components of the Bank's financial assets at fair value through profit or loss as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – fair value through profit or loss		
– Equity securities	45,352	N/A
– Funds	1,693,111	N/A
– Debt securities	102,859	N/A
Total	1,841,322	N/A

Management Discussion and Analysis

Financial investments – fair value through other comprehensive income

The following table sets forth the components of the Bank's financial assets at fair value through other comprehensive income as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – FVOCI		
– Debt securities	5,747,169	N/A
Interest receivable	120,173	N/A
Total	5,867,342	N/A

Financial investments – available-for-sale

The following table sets forth the components of the Bank's available-for-sale financial assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
AFS-equity securities		
– Listed in Hong Kong	N/A	–
– Listed outside Hong Kong	N/A	–
– Unlisted equity investments	N/A	996
– Wealth management products	N/A	2,310,840
AFS-debt securities		
– Listed outside Hong Kong	N/A	9,064,775
Total	N/A	11,376,611

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Financial investments – amortized cost

The following table sets forth the components of the Bank's financial assets measured at amortized cost as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – amortized cost		
– Industry funds (senior tranche)	5,222,000	N/A
– Unlisted corporate bonds	5,925,080	N/A
– Trust plans	2,086,000	N/A
– Debt securities	7,970,752	N/A
Subtotal	21,203,832	N/A
ECL allowance	(213,163)	N/A
Interest receivable	405,093	N/A
Total	21,395,762	N/A

Investments classified as receivables

Investments classified as receivables consist of asset management plans, wealth management products issued by financial institutions, and trust fund plans, etc.

The following table sets forth the components of the Bank's investments classified as receivables as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments -investments classified as receivables		
– Industry funds (senior tranche)	N/A	4,478,520
– Unlisted corporate bonds	N/A	2,100,750
– Trust plans	N/A	2,885,000
Impairment allowance	N/A	(124,096)
Investments classified as receivables	N/A	9,340,174

Management Discussion and Analysis

4.2 Liabilities

As of the end of 2018, the Bank's total liabilities amounted to RMB76,183 million, representing an increase of RMB9,639 million or 14.49% as compared to the end of the previous year, mainly due to the stable increase in deposits from customers. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Deposits from customers	52,385,604	68.76	42,145,297	63.33
Financial liabilities sold under repurchase agreements, due to other banks and financial institutions	8,675,639	11.39	12,063,909	18.13
Borrowings from central bank	865,000	1.14	590,000	0.89
Tax payable	135,457	0.18	28,768	0.04
Debt securities issued	13,800,494	18.11	10,775,243	16.19
Other liabilities	320,835	0.42	940,504	1.42
Total liabilities	76,183,029	100.00	66,543,721	100.00

Deposits from customers

As of the end of 2018, the Bank's total deposits from customers amounted to RMB52,386 million, representing an increase of RMB10,240 million or 24.30% as compared to the end of the previous year, accounting for 68.76% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate deposits	29,679,305	56.66	26,114,843	61.96
Demand deposits	20,024,338	38.22	20,024,474	47.51
Time deposits	9,654,967	18.44	6,090,369	14.45
Personal deposits	22,229,489	42.43	16,030,454	38.04
Demand deposits	2,789,615	5.33	2,391,044	5.67
Time deposits	19,439,874	37.10	13,639,410	32.37
Accrued interest	476,810	0.91	N/A	–
Total deposits from customers	52,385,604	100.00	42,145,297	100.00

As of the end of 2018, the Bank's corporate demand deposits accounted for 38.22% of total deposits from customers, representing a decrease of 9.29 percentage points as compared to the end of the previous year. Among those deposits, corporate demand deposits accounted for 67.47% of corporate deposits, representing a decrease of 9.21 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 12.55% of personal deposits, representing a decrease of 2.37 percentage points as compared to the end of the previous year.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Financial assets sold under repurchase agreements and deposits from banks and other financial institutions

As of the end of 2018, the Bank's financial assets sold under repurchase agreements and deposits from banks and other financial institutions amounted to RMB8,676 million, representing a decrease of RMB3,388 million or 28.09% as compared to the end of the previous year, mainly due to the Bank's adjustment of the business direction of interbank liabilities, the reduction in scale of repurchase business and increase in the volume of marketized interbank certificates of deposit issued.

Debt securities issued

As of the end of 2018, the Bank's bonds payable amounted to RMB13,800 million, representing an increase of RMB3,025 million or 28.08% as compared to the end of the previous year, of which the balance of interbank certificates of deposit increased by RMB2,977 million or 30.45% as compared to the previous year, mainly due to the Bank's establishment of marketized financing channels and increase in the volume of interbank certificates of deposit issued.

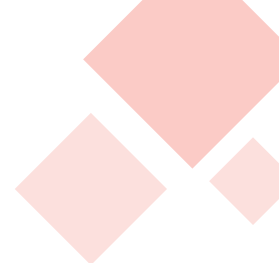
4.3 Equity Attributable to Shareholders

As of the end of 2018, the Bank's equity attributable to shareholders amounted to RMB6,367 million, representing an increase of RMB2,031 million or 46.85% as compared to the end of the previous year. On December 17, 2018, the Bank received a proceed of HK\$1,735 million by issuing new overseas listed foreign shares (H Shares), thereby increasing the equity attributable to shareholders.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Share capital	2,182,933	1,637,193
Capital reserve	2,094,444	1,174,606
Surplus reserve	336,340	270,509
General risk reserve	847,549	691,787
Other comprehensive income	62,669	(223,607)
Retained earnings	842,851	785,227
Total equity attributable to shareholders of the Bank	6,366,786	4,335,715
Total equity attributable to shareholders	6,366,786	4,335,715

Management Discussion and Analysis



5 OTHER FINANCIAL INFORMATION

5.1 Analysis of Off-balance Sheet Items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most important parts and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB2,762 million.

5.2 Overdue and Outstanding Debts

As of the end of the Reporting Period, the Bank had no overdue or outstanding debts.

5.3 Assets Pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions. For details, please refer to note 38 to the financial statements.

6 ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank strengthened its dynamic monitoring on changes in and mitigation of risks in relation to credit asset quality, implemented credit policies and enhanced risk management in key industries. As a result, the credit assets scale maintained rapid growth. Due to our collection of non-performing loans ("NPLs") through multiple ways and channels, the NPL ratio has decreased, and the allowance coverage ratio has met the regulatory requirements. As at the end of the Reporting Period, the Bank's total loans amounted to RMB31,165.53 million, representing an increase of 60.64% as compared to the end of the previous year, total NPLs amounted to RMB248.26 million, representing an increase of RMB55.54 million as compared to the end of the previous year, and the NPL ratio was 0.80%, representing a decrease of 0.19 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB in million

Item	December 31, 2018		December 31, 2017	
	Amount	% of total	Amount	% of total
Normal loans	30,391.97	97.52	18,680.83	96.29
Special mention loans	525.30	1.68	527.81	2.72
Substandard loans	245.63	0.79	190.19	0.98
Doubtful loans	2.63	0.01	2.43	0.01
Loss loans	–	–	0.1	–
Total customer loans	31,165.53	100.00	19,401.36	100.00
Total NPLs	248.26	0.80	192.72	0.99

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank adopted five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. During the Reporting Period, the Bank strictly controlled the quality of loans and accelerated disposal of existing NPLs. Total NPLs consisted of substandard loans and doubtful loans. As at the end of the Reporting Period, the percentage of substandard loans decreased by 0.19 percentage point to 0.79% as compared to the previous year, the percentage of doubtful loans remained no change as compared to the previous year, and no loss loans was recorded.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Distribution of Loans and NPLs by Industry

Unit: RMB in million

Item	December 31, 2018				December 31, 2017			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	24,784.48	79.53	174.69	0.70	11,951.16	61.60	123.92	1.04
Leasing and business services	6,962.01	22.34	-	-	2,941.43	15.16	-	-
Construction	4,435.33	14.23	4.5	0.10	1,913.53	9.86	-	-
Wholesale and retail	3,380.62	10.85	65.27	1.93	1,087.68	5.61	39.8	3.66
Manufacturing	3,338.54	10.71	14.95	0.45	1,023.97	5.28	19.8	1.93
Real estate	2,836.86	9.10	-	-	2,077.79	10.71	-	-
Accommodation and catering	1,030.23	3.31	27.3	2.65	314.74	1.62	27.3	8.67
Education	887.40	2.85	-	-	227.13	1.17	-	-
Water, environment and public utilities	878.11	2.82	-	-	967.18	4.99	-	-
Transportation, warehousing and express services	351.82	1.13	50.17	14.26	365.32	1.88	28.8	7.88
Others	683.56	2.19	12.50	1.83	1,032.39	5.32	8.22	4.0
Discounted bills	644.91	2.07	-	-	2,481.16	12.79	-	-
Retail loans	5,736.14	18.4	73.57	1.28	4,969.04	25.61	68.79	1.38
Total customer loans	31,165.53	100	248.26	0.80	19,401.36	100	192.71	0.99

In 2018, the Bank actively optimized the allocation of risk-bearing assets and served the real economy, increased credit extension to support small and micro enterprises, agriculture-related economy, livelihood projects and urban infrastructure construction. The Bank also actively adjusted its credit structure and strictly controlled credit granted to industries with overcapacity and uncertain prospects, which resulted in improving risk resistance ability for additional credit assets. The amount of our non-performing corporate loans increased and the non-performing corporate loan ratio decreased as a result of the deteriorated financial condition and weakened repayment abilities of certain corporate borrowers in transportation, warehousing and express services and construction industries. By industry, the Bank's non-performing corporate loans mainly involved wholesale and retail, transportation, warehousing and express services, which accounted for 66.08% of the total non-performing corporate loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Product Type

Unit: RMB in million

Item	December 31, 2018				December 31, 2017			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	24,784.48	79.53	174.69	0.70	11,951.16	61.60	123.92	1.04
Working capital loans	10,118.06	32.47	127.39	1.26	4,109.26	21.18	68.61	1.67
Fixed asset loans	14,666.42	47.06	47.30	0.32	7,841.90	40.42	55.31	0.71
Others	-	-	-	-	-	-	-	-
Discounted bills	644.91	2.06	-	-	2,481.16	12.79	-	-
Retail loans	5,736.14	18.41	73.57	1.28	4,969.04	25.61	68.79	1.38
Individual housing loans	2,100.87	6.74	20.14	0.96	2,253.92	11.62	15.72	0.76
Personal business loans	2,876.07	9.23	47.52	1.65	2,017.94	10.4	41.42	1.87
Personal consumption loans	759.20	2.44	5.91	0.78	697.18	3.59	11.65	1.71
Others	-	-	-	-	-	-	-	-
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

Under the background of replacement of old drivers with new ones and constant advance of the supply-side reform, the Bank actively responded to the changes of demand for effective credits and maintained a relatively rapid growth in the scale of corporate loans while adhering to the principle of prudent extension. As at the end of the Reporting Period, the proportion of the Bank's corporate loans increased by 17.93 percentage points to 79.53% as compared to the end of the previous year. The NPL ratio of corporate loans decreased by 0.34 percentage point to 0.70% as compared to that at the end of the previous year as a result of our constant enhanced credit risk prevention and efforts in disposal of NPLs.

The Bank steadily developed its retail loans and actively innovated retail business products. The balance of retail loans increased by RMB767.1 million as compared to that at the beginning of the year, while the proportion of retail loans decreased by 7.2 percentage points to 18.41% due to the relatively large proportion of the growth in corporate business. The NPL ratio of retail loans decreased by 0.1 percentage point to 1.28% as compared to the end of the previous year as a result of our constant enhanced credit risk prevention and efforts in disposal of NPLs.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Distribution of Loans and NPLs by Geographical Region

Unit: RMB in million

Geographical Region	December 31, 2018				December 31, 2017			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	28,684.38	92.04	248.26	0.87	18,020.73	92.88	192.71	1.07
Outside Luzhou	2481.15	7.96	-	-	1,380.63	7.12	-	-
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

The Bank continuously optimized the regional allocation of credit resources and enhanced risk management and control in key industries by serving the economy of Luzhou and actively expanding its cross-regional business. Under the situation of domestic economic restructuring with mounting pressure of non-performing during the year, the Bank strengthened the assessment and incentive measures for its branches and implemented review and approval mechanism with hierarchical authorisation on credit extension to corporate customers. Affected by the slowdown in the growth of local economy, the decline of market demand and other factors, the increase of NPLs was attributable to Luzhou.

Distribution of Loans and NPLs by Collateral

Unit: RMB in million

Item	December 31, 2018				December 31, 2017			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loans	2,631.53	8.44	2.59	0.10	1,442.79	7.44	2.85	0.20
Guaranteed loans	10,493.31	33.67	53.98	0.51	4,342.81	22.38	6.9	0.16
Collateralized loans	12,869.76	41.30	190.57	1.48	7,671.09	39.54	182.62	2.38
Pledged loans	5,170.93	16.59	1.12	0.02	5,944.67	30.64	0.34	0.01
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

The Bank strengthened risk prevention and control through risk mitigation measures such as increasing collateral. The collateralized loans accounted for 41.30% of the total loans, and the proportion of collateralized loans with high non-performing ratio dropped by 0.9 percentage point to 1.48%. The Bank increased its support for local infrastructure construction projects as well as micro and small enterprises by extending certain unsecured loans, which resulted in an increase in the proportion of unsecured loans by 1 percentage point to 8.44% as compared to the end of the previous year.

Management Discussion and Analysis

Loans to Our Ten Largest Single Borrowers

Unit: RMB in million

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Real estate	600.00	7.63	1.93
B	Construction	560.00	7.12	1.80
C	Manufacturing	500.00	6.35	1.60
D	Leasing and business services	500.00	6.35	1.60
E	Accommodation and catering	497.68	6.33	1.60
F	Real estate	487.00	6.19	1.56
G	Education	460.00	5.85	1.48
H	Leasing and business services	450.00	5.72	1.44
I	Construction	430.00	5.47	1.38
J	Manufacturing	427.00	5.43	1.37
Total		4,911.68	62.43	15.76

As at the end of the Reporting Period, the total loans of the ten largest single borrowers of the Bank amounted to RMB4,912 million, accounting for 62.43% of the Bank's net capital base and 15.76% of the Bank's total loans. The loan balance of the largest single borrower was RMB600 million, accounting for 7.63% of the Bank's net capital base.

Distribution of Loans by Period Overdue

Unit: RMB in million

Period overdue	December 31, 2018		December 31, 2017	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	80.28	0.26	116.10	0.60
Overdue for over 3 months up to 1 year (inclusive)	115.84	0.37	26.93	0.14
Overdue for over 1 year up to 3 years (inclusive)	57.48	0.18	90.89	0.47
Overdue for over 3 years	23.78	0.08	2.31	0.01
Total overdue loans	277.38	0.89	236.23	1.22
Total customer loans	31,165.53	100.00	19,401.36	100.00

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB277.38 million, representing an increase of RMB41.15 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 0.89%, representing a decrease of 0.33 percentage point as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB80.28 million, accounting for 28.94% of overdue loans. The Bank adopted more strict classification criteria, under which the loans whose principal or interest has been overdue for over 1 day (inclusive) shall be deemed as overdue loans.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Foreclosed Assets and Provision for Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB152.877 million with provision for impairment allowance of RMB23.446 million, and the net foreclosed assets amounted to RMB129.431 million.

Changes in Provision for Impairment Allowance/Expected Credit Losses of Loans

In 2017, under the requirements of IAS 39, we used to assess whether objective evidence of impairment existed individually for loans that were individually significant, and individually or collectively for loans that were not individually significant. If we determined that no objective evidence of impairment exists for an individually assessed loans, whether significant or not, such loans were included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

The following table sets forth the changes in the Bank's provision for impairment allowance for loans in 2017: (Unit: RMB'000)

Item	2017
Balance at the beginning of the year	375,385
Provision/reversal for the year	216,528
Unwind of discount	(3,995)
Written-off and transfers for the year	(30,154)
Reversal from recoveries of customer loans and advances written-off and others	9,759
Balance at the end of the year	567,523

The Bank has implemented IFRS 9 since January 1, 2018 and assessed our impairment allowance for loans in accordance with its requirements. The following table sets forth the new impairment allowance for loans under IFRS 9 on January 1, 2018 adjusted from that as at the end of the Reporting Period under IAS 39: (Unit: RMB'000)

Provision for impairment allowance for loans under the previous accounting policies applicable to financial instruments	567,523
Reclassifications	(37,753)
Expected credit losses	(62,689)
Provision for impairment allowance for loans under the new accounting policies applicable to financial instruments	467,081

Management Discussion and Analysis

Starting from January 1, 2018, under the requirements of IFRS 9, we classify our customer loans using a “three-stage” model: (1) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized; (2) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the expected credit losses lifetime will be recognized; (3) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the expected credit losses lifetime will be recognized. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various of factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An impairment loss is recognized through profits or losses when there is objective evidence that loans are impaired, and is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans’ original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. We made full provision for impairment allowance for loans classified as “loss”. For loans classified as “substandard” and “doubtful”, we generally do not make full provision for impairment allowance and measure impairment allowance as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future recoverable cash flows of the loans, including the recoverable value of the collateral or pledges.

The following table sets forth the changes in the Bank’s expected credit impairment losses of loans in 2018: (Unit: RMB’000)

Item	2018
Balance at the beginning of the year	467,081
Provision/reversal for the year	331,721
Written-off for the year	(13,144)
Recoveries of loans written-off in the previous year	1,861
Unwind of discount	5,314
Balance at the end of the year	792,833

As at the end of the Reporting Period, the Bank’s balance of impairment allowance for loans amounted to RMB792,833 thousand, representing an increase of RMB225,310 thousand or 39.70% as compared to the end of the previous year; the allowance coverage ratio of NPLs amounted to 319.36%, representing an increase of 24.87 percentage points as compared to the end of the previous year; the allowance to total loan ratio amounted to 2.54%, representing a decrease of 0.39 percentage point as compared to the end of the previous year.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Corresponding measures taken against Non-performing Assets

During the Reporting Period, the Bank mainly adopted the following measures for management of non-performing assets to enhance management and control on the asset quality and ensure its stability:

- (1) Strengthen NPL disposal. The Bank enhanced non-litigation collection efforts to collect loans which can be settled through non-litigation process in advance, enhanced the coordination with judicial departments of various levels to accelerate the progress of litigation collection, strengthened the communication and collaboration with industry associations and interbank and made full use of the coordination mechanism of the Banking Creditors' Committee to positively take part in the integration and settlement and disposal of non-performing assets and credit risks, so as to adequately protect and safeguard the Bank's legal rights. The Bank also explored possibilities of resolving and disposing of non-performing assets through multiple channels based on the traditional collection means and wrote off assets which could be written-off, if appropriate, to optimize the credit asset structure.
- (2) Reinforce resolving of additional risky loans. The Bank conducted real-time monitoring on overdue loans and risky loans to prevent and mitigate risks in a timely manner.

Credit extension to group customers and risk management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount and conducting real-time monitoring" in extending credit to group customers. Firstly, to prevent large-sum credit risk, the Bank implemented unified management of credit extension to group customers and consolidated the total credit amount extended to group members to ensure the credit approval limits. Secondly, the Bank strengthened the identification of group customers and invisible related relationship among enterprises and identified the invisible related relationship among corporate customers by such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened and timely monitored unified management of credit extension to group customers. The Bank controlled the credit limit through establishing credit account of group customers, arranged and updated the list of group customers in a timely manner and prudently checked credit limits so as to prevent concentration risk and improve its group customer management level on an ongoing basis.

Discount interest loans representing 20% (inclusive) or more of the total loans as at the end of the Reporting Period

As at the end of the Reporting Period, the Bank had no discount interest loans representing 20% (inclusive) or more of the total loans.

Management Discussion and Analysis

7 ANALYSIS OF CAPITAL ADEQUACY RATIOS

The capital management of the Bank, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boost return on capital, and on this basis, it reasonably sets the Bank's capital adequacy ratio target and guides business development by means of performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business and capital management strategy.

We conduct regular internal capital evaluation and stress testing to evaluate our capital adequacy and risk resistance ability. According to our internal capital evaluation and risk profile, we timely adjust our capital plans and high-capital asset businesses, and guide branches and management departments to carry out more capital-saving businesses and high-return businesses to meet the planned capital adequacy ratio target.

We calculate our capital adequacy ratio in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (CBRC Order 2012 No. 1) and other relevant regulatory provisions. The on-balance-sheet credit risk-weighted assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee; the same method is also applied to the calculation of off-balance-sheet credit risk exposure. Market risk-weighted assets are calculated with the standard method, and the operational risk-weighted assets are calculated with the basic indicator method. During the Reporting Period, we complied with the capital requirements prescribed by regulatory authorities.

The following table sets forth the information of our capital adequacy ratio as at the dates indicated.

Unit: RMB'000

	December 31, 2018	December 31, 2017
Total capital before deductions	7,904,483	5,710,525
Of which: Core tier-one capital	6,366,786	4,335,716
Tier-two capital	1,537,697	1,374,809
Total net capital	7,867,832	5,710,525
Net core tier-one capital	6,330,135	4,335,716
Net tier-one capital	6,330,135	4,335,716
Total risk-weighted assets	59,214,150	41,704,197
Core tier-one capital adequacy ratio	10.69%	10.40%
Tier-one capital adequacy ratio	10.69%	10.40%
Capital adequacy ratio	13.29%	13.69%

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

At the end of the Reporting Period, the Bank had a capital adequacy ratio of 13.29%, representing a decrease of 0.4 percentage point as compared to the end of the previous year, which was 2.79 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 10.69%, representing an increase of 0.29 percentage point as compared to the end of the previous year, which was 3.19 percentage points higher than the regulatory requirement. The change in our capital adequacy ratio during the Reporting Period was primarily due to an increase in our overall risk-weighted assets driven by our business development, but the overall risk remained controllable within a reasonable range. Thus, our capital adequacy ratio at each tier was higher than regulatory standards.

8 RISK MANAGEMENT

Credit Risk

Credit risk refers to the risk arising from the failure of an obligor or a party concerned to fulfil its obligations in accordance with agreed terms. We are exposed to credit risks primarily arising from our loan business, acceptance business, letters of guarantee business and financial market business.

Pursuant to regulatory requirements, we managed our on-and-off balance sheet credit assets by implementing five-category classification based on the obligor's repayment abilities and intention, taking into account various factors including the guarantor, pledges and collaterals and overdue period. The classification is successively subject to preliminary opinions of the responsible management institution, initial review of the Credit Business Department at our head office, re-examination of the Risk Management Department at our head office and consideration and confirmation by the Centralized Risk Management Committee.

The Credit Business Department at our head office takes a leading role in our credit risk management and regularly reports our risk management to the Credit Risk Management Committee, the Centralized Risk Management Committee and the Board. During the Reporting Period, we adhered to the risk control principle of "active compliance, strict risk control and internal control strengthening" and kept intensifying efforts for credit risk management by credit direction structure and system improvement, credit staff cultivation and internal examination enhancement, non-performing loan reduction, etc. During the Reporting Period, we intensified credit risk management mainly in the following aspects:

1. Optimizing credit structure and strengthen policy guidance. Adhering to the credit industry distribution policy "in line with national macroeconomic policies and industrial policies and our credit risk appetite, and achieving risk control in a scientific and rational manner", we formulated the Guidelines for Credit Direction of Luzhou City Commercial Bank in 2018 (《泸州市商业银行2018年信贷投向指引》) in a bid to scientifically and rationally allocate our credit resources, effectively guide industry credit direction, promote optimization and adjustment of our credit structure, and rapidly improve our ability to prevent credit risks.
2. Strengthening risk screening and risk control in key areas. We intensified efforts for risk monitoring and screening in view of large credit customers and potentially risky customers, strengthened internal inspection on key areas and key risk areas such as guarantee business, real estate industry, financial market business and bill business. We learned more about the bottom line of risk by special inspection, risk screening, self-examination and self-correction and other methods to strengthen our risk management and control and ensure the stability of our asset quality.

Management Discussion and Analysis

3. Sparing no effort in the control of non-performing and overdue loans and disposing of non-performing loans in a timely manner. We established overdue loan tracking and monitoring accounts, strengthened early warning management, and responsively formulated risk disposal plans and took necessary protective measures against alert credit customers; for non-performing loan business, we worked out risk dissolution plans based on “one customer one scheme”, and dissolved and disposed of risks by stepping up collection, transferring foreclosed assets and other measures so as to control our asset quality within a reasonable range; and leveraged the communication and cooperation mechanism established with peer institutions and government departments to achieve information sharing and jointly deal with problems arising from corporate operations by unified actions.
4. Conducting self-examination and self-correction on business compliance and providing cooperation for regulatory inspection and making active rectifications. In accordance with the relevant requirements of regulatory authorities, we actively organized the rectification of market chaos, with a normal focus on rectifying the chaos in the banking market, and studied, deployed and put in place our business operation and management, system restructuring and compliance culture building at the same time to transform chaos rectification into self-conscious internal control management, and conducted compliance operation truly in line with rules by adhering to inspection, rectification, accountability, education, standard and improvement.
5. Strengthening credit review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit business according to our business development needs; enhanced credit risk review and strictly implemented the independent review and approval mechanism based on the principle of “objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks”, with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers and proposed risk prevention measures to strictly control risks.
6. Improving the quality of credit team and promoting healthy and rapid development of the credit business. We enhanced training and guidance to improve business ability and risk awareness. We conducted follow-up training for our branch credit staff, invited internal business backbones to launch intensive themed training for our credit line staff, carried out education on risk prevention knowledge and skills for our credit line staff on an irregular basis through online platforms, kept improving the business ability and risk compliance awareness of our credit line staff across the bank and established an enterprise risk training culture that controls substantial risks to put an end to risk cases from the source.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Operational Risk

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, and external events.

We focus on the work of preventing systematic operational risks and major operational risks. As the supreme decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies determined by our Board, formulating systematic systems, processes and methods, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. Our subordinate Operational Risk Management Committee is responsible for specific operational risk prevention and control. Moreover, we applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved our operational risk management capability, and gradually elevated our risk prevention and control level. During the Reporting Period, we intensified operational risk management mainly in the following aspects:

1. Centering on the bank-wide strategic business, we strengthened internal control and carried out special inspection and risk evaluation from multiple perspectives including systems, processes and employee behaviours, and collected and analyzed key indicators of operational risks and gave early warnings by giving play to the key role of “three lines of defense” including business departments and foreground business personnel, the Risk Management Department and Internal Audit Department so as to cut off operational risks in an all-round manner.
2. We innovated work ideas and continuously promoted the building of operational risk-related system and publicity of compliance culture to ensure the integrity, rationality and effectiveness of our internal control system; and strictly prevented operational risks by strengthening personnel and position management, enhancing compliance awareness among the employees and instructing the employees to operate in compliance with regulations through inspection on abnormal behaviours of the employees holding key positions, continuous training, onsite inspection, off-site supervision and other means.
3. We effectively integrated “manual prevention” and “technical prevention” to enhance the system background’s ability in preventing non-compliant operation by upgrading the system dynamics, strategically promoting the construction of and innovation in information technology, implementing a model with foreground business handled according to centralized authorization from the background, reducing the frequency of manual operation, and raising the level of automation and hard control ability of our system.
4. We greatly improved business continuity management and IT risk management, strengthened the safety guarantee for information technology system, paid attention to the construction relating to disaster backup and emergencies, and intensified the management over the safety of information of outsourcing service providers and personnel.

Management Discussion and Analysis

Market Risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable level and maximizing risk-adjusted return according to our risk appetite.

We manage our interest rate risks and exchange rate risks according to the Guidelines on Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》) (CBRC Order [2004] No.10), Guidelines for the Internal Control of Commercial Banks (《商業銀行內部控制指引》) and Guidelines for the Stress Testing of Commercial Banks (《商業銀行壓力測試指引》), and have established a market risk management system through such measures as authorization, credit extension, risk limit-related regulations, monitoring and reporting.

We have established an organizational structure for market risk management, which covers the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, and business departments including our Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, Internal Control and Compliance Department and other department in charge of risk management relating to their business. With a sound and compliant internal control system for market risk management, during the Reporting Period, we carried out a special internal audit on market risk and formed an audit report which was submitted to the Board.

1. Interest rate risk analysis

Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions.

With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We also adjusted the repricing cycle of loans and optimized deposit rate ceilings according to the status quo of the gap.

Regarding the interest rate risk of asset trading positions, we paid close attention to the latest developments of the government's economic policies, measured, monitored and set interest rate sensitivity, exposure and other risk limits by sensitivity analysis, scenario simulation and other means, and regularly and effectively monitored, managed and reported the implementation of risk limits.

Adopting a steady business philosophy, we actively adjusted the asset-liability structure and reasonably assumed interest rate risk according to the measurement and evaluation results under the precondition of risk control.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

2. Interest rate sensitivity analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as at December 31, 2018 and 2017, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of net interest income	
	December 31, 2018	December 31, 2017
+ 100 basis point parallel move in all yield curves	(31,726)	(36,851)
- 100 basis point parallel move in all yield curves	31,726	36,851

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Bank.

Unit: RMB'000

	Changes of other comprehensive income	
	December 31, 2018	December 31, 2017
+ 100 basis point parallel move in all yield curves	(229,598)	(393,742)
- 100 basis point parallel move in all yield curves	245,862	426,712

3. Exchange rate sensitivity analysis

The following table sets forth, as at December 31, 2018 and 2017, the results of our exchange rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of profit/(loss) before tax	
	December 31, 2018	December 31, 2017
1% increase in foreign exchange rate against RMB	15,206	-
1% decrease in foreign exchange rate against RMB	(15,206)	-

Management Discussion and Analysis

Liquidity risk management and analysis

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds or cannot timely obtain them at reasonable costs to respond to asset growth or pay mature debts although they are solvent.

Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and systems for managing liquidity risk; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation.

To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. As we have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We fully identify, accurately measure, continuously monitor and effectively control liquidity risk from two aspects: short-term provision and mid-and-long term structure through the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indexes, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate.

We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from deposits accepted, which constituted a stable fund resource due to their rapid growth, wide varieties and diversified terms during the Reporting Period.

With a sound and compliant internal control system for liquidity risk management, we carry out special internal audit on liquidity risk every year and form an audit report which will be submitted to the Board.

In 2018, while paying close attention to changes in macro finance and economy, we further enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We made greater efforts in the marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.
2. We strengthened the prudent and reasonable judgement on financial and economic situations, continuously and dynamically monitored various index limits of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and controllable liquidity risks.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

3. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities and centralized issuance of assets.
4. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》) issued by CBIRC, various macro and micro factors which could affect our liquidity and features, scale, properties, complexity and risk status of our business.

As of the end of the Reporting Period, we witnessed a liquidity ratio of 73.4%, 48.4 percentage points higher than relevant regulatory standards; a high-quality liquidity asset adequacy ratio of 103.23%, 23.23 percentage points higher than relevant regulatory requirements; and a liquidity matching ratio of 124.82%, 24.82 percentage points higher than relevant regulatory requirements, which reflected that our major liquidity indexes were higher than regulatory requirements.

Information technology risk management

Keeping up with the development of Internet and aiming at achieving our business development strategies, we adhere to customer focus, innovation-driven development, an open and shared corporate structure and system and risk control to ensure the safety of information. In adherence to overall technology innovation, we established the first smart outlet in Luzhou, which comprehensively promoted the transformation and development of our branch network. We also set up an IT innovation center and made great efforts in the building of information system and introduction of sci-tech talents, which effectively supported the completion of various business goals during the Reporting Period, continuously helped the Bank improve the core competitiveness and substantially supported the information technology work.

We kept promoting integration and innovation of technology and business to improve our business support ability. In information technology construction, we achieved development from passive service for businesses to active leading of businesses. In 2018, through construction of several key projects including upgrading of Class II/III accounts, early warning system for migrant workers' salary, customized bank-enterprise direct connection system and micro and small loan system, we continuously improved the financial service ecosystem featuring resource sharing and mutual benefits, enhanced customers' experience in an all-round way and launched such systems and products as Nian Nian Sheng, precious metal, Zhi Rong Dai, safe deposit box, Hui Rong Tong, online payment and city-wide real estate. While ensuring compliance operation and meeting regulatory requirements, we actively served people's livelihood and micro and small enterprises to effectively expand our service channels and customer base.

We kept improving the business continuity management and information security system to improve our ability to protect system safety. During the Reporting Period, we completed construction of the data center in the new office building and the maintenance management system. Meanwhile, we improved our application structure system, constantly carried out business continuity construction, completed expansion and upgrading of several key systems and infrastructures and enhanced backup mechanism to ensure stable operation of systems. We attached great importance to information security management, kept improving our ability to prevent and control information technology risks, enhanced building of information technology governance system and internal control, conducted assessment on compliance with the Cyber Security Law of the People's Republic of China, strengthened Internet safety protection and carried out third-party safety assessment for Internet-based business systems to effectively prevent technology risks.

Management Discussion and Analysis

During the Reporting Period, our topic research level and scientific and technological strength stepped to a new stage. Our Study and Practice Concerning Monitoring Model for Operational Risks of Small and Medium Commercial Banks won us the Outstanding Contribution Award for Development and Innovation of the Finance Industry issued by the People's Bank of China in 2018 and Class 4 Achievement Award for Topic Research of Information Technology Risk Management of the Banking Industry issued by the CBRC in 2018.

9 SEGMENT REPORTING

The following segment operating results are presented by business segment. The Bank's main businesses include corporate banking, retail banking, financial market business, unallocated items and others. The following table sets forth a summary of the operating results of each business segment of the Bank for the periods indicated.

Unit: RMB'000

Item	2018		2017	
	Segment profit before tax	Ratio %	Segment profit before tax	Ratio %
Corporate banking	366,465	42.91	257,582	31.63
Retail banking	170,579	19.97	248,995	30.57
Financial market business	338,435	39.63	300,293	36.87
Others	(21,489)	(2.51)	7,616	0.93
Total	853,990	100.00	814,486	100.00

Unit: RMB'000

Item	2018		2017	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking	906,143	46.85	532,738	31.71
Retail banking	332,069	17.17	493,736	29.39
Financial market business	694,926	35.93	643,742	38.32
Others	950	0.05	9,740	0.58
Total	1,934,088	100.00	1,679,956	100.00

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

10 BUSINESS REVIEW

Corporate Banking Business

We provide our corporate customers with diversified financial products and services to support their business needs, including corporate loans, bill discounting and corporate deposits.

Corporate loans

The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio. As of December 31, 2018, the balance of our corporate loans amounted to RMB24,784.4756 million, accounting for 79.53% of our total loans and advances to customers as of the same date, and representing an increase of 107.38% as compared to the beginning of the Reporting Period. In particular, our loans to medium to large enterprises amounted to RMB7,233.238 million, accounting for 29.18% of our total corporate loans as of the same date; our loans to micro and small enterprises amounted to RMB17,514.9876 million, accounting for 70.67% of our total corporate loans as of the same date. Our other corporate loans amounted to RMB36.25 million, accounting for 0.15% of our total corporate loans as of the same date.

In contrast to medium to large enterprises, micro and small enterprises and individual business owners have urgent and frequent financing needs. As a result, we have streamlined the loan origination and evaluation process to offer tailored financing solutions to both micro and small enterprises and individual business owners. To better serve the needs of these micro and small enterprises, we have also set up specialized teams as well as customer service centers for micro and small enterprises, and established a proprietary database, rating model, and system covering various procedures for granting loans to micro and small enterprises, such as customer application, risk review and approval, and post-disbursement management. Meanwhile, we fully leveraged the PBoC's policies such as relending to support development of micro and small enterprises and targeted cuts to required reserve ratios to enhance support for financing of micro and small enterprises. As of December 31, 2018, we accumulatively issued 230 loans of relending to support development of micro and small enterprises, with a balance of RMB865 million, and precisely issued RMB799.281 million to support targeted cuts to required reserve ratios for micro and small enterprises.

Bill discounting

Bill discounting refers to the financial service where customers apply to the bank for discounting of unexpired bank acceptance bills or commercial acceptance bills, and the bank pays the remaining amount to the customers after deducting the discounted interest from the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

We also operate interbank discount and rediscount businesses in our financial markets business segment. Based on the said businesses, we can resell discounted bills to the PBoC or other commercial banks at a lower price, which will bring us extra current assets and additional revenue in interest spread.

As of December 31, 2018, our discounted bills amounted to RMB644.91 million, accounting for 2.07% of our total loans and advances to customers as of the same date. During the Reporting Period, the majority of our discounted bills were bank acceptance bills.

Management Discussion and Analysis

Corporate deposits

We offer our corporate customers RMB time and demand deposits. The RMB time deposits we offer to corporate customers have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and maturities and other terms. Besides, we provide call deposit products, which have higher interest rates than demand deposits and reserve certain flexibility of demand deposits (customers may send a notice in advance to draw the deposits). Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations. As of December 31, 2018, the balance of our corporate customer deposits amounted to RMB29,679.3052 million, accounting for 56.66% of the total deposit balance.

Corporate products

We launched many customized products according to different demands of enterprises in different stages, in order to meet customers' different financing needs.

“An Xin Rong”: We offer this product to micro and small enterprises, which lack working capital to replenish their business needs, but can provide assets for collateral. We do not analyse and judge the enterprises' solvency based on the financial statements and the first repayment source and focus on analysing their guarantee ability. For instance, we evaluate all types of collateral, pledges or guarantees, but only accept collateral backed by commercial properties in good locations with a good surrounding commercial atmosphere, pledges backed by government bonds, bank acceptance bills or other collateral with good liquidity, or guarantees provided by financing guarantee companies recognised by us. The maximum loan amount of this product does not exceed RMB5 million with a term of up to three years.

“Chuang Ke Dai”: For young entrepreneurs who are in an early stage of their business without sufficient capital, we introduced an unsecured loan product with a low fixed interest rate. In consideration of the uncertainties inherent in their business operations, we only grant loans to young entrepreneurs recognized by the Communist Youth League of Luzhou with guarantees provided by qualified and well-recognized guarantee companies. The term of this loan product ranges from seven months to three years with a maximum loan amount of RMB300,000.

“Tian Tian Dai”: In August 2017, to better serve the daily financing needs of micro and small enterprises, we introduced Tian Tian Dai, a revolving loan product with a term of up to one year and loan amount of up to RMB10 million. Customers can apply for withdrawal and repayment through our short message services (SMS) if the loan amount is RMB300,000 or less. Moreover, customers are entitled to three times of interest-free repayment without any reasons in seven days during the loan term.

“Zhi Rong Dai”: It is a revolving product customized for smart terminal enterprises, featuring one-time credit extension, recycling and immediate repayment after borrowing. The maximum term of this product is one year with a maximum loan amount of RMB30 million.

“Rong e Dai”: It is a pure credit product designed according to the “short-term, frequent and urgent” loan needs of micro and small enterprises which have no mortgage or guarantee to meet their financing needs. The maximum loan amount of this product is RMB1 million, with a maximum term of two years. This product features pure online application, simple procedures and quick examination and approval, which ensures “one-time effort” of micro and small enterprises for loan application.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

“Ying Ji Dai”: For micro and small enterprises which badly need funds to repay due bank loans, we launched “Ying Ji Dai” (a loan product which is only granted under the risk sharing mechanism) in May 2017. The applicants should seek the approval of municipal organs and guarantee from the guarantee companies designated by the government. Applicants from different industries may apply for different lines of credit. Generally, the term of this loan does not exceed one month.

Corporate banking customer base

The rapid growth of our corporate banking business is underpinned by our strong customer base. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers, based on which, we are able to offer comprehensive financial services with customized features to corporate banking customers. In particular, by being a local city commercial bank, our comparatively shorter decision-making process enables us to offer a “one customer one scheme” service model for corporate customers. For certain large enterprise customers, we have also established a special customer information management system, which allows us to closely track our customers’ and their partners’ business transactions with our Bank, thereby enabling us to offer more comprehensive and effective financial consulting and advisory services for them.

As of December 31, 2018, the total number of our corporate banking customers (individual customers with personal business loans) was 9,068, representing an increase of 2,635 or 40.96% year-on-year.

Retail Banking Business

We provide our retail customers with a wide range of financial products and services, including deposits, loans, card services as well as wealth management and other intermediary businesses. We have a broad retail customer base.

As of December 31, 2018, we had 674,700 retail banking customers with total deposits of RMB22,229 million and total loans of RMB5,736 million.

We classify our retail customers into basic customers (with deposits balance of less than RMB500,000), value customers (with deposits balance of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with deposits balance of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with deposits balance exceeding RMB3,000,000). As of December 31, 2018, we had 1,958 high-end customers and 346 high-net-worth customers.

Retail deposits

The balance of retail deposits was RMB22,229 million, representing an increase of RMB6,199 million or 38.67% as compared to the end of the previous year. Particularly, the balance of demand deposits amounted to RMB2,790 million, representing an increase of RMB399 million or 16.69% as compared to the end of the previous year and accounting for 12.55% of the retail deposits

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of December 31, 2018, the total retail loans were RMB5,736 million.

Management Discussion and Analysis

Bank cards

As of December 31, 2018, the number of historical accumulated cards issued to retail banking customers was 852,900 and the stock of cards was 710,000, representing an increase of 147,900 or 26.31% as compared to the end of the previous year.

Wealth management

We provide our retail banking customers with Jin Gui Hua S type wealth management products based on their risk and return appetites. The funds raised from such wealth management products were mainly invested in products such as debt securities and money market instruments.

In 2018, the total amount of the wealth management products sold by us to our retail customers was RMB1,289 million. As of December 31, 2018, we had 4,246 customers for our wealth management products with a balance of RMB1,010 million and yields on wealth management products ranging from 4.2% to 5.38%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of December 31, 2018, our agency sales of precious metal amounted to RMB326,500.

Financial Market Business

In 2018, in the face of complex changes in the macro environment, market and regulatory environment, we fully analyzed the macroeconomic and financial regulatory situation, implemented a series of regulatory requirements to prevent and control financial risks and develop steadily.

Our financial market business mainly consists of money market transactions business, investment business and asset management business.

Money market transactions business

Our money market transactions include: interbank deposits, interbank lending, bond repurchase, bill rediscount, and issuance of interbank certificates of deposit. During the Reporting Period, we focused on the management and maintenance of interbank clients, maintained credit sustainability with them, and strived to increase their competitiveness while maintaining the diversification and dispersion of our counterparties.

1. Interbank deposits

At the end of the Reporting Period, the balance of deposits from banks and other financial institutions was RMB5,174 million, representing a year-on-year increase of RMB386 million or 8.05%, of which the balance of time deposits from banks was RMB5,010 million, representing a year-on-year increase of 6.8%, and the balances of demand deposits from banks and settlement accounts were RMB164 million, representing a year-on-year increase of 68.64%. The balance of deposits with other banks was RMB2,136 million, representing a year-on-year increase of RMB648 million or 43.54%, of which the balance of time deposits with other banks was RMB2,020 million, representing a year-on-year increase of 42.73%. The balances of demand deposits with other banks and settlement accounts were RMB116 million, representing a year-on-year increase of 59.10%.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

2. Interbank lending

At the end of the Reporting Period, the balance of our interbank placement was RMB1,720 million, representing a year-on-year increase of RMB850 million or 97.70%; the balance of interbank lending was RMB1,713 million, representing a year-on-year increase of RMB1,699 million or 116.28%. The main reasons were: first, the interbank lending transaction base was small at the end of 2017; second, in 2018, we adjusted our business structure and increased interbank lending transactions, resulting in a significant increase in interbank lending transactions at the end of the year.

3. Bond repurchase

Up to the end of the Reporting Period in 2018, the balance of our positive buy-back was RMB1.681 billion, representing a year-on-year decrease of RMB4.725 billion or 73.77%; the balance of counter buy-back was RMB3.763 billion, representing a year-on-year decrease of RMB8.079 billion or 68.22%, mainly because we made dynamic adjustment to our business structure based on the net assets during the Reporting Period.

4. Bill rediscount

At the end of the Reporting Period, we held RMB206 million of rediscounted bills, representing a year-on-year decrease of RMB1.719 billion or 89.32%, mainly due to the short term of the bills held and the low points at the end of the year.

5. Issuance of interbank certificates of deposit

At the end of the Reporting Period, the balance of our interbank certificates of deposit was RMB12.752 billion, representing an increase of RMB2.977 billion or 30.46% year-on-year, mainly because we reduced the amount of positive buy-back transactions, and used interbank certificate of deposit as one of the main tools for adjusting daily liquidity.

Management Discussion and Analysis

Investment business

1. *Bond investment*

The economy of U.S. has remained strong since 2018, but other major economies around the world are faltering. The internal and external factors, e.g. deleveraging, rigorous environmental protection policies and escalated trade tensions, have kept downward pressure on domestic economy. Despite the constraints of exchange rates and international capital flows, the state had to adopt a loose “self-centered” monetary policy. We predicted a moderately loose monetary policy earlier on, so we adjusted our strategy in a timely manner and improved the bond structure while expanding the scale of our bond investment, achieving good benefits.

As of the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. At the end of the Reporting Period, our bond investment amounted to RMB14,100 million, representing a year-on-year increase of RMB5,035 million or 55.55%, among which, the balance of treasury bonds was RMB1,510 million, representing a year-on-year increase of RMB37 million or 2.48%; the balance of policy financial bonds was RMB6,767 million, representing a year-on-year increase of RMB1,963 million or 40.86%; and the balance of debt securities issued by local governments was RMB1,055 million, representing a year-on-year increase of RMB56 million or 5.58%; the balance of credit bonds was RMB4,522 million, representing a year-on-year increase of RMB4,354 million or 2,597.80%; the balance of bonds issued by commercial banks was RMB246 million, representing a year-on-year decrease of RMB1,374 million or 84.80%. Our bond investment increased significantly during the Reporting Period, mainly due to increased investment in policy financial bonds and credit bonds.

2. *SPV investment*

During the Reporting Period, we actively promoted business diversification, deepened cooperation with interbank organizations, revitalized existing assets, and made a good use of incremental investment. At the end of the Reporting Period, our SPV investment was RMB20.852 billion, including RMB1.693 billion for public offering monetary funds, RMB11.797 billion for trust plans, RMB7.332 billion for asset management plans, and RMB30 million for other investments. Our SPV investment increased by RMB673 million or 3.33% year on year, showing a slight increase amid stability, mainly due to our new investment in high-liquidity and low-risk public offering monetary funds, moderately increased investment in trust plans and asset management plans on a stock basis, and reduced investment in wealth management products of banks, during the Reporting Period.

Asset management business

During the Reporting Period, we issued open-end wealth management products to meet customers' financial needs for liquidity and security, contributing to the steady growth in the scale of wealth management business. At the end of the Reporting Period, the balance of our wealth management products was RMB1,010 million, representing a year-on-year increase of RMB703 million or 228.66%. During the Reporting Period, the amount of wealth management products issued was RMB1.289 billion, representing a year-on-year increase of RMB548 million or 74%. All wealth management products were non-principal protected with floating interests and achieved expected returns. At the end of the Reporting Period, we had 4,246 customers of wealth management products, all of whom were retail banking customers.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

Protection of the Interests of Financial Consumers

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we gave full play to the legal entity's institutional advantages, and optimized organizational structure, reinforced our awareness of responsibility, and strengthened supervision & inspection responsibilities by focusing on product and service design, and promotional and educational campaigns on financial knowledge, so the overall level of our work on consumer rights protection continued to improve.

1. Establishing full-time organizations and strengthening organizational leadership

We set up a consumer rights protection committee under the Board of Directors to make unified plans and overall arrangements for the bank-wide work on consumer rights protection; and set up a consumer rights protection division under the Internal Control and Compliance Department to take up the specific work concerning consumer rights protection throughout the Bank. We continuously improved our organizational structure and effectively enhanced our consumer rights protection work.

2. Optimizing institutional system and consolidating management foundation

By combing the consumer rights protection system, we established and improved a consumer protection system matching with our organizational structure and business development. During the Reporting Period, we organized and revised 28 systems related to consumer rights protection to provide system guarantee for the effective development of our work on consumer rights protection.

3. Highlighting brand reputation and popularizing public education

Adhering to the concept of "customer-orientated" and "service-creating value", we provide "standard, rigorous, honest and reliable" financial services to customers to protect their rights and interests. During the Reporting Period, we continued "3.15 Consumer Rights Protection Day", "Prevention of Illegal Fund Raising", "Publicity on Prevention of Telecommunication Network Fraud", "Financial Literacy to Thousands of Families", "Financial Knowledge Popularization Month", anti-money laundering, anti-counterfeiting, personal credit and other public education and publicity campaigns.

4. Enhancing the concept of consumer protection and improving the level of consumer protection

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and strictly implement relevant industry standards and operating guidelines. During the Reporting Period, we continuously intensified the relevant staff's sense of responsibility, strengthened the concept of consumer protection, and made complaint handling flexible in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, after-sales management, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

On April 8, 2018, the Bank issued and allotted 188,349,545 shares in total to the existing shareholders on record of the Bank as of December 31, 2016. On April 8, 2018, the Bank's registered capital increased to RMB1,637,193,385 from RMB1,448,843,840.

The Bank's H Shares were listed on the Hong Kong Stock Exchange on December 17, 2018 (the "Listing Date") with an offer price fixed at HK\$3.18 per Offer Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Bank issued 545,740,000 H Shares in total under the Global Offering. Three Cornerstone Investors subscribed for 270,000,000 H Shares in total issued by the Bank. After deduction of the underwriting fees, commissions and expenses payable by us in relation to the Global Offering and excluding the impact of the exercise of Over-allotment Option, the net proceeds of the Global Offering accruing to us would be approximately HK\$1,638.2 million.

On January 9, 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, 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\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on January 14, 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank were approximately HK\$255.5 million (after deducting underwriting commissions, brokerage, transaction levy and transaction fee).

Our proceeds from the issuance of H Shares have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	December 31, 2017		Change during the reporting period Amount of change	December 31, 2018	
	Quantity	Percentage		Quantity	Percentage
Total share capital	1,448,843,840	100.00%	734,089,545	2,182,933,385	100.00%
Domestic Shares held by legal person	1,409,837,740	97.31%	183,278,904	1,593,116,644	72.98%
Domestic Shares held by natural person	39,006,100	2.69%	5,070,641	44,076,741	2.02%
H Shares	-	-	545,740,000	545,740,000	25.00%

Changes in Share Capital and Information on Shareholders

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

During the Reporting Period, the Bank issued 545,740,000 H Shares which were listed on the main board of the Hong Kong Stock Exchange on December 17, 2018. Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

IV. DETAILS OF SHAREHOLDERS

As at the end of the Reporting Period, the total number of shares of the Bank was 2,182,933,385 shares, consisting of 1,637,193,385 Domestic Shares and 545,740,000 H Shares.

As at the date of this report, the total number of shares of the Bank was 2,264,793,385 shares, consisting of 1,637,193,385 Domestic Shares and 627,600,000 H Shares.

(I) Shareholding of Top 10 Holders of Domestic Shares of the Bank

Shareholding of top 10 holders of Domestic Shares of the Bank is as follows:

Unit: Share

No.	Name of Shareholder	Class of Shares	Number of Shares held at the end of the period	Shareholding percentage	Number of Shares pledged	Number of Shares frozen
1	Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司)	Domestic Shares	325,440,000	14.91%	-	-
2	Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司)	Domestic Shares	271,200,000	12.42%	-	-
3	Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Domestic Shares	271,200,000	12.42%	-	271,200,000
4	Luzhou Municipal Finance Bureau	Domestic Shares	161,544,800	7.40%	-	-
5	Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Domestic Shares	144,640,000	6.63%	-	-
6	Shanghai Yude Communication Technology Co., Ltd. (上海與德通訊技術有限公司)	H Shares	100,000,000	4.58%	-	-
7	Wudaokou Capital Limited (五道口資本有限公司)	H Shares	100,000,000	4.58%	-	-
8	Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司)	Domestic Shares	91,715,862	4.20%	-	-
9	Chengdu Modern Agricultural Development Investment Co., Ltd. (成都市現代農業發展投資有限公司)	Domestic Shares	81,043,600	3.71%	-	-
10	Luzhou Industrial Investment Group Co., Ltd. (瀘州市工業投資集團有限公司)	Domestic Shares	73,462,268	3.37%	-	-

Changes in Share Capital and Information on Shareholders

(II) Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares under the Regulations of Hong Kong

To the knowledge of the Directors or chief executive of the Bank, as at December 31, 2018, interests and short positions the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank 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, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares
Luzhou Laojiao Group Co., Ltd. ⁽¹⁾	Beneficial owner	Domestic Shares	Long position	325,440,000	-	14.91%	19.88%
	Interest in controlled corporation	Domestic Shares	Long position	36,160,000	-	1.66%	2.21%
Sichuan Jiale Enterprise Group Co., Ltd. ⁽²⁾	Beneficial owner	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
	Interest in controlled corporation	Domestic Shares	Long position	7,232,000	-	0.33%	0.44%
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest of spouse	Domestic Shares	Long position	278,432,000	-	12.75%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	12.42%	16.56%
Luzhou Industrial Investment Group Co., Ltd. ⁽⁴⁾	Beneficial owner	Domestic Shares	Long position	73,462,268	-	3.37%	4.49%
	Interest in controlled corporation	Domestic Shares	Long position	144,640,000	-	6.63%	8.83%
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司) ⁽⁵⁾	Beneficial owner	Domestic Shares	Long position	40,549,462	-	1.86%	2.48%
	Interest in controlled corporation	Domestic Shares	Long position	154,128,384	-	7.06%	9.41%
Luzhou Municipal Finance Bureau	Beneficial owner	Domestic Shares	Long position	161,544,800	-	7.40%	9.87%
Luzhou State-owned Assets Operation Co., Ltd.	Beneficial owner	Domestic Shares	Long position	144,640,000	-	6.63%	8.83%
Luzhou Xinglu Jutai Real Estate Co., Ltd.	Beneficial owner	Domestic Shares	Long position	91,715,862	-	4.20%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.20%	5.60%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資 有限公司) ⁽⁶⁾	Beneficial owner	Domestic Shares	Long position	15,006,400	-	0.69%	0.92%
	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.20%	5.60%
China Development Fund Co., Ltd. (國開發展基金 有限公司) ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.20%	5.60%
Shanghai Yude Communication Technology Co., Ltd. ⁽⁷⁾	Beneficial owner	H Shares	Long position	100,000,000	-	4.58%	18.32%
XU Tie (徐鐵) ⁽⁷⁾	Interest in controlled corporation	H Shares	Long position	100,000,000	-	4.58%	18.32%
Wudaokou Capital Limited (五道口資本有限公司) ⁽⁸⁾	Beneficial owner	H Shares	Long position	100,000,000	-	4.58%	18.32%
ZHOU Min (周敏) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long position	100,000,000	-	4.58%	18.32%
CITIC Securities Company Limited (中信證券股份 有限公司) ⁽⁹⁾	Interest in controlled corporation	H Shares	Long position	4,384,000	81,860,000	3.95%	15.80%
	Interest in controlled corporation	H Shares	Short position	-	81,860,000	3.75%	15.00%
Activation Fund JNR SPC ⁽¹⁰⁾	Beneficial owner	H Shares	Long position	71,605,000	-	3.28%	13.12%
JNR Capital ⁽¹⁰⁾	Beneficial owner	H Shares	Long position	71,550,000	-	3.28%	13.11%
ZHENG Zhicheng (鄭志誠) ⁽¹⁰⁾	Investment manager	H Shares	Long position	71,550,000	-	3.28%	13.11%
	Interest in controlled corporation	H Shares	Long position	71,550,000	-	3.28%	13.11%
Power Ace Investments Limited ⁽¹¹⁾	Beneficial owner	H Shares	Long position	70,671,000	-	3.24%	12.95%
HU Yina (胡伊娜) ⁽¹¹⁾	Interest in controlled corporation	H Shares	Long position	70,671,000	-	3.24%	12.95%
HU Yebi (胡野碧) ⁽¹¹⁾	Interest in controlled corporation	H Shares	Long position	70,671,000	-	3.24%	12.95%
Luzhou Liquor Golden Triangle Wine Industry Development Co., Ltd. (瀘州白酒金三角 酒業發展有限公司)	Beneficial owner	H Shares	Long position	70,000,000	-	3.21%	12.83%
Daily Technology Company Limited ⁽¹²⁾	Beneficial owner	H Shares	Long position	57,270,000	-	2.62%	10.49%
XU Dongqi (許東琪) ⁽¹²⁾	Interest in controlled corporation	H Shares	Long position	57,270,000	-	2.62%	10.49%
ZHUANG Menghua (莊孟嬋) ⁽¹²⁾	Interest of spouse	H Shares	Long position	57,270,000	-	2.62%	10.49%
OTX ADVISORY HOLDINGS, INC. ⁽¹³⁾	Beneficial owner	H Shares	Long position	50,784,000	-	2.33%	9.31%
LUO Zhipeng (羅志鵬) ⁽¹³⁾	Interest in controlled corporation	H Shares	Long position	50,784,000	-	2.33%	9.31%



Changes in Share Capital and Information on Shareholders

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly-owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 325,440,000 Domestic Shares and indirectly held 36,160,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co. Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.
- (2) Mr. XIONG Guoming (熊國銘) and Ms. JIANG Xiaoying held 80% and 20% equity interest in Sichuan Jiale Enterprise Group Co., Ltd., respectively. Sichuan Jiale Enterprise Group Co., Ltd. directly held 271,200,000 Domestic Shares and indirectly held 7,232,000 Domestic Shares through its indirectly owned subsidiary, Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Jiale Real Estate Co., Ltd., and Sichuan Jiale Enterprise Group Co., Ltd. had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd. By virtue of the SFO, Sichuan Jiale Enterprise Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Jiale Real Estate Co., Ltd. Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Jiale Enterprise Group Co., Ltd. and Jiale Real Estate Co., Ltd. for the purpose of the SFO. Ms. JIANG Xiaoying is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong held 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. held 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Investment Group Co., Ltd. directly held 73,462,268 Domestic Shares and indirectly held 144,640,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. By virtue of the SFO, Luzhou Industrial Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd.
- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 40,549,462 Domestic Shares and (i) indirectly held 91,715,862 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Real Estate Co., Ltd., in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 47% and 53% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 36,160,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert valid from December 31, 2015 to June 1, 2021 in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 11,246,122 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 15,006,400 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.

Changes in Share Capital and Information on Shareholders

- (6) Luzhou Xinglu Jutai Real Estate Co., Ltd. is held as to 53% by Luzhou Xinglu Investment Group Co., Ltd. and as to 47% by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. held 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd.
- (7) Shanghai Yude Communication Technology Co., Ltd. is wholly-owned by XU Tie. By virtue of the SFO, XU Tie is deemed to be interested in the H Shares held by Shanghai Yude Communication Technology Co., Ltd.
- (8) Wudaokou Capital Limited is wholly-owned by ZHOU Min. By virtue of the SFO, ZHOU Min is deemed to be interested in the H Shares held by Wudaokou Capital Limited.
- (9) Such interests are held by CLSA Limited, which is wholly-owned by CLSA B.V., CLSA B.V. is wholly-owned by CITIC Securities International Company Limited (中信證券國際有限公司), which is wholly-owned by CITIC Securities Company Limited. By virtue of the SFO, each of CLSA B.V., CITIC Securities International Company Limited and CITIC Securities Company Limited is deemed to be interested in the H Shares held by CLSA Limited.
- (10) JNR SPC is wholly-owned by JNR Capital, which is owned as to approximately 66.67% by ZHENG Zhicheng. By virtue of the SFO, both JNR Capital and ZHENG Zhicheng are deemed to be interested in the H Shares held by JNR SPC.
- (11) Power Ace Investments Limited is owned by HU Yina and HU Yebi on a 50%-50% basis. By virtue of the SFO, both HU Yina and HU Yebi are deemed to be interested in the H Shares held by Power Ace Investments Limited.
- (12) Daily Technology Company Limited is wholly-owned by XU Dongqi, whose spouse is ZHUANG Menghua. By virtue of the SFO, XU Dongqi is deemed to be interested in the H Shares held by Daily Technology Company Limited, and ZHUANG Menghua is deemed to be interested in the H Shares which held by XU Dongqi.
- (13) OTX ADVISORY HOLDINGS, INC. is wholly-owned by LUO Zhipeng. By virtue of the SFO, LUO Zhipeng is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.

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

(III) Holders of 5% or More Shares

Please refer to IV. Details of Shareholders above for information on Shareholders holding 5% or more shares of the Bank.

Changes in Share Capital and Information on Shareholders

V. DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE BANK

As of December 31, 2018, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register of interests kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

Interests in the Bank held by our Directors, Supervisors and chief executives							
Name	Position	Nature of interests	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (shares)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
XIONG Guoming (熊國銘)	Non-executive Director	Interest in controlled corporations	Domestic Shares	Long position	278,432,000	12.75%	17.01%
LIU Shirong (劉仕榮)	Executive Director	Beneficial owner	Domestic Shares	Long position	10,848	0.0005%	0.0007%
CHEN Yong (陳勇) ⁽¹⁾	Supervisor	Interest of spouse	Domestic Shares	Long position	16,272	0.0007%	0.001%

Note:

- (1) The Domestic Shares are held by Ms. LAN Ying (蘭英), the spouse of Mr. CHEN Yong. Mr. CHEN Yong is deemed to be interested in the Domestic Shares held by Ms. LAN Ying under the SFO.

Save as disclosed above, as at December 31, 2018, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Bank pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Name	Sex	Age	Time of joining our Bank	Position	Time of taking the position
YOU Jiang (游江)	Male	45	July 2014	Executive Director and chairman of the Board of Directors	August 28, 2014
XU Xianzhong (徐先忠)	Male	49	August 2010	Executive Director and president	April 29, 2011
LIU Shirong (劉仕榮)	Male	53	October 1997	Executive Director, vice president and secretary of the Board	February 22, 2010
XU Yan (徐燕)	Female	53	May 2013	Non-executive Director	May 17, 2013
XIONG Guoming (熊國銘)	Male	56	February 2010	Non-executive Director	February 22, 2010
LIU Qi (劉奇)	Male	34	November 2017	Non-executive Director	November 29, 2017
DAI Zhiwei(代志偉)	Male	50	December 2015	Non-executive Director	December 10, 2015
LIU Xiaoyu (劉小渝)	Male	65	May 2013	Independent non-executive Director	May 17, 2013
GU Mingan (辜明安)	Male	53	March 2016	Independent non-executive Director	March 18, 2016
HUANG Yongqing (黃永慶)	Male	57	November 2017	Independent non-executive Director	November 7, 2017
YE Changqing (葉長青)	Male	48	May 2018	Independent non-executive Director	May 30, 2018
TANG Baoqi (唐保祺)	Male	59	May 2018	Independent non-executive Director	May 30, 2018

Note: Mr. YE Changqing and Mr. TANG Baoqi were approved as independent non-executive Directors of our Bank by the Shareholders' general meeting on May 30, 2018. The appointment of Mr. YE Changqing and Mr. TANG Baoqi as independent non-executive Directors took effect on December 17, 2018.

Directors, Supervisors, Senior Management and Employees

(II) Supervisors

Name	Sex	Age	Time of joining our Bank	Position	Time of taking the position
YUAN Shihong (袁世泓)	Female	48	November 2015	Chairwoman of the Board of Supervisors	January 26, 2016
HUANG Ping (黃萍)	Female	61	December 2012	External Supervisor and the chairwoman of the audit and supervision committee under the Board of Supervisors	December 28, 2012
DUAN Xuebin (段學彬)	Male	53	January 2016	External Supervisor and chairman of the nomination committee under the Board of Supervisors	January 26, 2016
LIU Yongli (劉永麗)	Female	48	July 2002	Employees' representative Supervisor, the general manager of the risk management department	January 26, 2016
CHEN Yong (陳勇)	Male	46	July 2002	Employees' representative Supervisor, the vice general manager of the administration department (presiding over work)	January 26, 2016

Directors, Supervisors, Senior Management and Employees

(III) Senior Management

Name	Sex	Age	Time of joining our Bank	Position	Time of taking the position
XU Xianzhong (徐先忠)	Male	49	August 2010	Executive Director and president	August 4, 2011
XIA Yilun (夏義倫)	Female	52	November 2008	Vice president	December 31, 2008
LIU Shirong (劉仕榮)	Male	53	October 1997	Executive Director, vice president, and secretary of the Board	May 27, 2016 (vice president); December 31, 2012 (secretary of the Board)
XUE Xiaoqin (薛曉芹), whose former name is XUE Defang (薛德芳)	Female	50	October 1997	Vice president	May 27, 2016
CHENG Anhua (成安華)	Male	48	September 1998	Vice president and chief information officer	July 27, 2017 (vice president); December 24, 2015 (chief information officer)
YANG Bing (楊冰), whose former name is YANG Bin (楊斌)	Male	43	April 2016	Vice president	April 8, 2016
AI Yong (艾勇)	Male	46	September 1997	Assistant to president	December 28, 2012
HU Jia (胡嘉)	Male	39	November 2015	Assistant to president	August 23, 2018

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

Mr. YE Changqing and Mr. TANG Baoqi were approved as independent non-executive Directors of the Bank at the general meeting on May 30, 2018, with the appointment taking effect on December 17, 2018.

2. Changes in Supervisors

There was no change in the Supervisors during the Reporting Period.

3. Changes in Senior Management

Mr. HU Jia was appointed as assistant to president of the Bank on August 23, 2018, with effect from the same day.

Directors, Supervisors, Senior Management and Employees

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Executive Director YOU Jiang (游江)

Mr. YOU Jiang (游江), aged 45, has been a Director since August 2014 and the chairman of the Board of Directors since December 2014. He is primarily responsible for the overall management, strategic planning and business development of our Bank. Mr. You is also a member of each of the development and strategy committee, the nomination and remuneration committee, the risk management committee and the consumer rights protection committee of our Bank.

Prior to joining our Bank, Mr. You served as the division director (處長) of the First Division of Supervision and Regulation of Small and Medium Rural Financial Institutions of CBRC Sichuan Office (四川銀監局農村中小金融機構監管一處) from September 2013 to June 2014. He worked as the director-general (局長) of CBRC Nanchong Branch (中國銀監會南充監管分局) from May 2011 to September 2013. Mr. You worked as a deputy director-general (副局長) of CBRC Ziyang Branch (中國銀監會資陽監管分局) from December 2007 to April 2009 and then its director-general (局長) from April 2009 to May 2011. Mr. You served as a deputy division director (副處長) of the Division of Supervision and Regulation of Cooperative Financial Institutions of CBRC Sichuan Office (四川銀監局合作金融機構監管處) from January 2007 to December 2007, during which period he also worked on secondment as a vice general manager of the risk management department of the Sichuan Provincial Branch of Industrial and Commercial Bank of China Limited (“ICBC”) (中國工商銀行股份有限公司四川省分行) and a vice president of the Chunxi sub-branch of ICBC (中國工商銀行股份有限公司春熙支行) from May 2007 to December 2007. Mr. You worked at CBRC Sichuan Office as a vice office director (辦公室副主任) from January 2005 to January 2007. He worked as a member of the planning group of CBRC Ya’an Branch (中國銀監會雅安監管分局) from November 2003 to February 2004 and then a deputy director-general (副局長) of the CBRC Ya’an Branch (中國銀監會雅安監管分局) from February 2004 to January 2005. Mr. You worked at PBoC Ziyang Central sub-branch (中國人民銀行資陽市中心支行) as the assistant to president from July 2002 to November 2003. Prior to that, Mr. You worked at the secretarial division of the CPC committee office of PBoC Chengdu Branch (中國人民銀行成都分行) as a staff member from December 1998 to January 2000 and then the section chief (科長) from January 2000 to July 2002. He worked at PBoC Sichuan Branch (中國人民銀行四川省分行) as a cadre of the business department from July 1995 to July 1996 and a staff member of the secretarial division of the general office from July 1996 to December 1998.

Mr. You obtained a bachelor’s degree in economics, a master’s degree in economics and a doctoral degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1995, December 2002 and July 2010, respectively.

Directors, Supervisors, Senior Management and Employees

Executive Director XU Xianzhong (徐先忠)

Mr. XU Xianzhong (徐先忠), aged 49, has been a Director since April 2011 and the president of our Bank since August 2011. He is primarily responsible for the daily overall operation of our Bank. He is also in charge of the internal control and compliance department (security department) and internal audit department of our Bank. Mr. Xu is a member of the consumer rights protection committee of our Bank.

Mr. Xu joined our Bank in August 2010 as a candidate for vice president and was a candidate for president from December 2010 to August 2011. Mr. Xu worked at ICBC for around 19 years before joining our Bank. From March 2009 to August 2010, Mr. Xu served as a vice president of ICBC Neijiang Branch (中國工商銀行股份有限公司內江分行). He worked as a vice president of ICBC Guangyuan Branch (中國工商銀行股份有限公司廣元分行) from February 2006 to March 2009. Mr. Xu worked as the president of ICBC Xuyong Sub-branch (中國工商銀行股份有限公司敘永縣支行) from August 2005 to February 2006. He worked at ICBC Gulin Sub-branch (中國工商銀行股份有限公司古藺縣支行) as a vice president from May 2003 to September 2004 and then the president from September 2004 to August 2005. Prior to that, he worked as a staff at Jiangyang office of ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行江陽分理處) from August 1991 to December 1991, at the ICBC Luzhou Branch Jiangyang sub-branch (中國工商銀行股份有限公司瀘州市分行江陽支行) from January 1992 to August 1998 and then worked successively as a staff of accounting auditing center (會計核算中心) and deputy director (副主任) of auditing center (核算中心) at ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行) from August 1998 to May 2003.

Mr. Xu obtained a bachelor of science degree from Xiamen University (廈門大學) in Fujian Province, the PRC, in July 1991. Mr. Xu graduated from the part-time postgraduate course in economic and modern management and obtained a master of laws degree in June 2002 from Southwest China Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in Chongqing, the PRC. Mr. Xu was appraised as a senior economist by the Appraisal and Approval Committee for Professional & Technical Competence of ICBC (中國工商銀行專業技術職務任職資格評審委員會) in August 2005.

Directors, Supervisors, Senior Management and Employees

Executive Director LIU Shirong (劉仕榮)

Mr. LIU Shirong (劉仕榮), aged 53, has been a Director since February 2010, a vice president of our Bank since May 2016 and the secretary to the Board of Directors since December 2012. He is primarily in charge of the office of the Board of Directors, administration department, risk management department and infrastructure department of our Bank. Mr. Liu is also a member of each of the related party (connected) transactions control committee and the risk management committee of our Bank.

Mr. Liu joined our Bank in October 1997. Mr. Liu served as the head of the office of the Board of Directors from March 2012 to October 2014. Prior to that, he acted as the responsible person of the accounting and finance department of our Bank from November 2011 to March 2012. Mr. Liu worked as the head of the administration office (行政辦公室主任) of our Bank from February 2008 to November 2011. He served as the office head (辦公室主任) of our Bank from September 2005 to February 2008. Mr. Liu worked as the head of the credit management department of our Bank from January 2005 to September 2005. He worked as the president of Binjiang sub-branch (濱江支行) of our Bank from November 2002 to January 2004 and the president of Jiangyangzhonglu sub-branch (江陽中路支行) of our Bank from January 2004 to January 2005. Mr. Liu served as an acting vice president of Tongda sub-branch (通達支行) of our Bank from October 1997 to February 1998 and then its vice president from February 1998 to November 2002. Prior to joining our Bank, Mr. Liu worked at Haikou City Bo'ai Urban Credit Cooperative (海口市博愛城市信用社) and served as a deputy office head (辦公室副主任) and the manager of the credit department from February 1993 to June 1993 and also as a vice head (副主任), the manager of its treasury department and the manager of the credit department from June 1993 to October 1997.

Mr. Liu graduated from Luzhou Finance and Trade School (瀘州財貿學校) in the PRC in July 1985, majoring in finance and accounting. He passed the self-taught higher education exams of accounting at junior college level (會計專業專科自學考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in June 1989. Mr. Liu graduated from the Correspondence Institute of the Central Communist Party School of the CPC (中共中央黨校函授學院) in the PRC in December 2001, majoring in economic management (through correspondence study).

Mr. Liu obtained the intermediate level certificate in financial economics conferred by Ministry of Personnel of the PRC (中華人民共和國人事部) (currently known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) in November 2000. He was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of Stateowned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in February 2013.

Directors, Supervisors, Senior Management and Employees

Non-executive Director XU Yan (徐燕)

Ms. XU Yan (徐燕), aged 53, has been a Director since May 2013. She is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Ms. Xu is also the chairperson of the development and strategy committee and a member of the audit committee of our Bank.

Ms. Xu has been the president assistant of Luzhou Laojiao Group since February 2016, the general manager of the finance management center of Luzhou Laojiao Group since November 2015 and a director of Luzhou Xinglu Water (Group) Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 02281) since December 2015. From January 2014 to March 2018, Ms. Xu was a director of Luzhou Laojiao Yongsheng Property Investment Management Co., Ltd. (瀘州老窖永盛置業投資管理有限公司) (currently known as Sichuan Kangrun Investment Group Co., Ltd. (四川康潤投資集團有限公司)). Ms. Xu served as the chairman of the board of directors of Longma Xingda Small Loan Co., Ltd. (龍馬興達小額貸款股份有限公司) from November 2011 to December 2016. Ms. Xu worked at Luzhou Laojiao Group and served as a financial staff from December 2000 to April 2004 and the financial executive, and a deputy head (副主任) and then the head (主任) of the financial center from May 2004 to October 2015. Ms. Xu worked as the financial executive of the Third Branch of Luzhou Laojiao (瀘州老窖股份有限公司第三公司) from January 1999 to November 2000. She served as the financial chief of Luzhou Laojiao Automobile Transportation Company (瀘州老窖汽車運輸公司) from January 1997 to December 1998. Ms. Xu served as the financial manager of Luzhou Laojiao Hotel (瀘州老窖大酒店) from December 1995 to December 1996. Prior to that, Ms. Xu worked as a cashier, cost accounting and payroll staff at Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司) from October 1984 to December 1995.

Ms. Xu passed the self-taught higher education exams of accounting at junior college level (會計專業專科自學考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in December 1992 and graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院) in the PRC in December 1999, majoring in finance and accounting through correspondence study. Ms. Xu was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in November 2011.

Directors, Supervisors, Senior Management and Employees

Non-executive Director XIONG Guoming (熊國銘)

Mr. XIONG Guoming (熊國銘), aged 56, has been a Director since February 2010. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Xiong is also the chairperson of the risk management committee and a member of each of the development and strategy committee and the nomination and remuneration committee of our Bank.

Mr. Xiong has been the chairman of the board of directors of Sichuan Jiale Enterprise Group Limited (四川省佳樂企業集團有限公司) and held positions at several subsidiaries of Sichuan Jiale Enterprise Group Limited (四川省佳樂企業集團有限公司) since September 1998, including chairman of the board of directors of Sichuan Jiale Yijia Industry Co., Ltd. (四川佳樂益佳實業有限公司) since August 2018, a director of Luzhou Jiaxi Industrial Co., Ltd. (瀘州佳希實業有限公司) since October 2017, the chairman of the board of directors of Luzhou Jiale Assets Management Co., Ltd. (瀘州市佳樂資產管理股份有限公司) since September 2017, the chairman of the board of directors of Hainan Wanjia Culture and Tourism Development Co., Ltd. (海南萬佳文旅發展有限公司) since May 2017, a director of Luzhou Jiarun Industrial Development Co., Ltd. (瀘州佳潤實業發展有限公司) (formerly known as Luzhou Jiarun Real Estate Development Co., Ltd. (瀘州佳潤房地產開發有限公司)) since March 2014, the chairman of the board of directors of Luzhou Yijia Investment Co., Ltd. (瀘州益佳投資有限公司) since July 2012, the chairman of the board of directors and general manager of Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) since January 2011, a director of Chongqing Centennial Jiale Properties Co., Ltd. (重慶百年佳樂置業有限公司) since November 2004, a director of Luzhou Nanyuan Taxi Co., Ltd. (瀘州南苑出租汽車有限公司) since January 2003 and a director of Luzhou Nanyuan Hotel Co., Ltd. (瀘州南苑賓館有限公司) since December 2002. In addition, Mr. Xiong also served as a director of Luzhou Rural Commercial Bank Co., Ltd. (瀘州農村商業銀行股份有限公司) since July 2017. Before that, Mr. Xiong served as a director of Luzhou Longmatan Rural Commercial Bank Co., Ltd. (瀘州龍馬潭農村商業銀行股份有限公司) (one of the predecessors of Luzhou Rural Commercial Bank Co., Ltd.) from October 2013 to July 2017. Mr. Xiong served as the general manager of Jiale Real Estate from September 1994 to September 1998.

Mr. Xiong obtained an executive master's degree in business administration from Tsinghua University (清華大學) in Beijing, the PRC, in July 2010 and another executive master degree in business administration from Tsinghua University in Beijing, the PRC, in January 2015. Mr. Xiong was approved as a senior engineer by Sichuan Title Reform Leading Group (四川省職改領導小組) in June 1999.

Directors, Supervisors, Senior Management and Employees

Non-executive Director LIU Qi (劉奇)

Mr. LIU Qi (劉奇), aged 34, has been a Director since November 2017. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Liu is also a member of each of the development and strategy committee and the consumer rights protection committee of our Bank.

Mr. Liu has been an executive director and the general manager of Luzhou Industrial Investment Leasing Co., Ltd. (瀘州工投租賃有限公司) since November 2017, a vice general manager of Luzhou Industrial Investment Group and a director and the general manager of Luzhou Industrial Investment Financing Guarantee Co., Ltd. (瀘州工投融資擔保有限公司) since June 2017, a director of Southwest Hospital Investment Co., Ltd. (西南醫療健康產業投資有限公司) since April 2017, and a director of Luzhou Culture and Tourism Investment Group Co., Ltd. (瀘州市文化旅遊發展投資集團有限公司) since September 2016. Mr. Liu served as a director of Luzhou Hejiang Industrial Investment Co., Ltd. (瀘州合江工業投資有限公司) from April 2016 to May 2017. Mr. Liu also held a number of other positions in Luzhou Industrial Investment Group, including the head of the office of the board of directors from June 2015 to November 2017 and the assistant to general manager from May 2016 to November 2017. Mr. Liu served as the principal of Luzhou Section Reforming Leading Group of Sichuan Chemical Engineering Holding Group Co., Ltd. (四川化工控股集團瀘州板塊改革工作領導小組辦公室) from May 2014 to April 2015. Prior to that, he worked at the People's Government of Lu County (瀘縣人民政府) as a staff member of the office secretary section (辦公室秘書科) from August 2011 to December 2011, a deputy section chief (副科長) of the office secretary section from December 2011 to August 2012, the head (主任) of the supervision and inspection office (督察室) from August 2012 to April 2015 and a deputy office director (辦公室副主任) from July 2013 to April 2015. Mr. Liu served as a staff member, a deputy head (副主任) and organization personnel cadre (組織人事幹事) of Luxian Niutan Town CPC and People's Government Office (瀘縣牛灘鎮黨政辦公室) from July 2008 to August 2011.

Mr. Liu obtained a bachelor's degree in economics from Xihua University (西華大學) in Sichuan Province, the PRC, in June 2008.

Directors, Supervisors, Senior Management and Employees

Non-executive Director DAI Zhiwei (代志偉)

Mr. DAI Zhiwei (代志偉), aged 50, has been a Director since December 2015. He is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank. Mr. Dai is also a member of the development and strategy committee of our Bank.

Mr. Dai has been a director of Sichuan Xuda Railway Co., Ltd. (四川敘大鐵路有限責任公司) since September 2016, a director of Sichuan South Express Highway Co., Ltd. (四川南方高速公路股份有限公司) since July 2016, a director of Sichuan Yusheng Wine Industry Investment Management Co., Ltd. (四川宇晟酒業投資管理有限公司) since August 2015, a director and the general manager of Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限責任公司) and the general manager of Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) since June 2015, a director of Xinglu Investment Group since March 2015 and the general manager of Xinglu Investment Group since April 2015. Mr. Dai served as a member of the standing committee of the CPC and a deputy district chief (副區長) of Naxi district of Luzhou from May 2012 to February 2014 and a deputy secretary (副書記) of CPC committee of Naxi district of Luzhou from February 2014 to March 2015. Mr. Dai worked as a deputy county chief (副縣長) of Hejiang county from November 2007 to May 2012 and a member of the standing committee of the CPC of Hejiang county from October 2011 to May 2012. He worked as the head (主任) of Luzhou Agriculture Development Office (瀘州市農業發展辦公室) from July 2007 to November 2007. Mr. Dai worked at the Agriculture Section of Luzhou Municipal Finance Bureau (瀘州市財政局農業科) as a senior staff member (副主任科員) and then a principal staff member (主任科員) from August 1998 to June 2002, a deputy section chief (副科長) from June 2002 to May 2004 and then the section chief (科長) from May 2004 to July 2007. Mr. Dai worked as a senior staff member (副主任科員) of Luzhou State-owned Assets Bureau (瀘州市國資局) from August 1994 to July 1998. He worked as a staff and then a staff of the Three Investigation Office (三查辦) of Luzhou Municipal Finance Bureau from August 1990 to August 1994.

Mr. Dai obtained a bachelor's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1990.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director LIU Xiaoyu (劉小渝)

Mr. LIU Xiaoyu (劉小渝), aged 65, has been an independent non-executive Director since May 2013. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Liu is also the chairperson of each of the audit committee and the related party (connected) transactions control committee of our Bank, and a member of each of the risk management committee and the consumer rights protection committee of our Bank.

Mr. Liu worked at the Agricultural Bank of China Limited (中國農業銀行股份有限公司) for over 32 years. From June 2006 to September 2013, Mr. Liu held a number of positions successively at Agricultural Bank of China Limited Luzhou Branch (中國農業銀行股份有限公司瀘州市分行), including the head of the president's office from June 2006 to August 2009, a cadre (division-head level) (正處級幹部) of the president's office from August 2009 to December 2011 and a researcher (division-level) of the president's office from December 2011 to September 2013. From November 2000 to June 2006, Mr. Liu worked as the president of Agricultural Bank of China Limited Neijiang Branch (中國農業銀行股份有限公司內江分行). From June 1988 to November 2000, Mr. Liu held a number of positions successively at Agricultural Bank of China Limited Luzhou Branch (中國農業銀行股份有限公司瀘州市分行), including the section chief (科長) of the credit section (信貸科) from June 1988 to September 1988, the assistant to president (行長助理) from September 1988 to November 1990, a vice president from November 1990 to June 1997 and then the president from June 1997 to November 2000. From March 1981 to June 1988, Mr. Liu held a number of positions successively at Agricultural Bank of China Limited Lu County Sub-branch (中國農業銀行股份有限公司瀘縣支行), including a credit clerk (信貸員) of Fuji Business Office (福集營業所) from March 1981 to October 1981, an officer (工作員) of the agricultural credit section (農業信貸科) from October 1981 to May 1984, a deputy head (副股長) of the agricultural credit department (農業信貸股) from May 1984 to January 1985, a deputy head (副股長) of the planning department (計劃股) from January 1985 to August 1985, and a vice president from August 1985 to June 1988.

Mr. Liu graduated from Southwest China Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in Chongqing, the PRC, in June 1996, majoring in financial securities through correspondence study. Mr. Liu was certified as senior economist by the appraisal committee of Agricultural Bank of China Limited (中國農業銀行股份有限公司) in November 1993.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director GU Mingan (辜明安)

Mr. GU Mingan (辜明安), aged 53, has been an independent non-executive Director since March 2016. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Gu is also the chairperson of the nomination and remuneration committee of our Bank and a member of each of the audit committee and the related party (connected) transactions control committee of our Bank.

Mr. Gu has been a lecturer in Southwestern University of Finance and Economics (西南財經大學) since 1999 and was promoted to an associate professor in 2002 and then a professor in 2008. Mr. Gu has been an independent director of Sichuan Guoxin Liancheng Assets Management Co., Ltd. (四川省國新聯程資產管理有限公司) (formerly known as Chengdu Guoxin Liancheng Asset Management Co., Ltd. (成都市國新聯程資產管理有限公司)) since September 2017, an independent non-executive director of Luzhou Xinglu Water (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 2281) since March 2017, an independent director of Sichuan Longchang Rural Commercial Bank Co., Ltd. (四川隆昌農村商業銀行股份有限公司) since March 2016, an independent director of Sichuan Troy Information Technology Co., Ltd. (四川創意信息技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300366) since January 2016 and an independent director of Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000628) since September 2015. Mr. Gu served as an independent director of Zhejiang Renzhi Co., Ltd. (浙江仁智股份有限公司), a company listed on the Shenzhen Stock Exchange from September 2014 to September 2017. Prior to joining Southwestern University of Finance and Economics (西南財經大學), Mr. Gu worked at Sichuan Light Chemical Industry College (四川輕化工學院) (currently known as Sichuan Light Chemical Industry University (四川輕化工大學)) from July 1993 to July 1999 and worked at Chenguang Chemical Research Institute of Chemical Industry Ministry (化工部晨光化工研究院) (currently known as Zhonghao Chenguang Chemical Research Institute Co., Ltd. (中昊晨光化工研究院有限公司)) from July 1989 to July 1993.

Mr. Gu obtained a bachelor of laws degree from Southwest China Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in Chongqing, the PRC, in July 1989, a master of laws degree from Southwestern University of Political Science & Law (西南政法大學) in Chongqing, the PRC, in July 1999 and the doctoral degree in law from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 2008.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director HUANG Yongqing (黃永慶)

Mr. HUANG Yongqing (黃永慶), aged 57, has been an independent non-executive Director since November 2017. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Huang is also the chairperson of the consumer rights protection committee and a member of the related party (connected) transactions control committee of our Bank.

Mr. Huang has been the head of Beijing Long'an (Chengdu) Law Firm (北京隆安(成都)律師事務所) since July 2016 and a senior partner of Beijing Long'an Law Firm (北京隆安律師事務所) since September 1999. Mr. Huang has been a member of the legal advisory board for the overseas Chinese (為僑服務法律顧問團) of the Overseas Chinese Affairs Office of the State Council (國務院僑務辦公室) since December 2017, a vice president of China Trademark Association (中華商標協會) since October 2016, an external lecturer of Tianjin Prosecutors College (天津市檢察官學院) since October 2015, an executive council member of the investment association of the CCTV-Securities News Channel (CCTV證券資訊頻道) of Central Xinying Digital Media Co., Ltd. (中央新影數字傳媒有限公司) since June 2014, a council member of the Sichuan Enterprise Confederation (四川省企業聯合會) and the Sichuan Enterprise Directors Association (四川省企業家協會) since January 2014, a council member of the council of Jurist magazine of Law School of Renmin University of China (中國人民大學法學院《法學家》雜誌) since May 2009, and the director (所長) of the Futures Law Research Institute of China University of Political Science and Law (中國政法大學期貨法律研究所) since December 1995.

Mr. Huang obtained a bachelor of laws degree from Renmin University of China (中國人民大學) in Beijing, the PRC, in July 1983 and a master of laws degree from China University of Political Science and Law (中國政法大學) in Beijing, the PRC, in July 1986. Mr. Huang obtained the lawyer's qualification certificate of the PRC in January 1999.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director YE Changqing (葉長青)

Mr. YE Changqing (葉長青), aged 48, was appointed as our independent non-executive Director on May 30, 2018. His appointment will take effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Ye is also a member of each of the audit committee, the nomination and remuneration committee and the risk management committee of our Bank.

Mr. Ye has been an independent director of Niu Technologies (a company listed on the NASDAQ Stock Exchange, stock code: NIU) since October 2018. Mr. Ye has been an independent director of Baozun Inc. (a company listed on the NASDAQ Stock Exchange, stock code: BZUN) since May 2016. Mr. Ye also served as a consultant for CITIC PE Advisors (Hong Kong) Limited (中信產業投資基金(香港)顧問有限公司) from January 2016 to December 2016. Mr. Ye worked at CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) from February 2011 to December 2015 and was a managing director (董事總經理), the chief financial officer and a member of the investment committee when he left. Mr. Ye worked at PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (普華永道中天會計師事務所(特殊普通合夥)) from April 1993 to January 2011 and was a partner (合夥人) of the Advisory Services, the leader (主管) of the Advisory Services of Shanghai office and the leader (主管) of the Transaction Services of Shanghai office when he left.

Mr. Ye obtained a bachelor of laws degree from Huazhong University of Technology (華中理工大學) (currently known as Huazhong University of Science and Technology (華中科技大學)), in Hubei Province, the PRC, in July 1992 and further obtained the degree of master of business administration from University of Warwick in the United Kingdom in November 1999. Mr. Ye was a practising member of Shanghai Institute of Certified Public Accountants from December 2000 to March 2011 and afterwards a non-practising member.

Directors, Supervisors, Senior Management and Employees

Independent Non-executive Director TANG Baoqi (唐保祺)

Mr. TANG Baoqi (唐保祺), aged 59, was appointed as our independent non-executive Director on May 30, 2018. His appointment will take effect on December 17, 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank. Mr. Tang is also a member of each of the audit committee, the nomination and remuneration committee and the related party (connected) transactions control committee of our Bank.

Mr. Tang once worked at China CINDA (HK) Holdings Company Limited as a senior manager, the general manager of risk management department and the chief risk officer since February 2000 and was a director when he left China CINDA (HK) Holdings Company Limited in March 2018. Mr. Tang was a non-executive director of China Fortune Financial Group Limited (中國富強金融集團有限公司) (a company listed on the Stock Exchange, stock code: 290) from March 2016 to April 2018, a non-executive director of China National Materials Company Limited (中國中材股份有限公司) from July 2011 to July 2016, and an executive director of Silver Grant International Industries Limited (銀建國際實業有限公司) (a company listed on the Stock Exchange, stock code: 00171) from March 2008 to July 2011. Mr. Tang worked at the creditors' rights department (債權部) of China CINDA Asset Management Co., Ltd. (中國信達資產管理股份有限公司) (a company listed on the Stock Exchange, stock code: 01359; preference share stock code: 04607) from June 1999 to February 2000.

Mr. Tang obtained a bachelor's degree in economics from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in July 1983. Mr. Tang was certified as a senior economist by China People's Construction Bank (中國人民建設銀行) (currently known as China Construction Bank Corporation (中國建設銀行股份有限公司)) in December 1995.

Directors, Supervisors, Senior Management and Employees

2. Supervisors

Ms. YUAN Shihong (袁世泓), aged 48, has been a Supervisor and the chairwoman of the Board of Supervisors since January 2016. She is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the Board of Supervisors, organizing the performance of duties of the Board of Supervisors, signing the report of the Board of Supervisors and other important documents, reporting to the Shareholders' general meeting on behalf of the Board of Supervisors and other duties prescribed by laws, regulations and the Articles of Association or authorized by the Board of Supervisors.

Ms. Yuan worked as a member of the standing committee of and the minister of the Organization Department of the Luxian CPC Committee (中國共產黨瀘縣縣委) from August 2015 to November 2015. From November 2004 to July 2015, Ms. Yuan worked at the Organization Department of the Luzhou CPC Committee (中國共產黨瀘州市委組織部) and served as a senior staff member (副主任科員) from March 2005 to June 2005, a senior staff member (副主任科員) of the second division of cadre (幹部二處) from June 2005 to February 2006, a deputy division director (副處長) of the second division of cadre (幹部二處) from February 2006 to May 2010, a principal staff member (主任科員) of the second division of cadre (幹部二處) from October 2007 to May 2010, a deputy division director (副處長), a principal staff member (主任科員), and then the division director (處長) of the third division of cadre (幹部三處) from May 2010 to June 2014, and a member of the ministry and commission (部務委員) and the section chief (科長) of the third chief of cadre (幹部三科) from June 2014 to July 2015. Prior to that, Ms. Yuan worked as the section chief (科長) of the organization division (組織科) and then a senior staff member (副主任科員) of the Organization Department of the Luzhou Naxi District CPC Committee (中國共產黨瀘州市納溪區委組織部) from July 2002 to November 2004, and a staff member (科員) and then the head of office (辦公室主任) of Sichuan Luzhou Naxi District Labor Bureau (四川省瀘州市納溪區勞動局) from September 1992 to July 2002.

Ms. Yuan graduated from Zhaowuda Mongolian Normal School (昭烏達蒙族師範專科學校) in the PRC, in July 1992, majoring in politics. She passed the national higher education exams of accounting at junior college level (國家高等教育會計專業專科考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in June 1996. Ms. Yuan graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院) in the PRC, in December 2001, majoring in law (through correspondence study). Ms. Yuan passed the examination of banking risk and regulation in June 2018 and obtained the International Certificate in Banking Risk and Regulation issued by Global Association of Risk Professionals.

Directors, Supervisors, Senior Management and Employees

Ms. HUANG Ping (黃萍), aged 61, has been an external Supervisor since December 2012 and the chairwoman of the audit and supervision committee under the Board of Supervisors since January 2016. She is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the audit and supervision committee of the Board of Supervisors, organizing the performance of duties of the audit and supervision committee of the Board of Supervisors and organizing audit work within the work scope of the Board of Supervisors.

Ms. Huang is a lawyer at Sichuan Chuanda Law Firm (四川川達律師事務所) and joined the firm in August 2007. Ms. Huang worked at Sichuan Lutianhua Co., Ltd. (四川瀘天化股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000912) as a vice general legal counsel from July 2008 to July 2012 and as the director (主任) of the legal affairs office (法律事務室) from August 2009 to July 2012. From March 1998 to September 2009, Ms. Huang worked at Lutianhua (Group) Co., Ltd. (瀘天化(集團)有限責任公司) and successively served as the director (主任) of the legal affairs office (法律事務室), a deputy department head (副部長) of the corporate management department (企業管理部), and a deputy head (副主任) of the general manager's office (總裁辦公室).

Ms. Huang graduated from Shijiazhuang Management Cadre College of Chemical Engineering Department (化工部石家莊管理幹部學院) (currently known as Hebei Management Cadre College (河北管理幹部學院)) in the PRC, in June 1989, majoring in economic law. Ms. Huang graduated from the top-up program (專科升本科) in law through correspondence study in June 1998 and completed postgraduate study in civil and commercial law at Southwest University of Political Science & Law (西南政法大學) in Chongqing, the PRC, in October 2003. Ms. Huang was granted the qualification of state-owned enterprise band 1 legal adviser by the Sichuan SASAC in July 2012. Ms. Huang obtained the qualification of engineer approved by the Title Reform Group of Sichuan Chemical Engineering Department (四川省化工廳職改組) in February 1993 and obtained the qualification of a senior economist approved by the Sichuan Title Reform Leading Group (四川省職改領導組) in August 2002, respectively. Ms. Huang also obtained the PRC lawyer's qualification in 1994 and the qualification for enterprise legal adviser jointly approved by Ministry of Personnel of the PRC (中華人民共和國人事部) (currently known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)), State Economic and Trade Commission of the PRC (中華人民共和國國家經濟貿易委員會) and the Ministry of Justice of the PRC (中華人民共和國司法部) in February 1999.

Directors, Supervisors, Senior Management and Employees

Mr. DUAN Xuebin (段學彬), aged 53, has been an external Supervisor and the chairman of the nomination committee under the Board of Supervisors since January 2016. He is primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank, convening and presiding over the meetings of the nomination committee of the Board of Supervisors, and organizing the performance of duties of the nomination committee of the Board of Supervisors.

Mr. Duan worked at Luzhou Jiangyang Jinxin Small Loan Co., Ltd. (瀘州市江陽區金鑫小額貸款有限公司) as the general manager from March 2015 to April 2016. Mr. Duan worked at Lu County School Enterprise Architecture Engineering Company (瀘縣校辦企業建築工程公司) as a vice general manager from October 2013 to February 2015, re-joined the company afterwards and has been its vice general manager since May 2016. Mr. Duan worked at the Luzhou Branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司瀘州市分行) and served as an intermediate independent credit approver (信貸中級獨立審批人) from January 2011 to April 2013 and then the institutional business customers manager of the business department from April 2013 to September 2013. Mr. Duan worked at the Luzhou Branch of the Agricultural Bank of China Limited (中國農業銀行股份有限公司瀘州市分行) but was seconded as a junior independent approver (初級獨立審批人) at the customers department of Hejiang sub-branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司合江縣支行) from April 2009 to December 2010. From January 1991 to March 2009, Mr. Duan worked at the Hejiang sub-branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司合江縣支行) and served a credit clerk (信貸員) of Daqiao Business Office (大橋營業所) from January 1991 to February 1993, the deputy director (副主任) and then the director (主任) of Baisha Business Office (白沙營業所) from March 1993 to March 2000, the director (主任) of Daqiao Business Office (大橋營業所) from April 2000 to April 2004, and the director (主任) of the customers department from May 2004 to March 2009.

Mr. Duan completed the studies at junior college level (專科) through correspondence study and graduated from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1998, majoring in finance. Mr. Duan further completed the undergraduate studies through correspondence study and graduated from Southwestern University of Political Science & Law (西南政法大學) in Chongqing, the PRC, in July 2003, majoring in law.

Directors, Supervisors, Senior Management and Employees

Ms. LIU Yongli (劉永麗), aged 48, has been an employees' representative Supervisor since January 2016, and the general manager of the risk management department of our Bank since June 2018. She is primarily responsible for supervising the performance of the Directors and senior management of our Bank.

Ms. Liu has been a supervisor of Luzhou Industrial Investment Group since March 2015. Ms. Liu joined our Bank in July 2002 and served as the principal accountant (主辦會計) of Zhongshan sub-branch (忠山支行) of our Bank from July 2002 to December 2003, the head (科長) of the financial accounting and technology department (財會科技部) from January 2004 to December 2004, the head (科長) of the operation management department (運行管理部) from January 2005 to February 2008, a vice president of Xiaoshi sub-branch (小市支行) from February 2008 to November 2010, the head of the risk management department from November 2010 to November 2011, the general manager of the internal control and compliance department and the head of the internal audit department from November 2011 to June 2012, the general manager of the risk management department from June 2012 to February 2013, the general manager of the credit business department from February 2013 to October 2015 and the general manager of the internal control and compliance department (security department) of our Bank from October 2015 to June 2018. Prior to joining our Bank, Ms. Liu held several positions in human resources, labor relation, planning, credit, statistics and accounting at Hejiang sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司合江支行) from August 1991 to July 2002. She held positions in savings and post-savings supervision at Gulin sub-branch of China Construction Bank Corporation (中國建設銀行股份有限公司古蘭支行) from September 1988 to July 1991.

Ms. Liu passed the self-taught higher education exams of accounting at undergraduate level (會計專業本科高等教育自學考試) and was approved for graduation by Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC in June 2007. Ms. Liu was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in August 2013. Ms. Liu also obtained the certificate in banking fundamentals (公共基礎證書) granted by the China Banking Association (中國銀行業協會) in October 2007, and the certificate of intermediate level of accounting granted by MOF in May 2002.

Directors, Supervisors, Senior Management and Employees

Mr. CHEN Yong (陳勇), aged 46, has been an employees' representative Supervisor since January 2016, and the vice general manager of the administration department (綜合管理部) (presiding over work) of our Bank since December 2018. He is primarily responsible for supervising the performance of the Directors and senior management of our Bank.

Mr. Chen joined our Bank in July 2002 and successively served as a bank teller from July 2002 to December 2005, the president of Jiale sub-branch (佳樂支行) from January 2006 to December 2007, a business manager at the operation management department (運行管理部) from January 2008 to September 2010, the president of Lianhuachi sub-branch (蓮花池支行) from September 2010 to February 2012, the president of Jiangbei sub-branch (江北支行) from March 2012 to February 2014, an assistant to president of Xiaoshi sub-branch (小市支行) from February 2014 to May 2015, the vice general manager of the administration department since November 2015 and the vice head of the office of the Board of Directors since May 2015.

Mr. Chen graduated from Chongqing University Internet Education College (重慶大學網絡教育學院) in the PRC, in January 2010, majoring in economics and business administration through long distance learning.

3. Members of Senior Management

For biographical details of Mr. XU Xianzhong (徐先忠) and Mr. LIU Shirong (劉仕榮), please refer to the section "1. Directors – Executive Directors" above.

Ms. XIA Yilun (夏義倫), aged 52, has been a vice president of our Bank since December 2008. She is primarily in charge of the assets and liabilities management department, accounting and finance department and credit business department of our Bank.

Prior to joining our Bank, Ms. Xia worked at ICBC from September 1983 to October 2008 and held various positions. Ms. Xia served as a vice president and then the president of Luzhou Zhonggulou sub-branch of ICBC (中國工商銀行股份有限公司瀘州市鐘鼓樓支行) from June 2004 to October 2008. She worked as the head of the accounting business office of the business department and then a vice division director (副處長) of the capital management division of Luzhou Branch of ICBC (中國工商銀行股份有限公司瀘州市分行) from February 2001 to June 2004. From October 2000 to February 2001, Ms. Xia served as the director (主任) of Yinghui Road Savings Bank of ICBC Luzhou Branch (中國工商銀行股份有限公司瀘州市分行迎暉路儲蓄所). She served as the head of the accounting and cashier division of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行) from August 1998 to October 2000 and a vice head (副主任) of Jiangbei office of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行江北分理處) from June 1996 to August 1998. From September 1983 to June 1996, Ms. Xia worked at different departments of Luxian sub-branch of ICBC (中國工商銀行股份有限公司瀘縣支行), including the accounting and cashier section, the accounting unit and the credit unit.

Ms. Xia graduated from Sichuan Radio and TV University (四川廣播電視大學) in the PRC, in July 2003, majoring in finance at undergraduate level. Ms. Xia was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in August 2013. Ms. Xia obtained the qualification of interbank currency market trader (銀行間本幣市場交易員) granted by China Foreign Exchange Trade System (中國外匯交易中心) and National Interbank Funding Center (全國銀行間同業拆借中心) in September 2011.

Directors, Supervisors, Senior Management and Employees

Ms. XUE Xiaoqin (薛曉芹), aged 50, has been a vice president of our Bank since May 2016. She is primarily in charge of the direct (institutional) customers department, the interbank customers department and international business department of our Bank.

Ms. Xue is currently a supervisor of each of Lutianhua (Group) Co., Ltd. (瀘天化(集團)有限責任公司) and Luzhou Laojiao Group. Ms. Xue joined our Bank in October 1997. Ms. Xue was appointed as a candidate for vice president of our Bank from November 2015 to May 2016. Ms. Xue served as the assistant to president of our Bank from December 2012 to November 2015, during which period she also worked as the general manager of the direct customers department from January 2013 to February 2014 and the general manager of the direct (institutional) customers department of our Bank from February 2014 to January 2015. From November 2011 to January 2013, Ms. Xue served as the general manager of the customer marketing department of our Bank. From October 2010 to November 2011, Ms. Xue worked as the responsible person of the customer marketing department of our Bank. She worked as a vice director, the responsible person and then the head of the business department of our Bank from January 2007 to October 2010. Ms. Xue served as an acting vice president (代理副行長) of Anfu sub-branch of our Bank from October 1997 to February 1998, the vice president of Anfu sub-branch of our Bank from February 1998 to May 2000 and then the president of Anfu sub-branch of our Bank from November 2002 to December 2006. From May 2000 to November 2002, she worked as the vice president of Naxi sub-branch of our Bank. Ms. Xue worked at Anfu Urban Credit Cooperative (安富城市信用社) from September 1988 to June 1992 and at Anfu Business Office of Municipal Central Urban Credit Cooperative (市中區城市信用社) from June 1992 to August 1997.

Ms. Xue graduated from Sichuan Banking School (四川銀行學校) in the PRC, in June 1995, majoring in finance (finance and accounting). Ms. Xue graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院) in the PRC, through correspondence study in June 1999, majoring in economics management and in December 2001, majoring in law, respectively. Ms. Xue further obtained a degree of master of business administration from The Open University of Hong Kong through long distance learning in November 2015. Ms. Xue was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in August 2013 and was certified as an intermediate economist by Luzhou Title Reform Leading Group (瀘州市職稱改革工作領導小組) in October 1999.

Directors, Supervisors, Senior Management and Employees

Mr. CHENG Anhua (成安華), aged 48, has been a vice president of our Bank since July 2017 and the chief information officer of our Bank since December 2015. He is primarily in charge of the operation management department, system development department, electronic banking department, IT department and IT innovation center of our Bank.

Mr. Cheng joined our Bank in September 1998 and successively acted as the application system administrator of the technology division (科技處) from September 1998 to December 2003, a vice general manager and then a vice head (副部長) of the financial accounting and technology department (財會科技部) from January 2004 to December 2006, a vice head (副部長) and then the head (部長) of the technology department (科技部) (a former department of our Bank) from January 2007 to November 2011, the general manager of the IT department (信息科技部) from November 2011 to January 2014, the general manager of the internal control and compliance department from February 2014 to July 2015, the general manager of the security department from January 2015 to July 2015, and the candidate for the chief information officer from August 2015 to December 2015. Prior to joining our Bank, Mr. Cheng served as a sales person, sales system management and development maintainer and sales planner at Changjiang Hydraulic Parts Factory (currently known as Sichuan Changjiang Hydraulic Parts Co., Ltd. (四川長江液壓件有限責任公司)) from July 1992 to September 1998.

Mr. Cheng obtained a bachelor of science degree from University of Science and Technology of Chengdu (成都科技大學) (currently known as Sichuan University (四川大學)) in Sichuan Province, the PRC, in July 1992 and obtained a master's degree in engineering from Sichuan University (四川大學) in Sichuan Province, the PRC, in June 2015. Mr. Cheng was granted as a Certified Information Security Professional (註冊信息安全專業人員) by China Information Technology Security Evaluation Center (中國信息安全測評中心) in February 2016. Mr. Cheng was awarded the professional designation of certified internal auditor by The Institute of Internal Auditors in September 2015 and was certified as a certified information systems auditor granted by the Information Systems Audit and Control Association in February 2015. Mr. Cheng was also approved as a senior information system project manager by Sichuan Provincial Human Resources and Social Security Department (四川省人力資源和社會保障廳) in May 2015.

Mr. YANG Bing (楊冰), aged 43, has been a vice president of our Bank since April 2016. He is primarily responsible for debt investments of trading accounts and account for sale, analysis of macroeconomic situation and currency policy and guidance on liquidity risk management and in charge of our financial markets department.

Mr. Yang joined our Bank in April 2016. Prior to joining our Bank, Mr. Yang operated his own business. Mr. Yang worked at Nanchong City Commercial Bank Co., Ltd. (南充市商業銀行股份有限公司) (currently known as Sichuan Tianfu Bank Co., Ltd. (四川天府銀行股份有限公司)) as the general manager of the marketing department from December 2001 to June 2009 and the assistant to president from July 2009 to April 2013. Mr. Yang worked at Yilong County sub-branch of PBoC (中國人民銀行儀隴縣支行) from August 1999 to November 2001.

Mr. Yang obtained a bachelor's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1999. Mr. Yang obtained the qualification of national interbank lending market trader (全國銀行間同業拆借市場交易員) granted by National Interbank Funding Center (全國銀行間同業拆借中心) in November 2002.

Directors, Supervisors, Senior Management and Employees

Mr. Ai Yong (艾勇), aged 46, has been the assistant to president of our Bank since December 2012. He is primarily in charge of corporate banking customers department, the retail banking (bank cards) customers department and wealth management department of our Bank.

Mr. Ai joined our Bank in September 1997 and successively acted as a deputy director (副主任) (presiding over work) of the business department from September 1997 to March 1999, the deputy division chief of the supervision and audit division (稽核監察處) from April 1999 to July 1999, a deputy director (副主任) of the clearing center from July 1999 to December 1999, a deputy division chief of the finance and accounting division (財務會計處) from December 1999 to December 2001, the division chief of the assets preservation division (資產保全處) from January 2002 to December 2003, the president of Zhongshan sub-branch (忠山支行) from January 2004 to December 2004, the president of Jiangyang sub-branch (江陽支行) from January 2005 to October 2010, the head of the business department from October 2010 to October 2011, and the general manager of the products management department (currently known as the credit business department) from November 2011 to November 2012. Mr. Ai also worked as the general manager of the small and micro customers department of our Bank from February 2014 to January 2015. Prior to that, Mr. Ai served as a deputy head of the business department of Luzhou Zhongshan Urban Credit Cooperative (瀘州市忠山城市信用社) (one of the predecessors of our Bank) from January 1996 to September 1997. Mr. Ai served as an accounting staff at No. 3 engineering division of China No. 5 Metallurgy Construction No. 3 Engineering Company (中國第五冶金建設第三工程公司) from August 1993 to March 1996.

Mr. Ai graduated from Qingdao Institute of Architecture and Engineering (青島建築工程學院) in the PRC, in July 1992, majoring in industrial accounting. Mr. Ai graduated from the Correspondence Institute of the Party School of Sichuan Provincial Committee of the CPC (中國共產黨四川省委員會黨校函授學院) in the PRC, through correspondence study in December 2000, majoring in law. Mr. Ai obtained the qualification of accountant granted by the MOF in May 1997. He was certified as a senior international finance manager jointly by China Association of Chief Financial Officers (中國總會計師協會), International Financial Management Association (國際財務管理協會), Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and Research Center of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) in August 2013.

Directors, Supervisors, Senior Management and Employees

Mr. HU Jia (胡嘉), aged 39, has been the assistant to the president of our Bank since August 2018. He is primarily in charge of the key customers management department (重要客戶管理部), key customers department I (重要客戶一部), key customers department II (重要客戶二部), and supply chain financing department (供應鏈金融部).

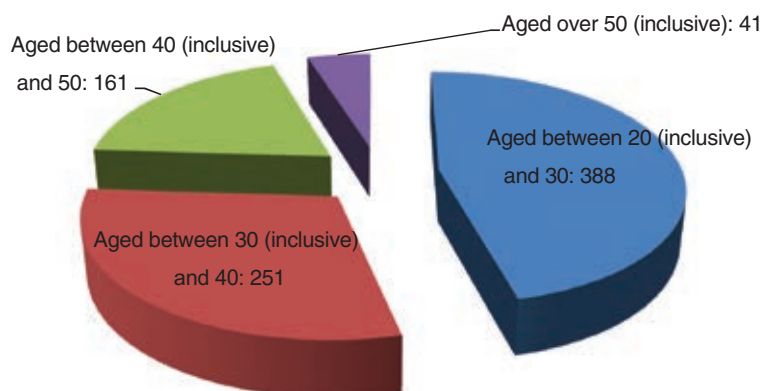
Mr. Hu joined our Bank in November 2015 and served as a deputy general manager of the research and development center of our Bank from November 2015 to September 2016. He served as a deputy head (副主任) of the planning department (籌建部) of the Chengdu Branch (成都分行) of our Bank from September 2016 to February 2017. He also served as a vice president of the Chengdu Branch (成都分行) of our Bank from March 2017 to August 2018. Prior to joining our Bank, he worked at the Chengdu Guancheng Square Sub-branch (成都冠城廣場支行) of China Construction Bank Corporation as a client manager from March 2008 to September 2009, as a vice president from September 2009 to September 2012 and then as the president from September 2012 to December 2015. He worked as a client manager at the Chengdu Shawan Office (成都沙灣分理處) of China Construction Bank Corporation from April 2007 to August 2007. He served as a client manager of the corporate business department III (公司業務三部) at the Chengdu Tiedao Sub-branch (成都鐵道支行) of China Construction Bank Corporation from February 2007 to April 2007 and then from August 2007 to March 2008 respectively. Prior to that, he served as a client manager of the corporate business department III at the Mianyang Branch (綿陽分行) of China Construction Bank Corporation from March 2005 to January 2007. He served as a savings officer at the Mianyang Branch Linyuan Office (綿陽市分行臨園分理處) of China Construction Bank Corporation from September 2001 to October 2001 and worked at the Mianyang technology department (綿陽市科技處) of China Construction Bank Corporation from October 2001 to February 2005.

Mr. Hu obtained his bachelor's degree in engineering from Northeastern University at Qinhuangdao (東北大學秦皇島分校) in Hebei Province, the PRC, in July 2001. Mr. Hu obtained his master's degree in business administration from the Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in December 2006.

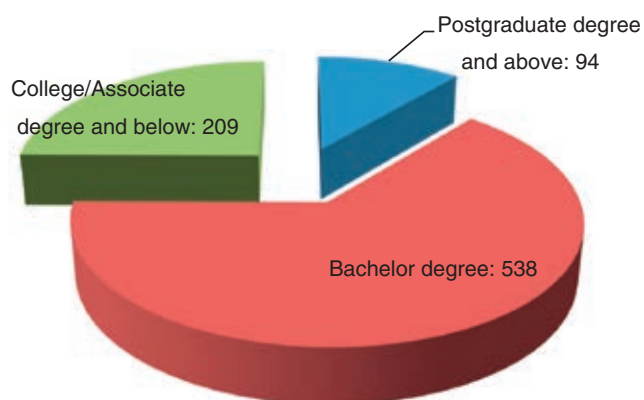
Directors, Supervisors, Senior Management and Employees

IV. DETAILS OF EMPLOYEES

As at the end of the Reporting Period, the Bank had 841 employees (including dispatched workers) in total, with an average age of 34.47. Of them, 388 employees aged between 20 (inclusive) and 30, accounting for 46.14%; 251 employees aged between 30 (inclusive) and 40, accounting for 29.84%; 161 employees aged between 40 (inclusive) and 50, accounting for 19.14%; and 41 employees aged over 50 (inclusive), accounting for 4.88%.



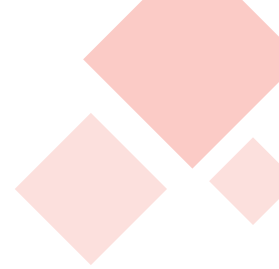
By education background, the Bank had 94 employees with postgraduate degrees and above (including 1 doctoral candidate), accounting for 11.18%; 538 employees with bachelor degrees, accounting for 63.97%; 209 employees with college/associate degrees and below, accounting for 24.85%.



V. TRAINING FOR EMPLOYEES

Centering on the business development, the Bank actively explores and innovates training forms and continues to perfect its training system to enhance the training efficiency. During the Reporting Period, the Bank established a class for on-the-job postgraduate students with well-known universities, organized its employees to participate in international and domestic authoritative tests for financial certificates and conducted special trainings for mid-class management members and business backbones to strengthen their leadership as well as trainings for new employees. During the year, the total number of various internal and external training activities of the Bank reached over 120 and the number of participants reached approximately 3,900.

Corporate Governance Report



I. ORGANIZATIONAL STRUCTURE FOR CORPORATE GOVERNANCE



Corporate Governance Report

Corporate Governance Structure

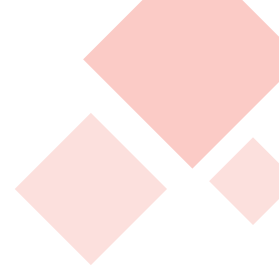
Our Bank has established a corporate governance structure which comprises the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management.

Shareholders' general meeting

Shareholders' general meeting is the organ of authority of our Bank. Its principal responsibilities include:

- determining the operation strategies and investment plans of the Bank;
- electing and replacing non-employee representative Directors and Supervisors and determining the remuneration of Directors and Supervisors;
- reviewing and approving the reports of the Board of Directors and the Board of Supervisors;
- reviewing and approving the annual financial budget plans and financial accounting plans;
- reviewing and approving the profit distribution plans and loss recovery plans;
- determining the increase or decrease in the registered capital of the Bank;
- determining the issuance of bonds or other securities and the listing of the Bank;
- determining the merger, spin-offs, dissolution and liquidation or change of corporate form of the Bank;
- amending the Articles of Association;
- reviewing and approving the Board of Supervisors' evaluation on Directors, the mutual evaluation reports of independent non-executive Directors, the evaluation on Supervisors by the Board of Supervisors and the mutual evaluation reports of external Supervisors;
- listening to the report of the Board of Directors on the investigation opinions of the financial regulatory authorities on the Bank and reviewing the implementation of rectification measures;
- reviewing and approving the share incentive plans;
- reviewing and approving the proposals by Shareholders individually or in aggregate holding 3% or more of the Shares;
- reviewing and approving the terms of reference of each of the Shareholders' general meeting, the Board of Directors and the Board of Supervisors;
- reviewing and approving matters, such as the equity investment of the Bank, the Bank's guarantee business, such as external guarantee and letter of guarantee, the Bank's investment in fixed assets, the disposal and write-off of non-performing assets, and the pledge of assets;

Corporate Governance Report



- reviewing and approving the persons who should be recommended by our Bank and other matters (excluding equity investment) of controlled companies and associates of the Bank;
- reviewing and approving the change of raised capital;
- determining the appointment and dismissal of accounting firm;
- reviewing and approving other matters which should be submitted to the Shareholders' general meeting for consideration in accordance with relevant laws, administrative regulations, rules, the Listing Rules, the requirements of securities regulatory authorities where the securities of our Bank are listed, the Articles of Association and other internal requirements.

Board of Directors

The Board of Directors is accountable to the Shareholders' general meeting. Its principal responsibilities include:

- convening the Shareholders' general meeting and reporting to the Shareholders' general meeting;
- implementing the resolutions of the Shareholders' general meeting;
- determining our Bank's operation plans, investment program and the business development strategies;
- formulating the annual financial budget plans, financial accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans;
- formulating the plans for increase or decrease in registered capital, issuance of bonds or other securities and listing of the Bank;
- formulating the plans for major acquisition, acquisition of our Bank's shares or merger, spin-offs, dissolution and change of corporate form of our Bank;
- determining matters in respect of the business operation, external investment, acquisition or sale of assets, external guarantee, pledge of assets, entrusting others to manage the Bank's assets, financial leasing, related party transactions and disposal of non-performing assets within the authorization of the Shareholders' general meeting;
- appointing or dismissing the president, vice presidents, secretary to the Board of Directors and other senior management in accordance with the nomination of the chairman of the Board of Directors and determining the senior managers' remuneration, reward and punishment;
- formulating basic management system and determining our Bank's detailed rules in relation to business procedures proposed by the senior management;
- formulating the proposed amendments to the Articles of Association;
- being responsible for the information disclosure of our Bank and the completeness and accuracy of the Bank's accounting and financial statements;

Corporate Governance Report

- formulating the Directors' remuneration and allowances standards program;
- listening to the report of the president of our Bank and supervising the president's work;
- determining the risk management and internal control policies of our Bank;
- supervising the performance of the senior management, reviewing the evaluation on senior management by management level and the mutual evaluation reports of senior management, organizing the evaluation of the Directors and the mutual evaluation of independent non-executive Directors and reporting the evaluation results to the Board of Supervisors;
- periodically evaluating and consummating the corporate governance of the Bank;
- nominating the Directors' candidates for next session;
- applying to the courts for bankruptcy on behalf of our Bank within the authorization of the Shareholders' general meeting.

The Board of Directors shall also be responsible for performing the duties of corporate governance function as set out below:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Board of Directors has established six special committees, including audit committee, development and strategy committee, nomination and remuneration committee, related party (connected) transactions control committee, risk management committee and consumer rights protection committee.

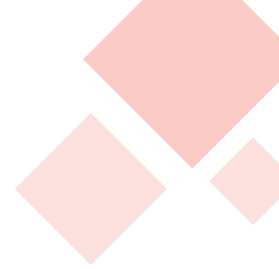
Board of Supervisors

The Board of Supervisors is accountable to the Shareholders' general meeting and supervises the Board of Directors, the senior management and its members of the Bank as well as the financial activities, internal control and risk management of the Bank. The Board of Supervisors conducts special surveys on specific areas and attends important meetings in order to understand the operation and management of the Bank and issue reminder letters, and also supervise the implementation of such advice from time to time. The Board of Supervisors has established nomination committee and audit and supervision committee.

Senior Management

The senior management is responsible for the daily operation of the Bank. The president is accountable to the Board of Directors and could organize and conduct the business management of the Bank within the authorization of the Board of Directors and in accordance with laws, administrative regulations and other rules and the Articles of Association. Our Bank has appointed five vice presidents and other senior management to work with the president of the Bank and perform their respective management responsibilities.

Corporate Governance Report



II. OVERVIEW OF CORPORATE GOVERNANCE

The Bank has established a modern corporate governance structure according to the Articles of Association, PRC laws and regulations and Hong Kong Listing Rules. Accountable to all the Shareholders and responsible for (among others) deciding on the Bank's business development strategies, business plans and investment plans, appointment or dismissal of senior management, establishment of internal management organizations and other matters, the Board has established various committees to perform certain functions, including audit committee, development and strategy committee, nomination and remuneration committee, related party (connected) transactions control committee, risk management committee and consumer rights protection committee. The Supervisory Committee, accountable to all the Shareholders, has the responsibility and authority to supervise the Directors and senior management and inspect the Bank's financial activities, risk management and internal control.

Our Bank has established a relatively sound corporate governance structure in accordance with the Listing Rules. The composition of the Board and the special committees of the Board are in compliance with the Listing Rules. The Bank clearly splits the responsibilities of the Shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management. Shareholders' general meeting is the highest authority of our Bank. The Board of Directors is accountable to the Shareholders' general meeting. Our Board has established six special committees which operate under the leadership of the Board and make recommendations on the Board's decisions. Our Board of Supervisors supervises the stable and sound operation of our Bank and the performance of duties by our Board of Directors and senior management. Under the leadership of the Board, our senior management is responsible for implementation of board resolutions and the daily operation and management of the Bank, and reports to the Board of Directors and the Board of Supervisors on a regular basis. The President of our Bank shall be appointed by the Board and is responsible for the daily overall operation of our Bank.

We have adopted the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Listing Rules, and have reached the requirements of the administrative measures and corporate governance for domestic commercial bank, and have established a good corporate governance system.

According to the Code, each of the Directors (including Directors with designated terms) shall retire by rotation at least once every three years. The three-year terms of office of the sixth session of our Board of Directors expired on December 23, 2018. In view of the fact that the Bank has just completed its H Shares Listing, to ensure the stability of the work of the Board, the relevant regulatory authority has agreed the Bank to postpone the general election of the sixth session of the Board of Directors. The Board has decided and proposed to re-elect its Directors at the 2018 AGM, and will publish an announcement and a circular containing particulars of the candidates for new members of the Board of Directors as soon as practicable. To the best knowledge and belief of our Board of Directors, except as disclosed above, we have strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period. We are committed to maintaining a high standard of corporate governance.

Our Bank will continue to enhance its corporate governance to ensure compliance with the Code and meeting expectations of shareholders and potential investors.

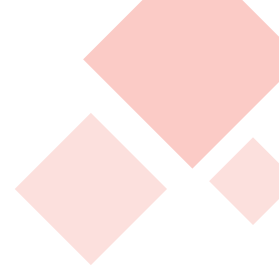
Corporate Governance Report

III. GENERAL MEETING

During the Reporting Period and as of the date of this annual report, the Bank convened 1 general meeting (including 1 general meeting during the Reporting Period) in total, with relevant details set out as follows:

(1) Annual General Meeting for 2017

On May 30, 2018, the Bank held the annual general meeting for 2017, at which the Shareholders considered and passed the following 19 proposals: Fixed Asset Investment Plan for 2018 of Luzhou City Commercial Bank Co., Ltd., Annual Financial Budget Plan for 2018 of Luzhou City Commercial Bank Co., Ltd., Financial Accounting Report for 2017 of Luzhou City Commercial Bank Co., Ltd., Plan for Profit Distribution of Luzhou City Commercial Bank Co., Ltd. in 2017, Proposal on the Plan for Distribution of Accumulated Profits before Listing of Luzhou City Commercial Bank Co., Ltd., 2017 Annual Work Report of the Board of Luzhou City Commercial Bank Co., Ltd., 2017 Annual Work Report of the Supervisory Committee of Luzhou City Commercial Bank Co., Ltd., Evaluation Report of the Supervisory Committee on the Directors' Performance of Duties in 2017 of Luzhou City Commercial Bank Co., Ltd., Evaluation Report of the Supervisory Committee on the Supervisors' Performance of Duties in 2017 of Luzhou City Commercial Bank Co., Ltd., Report on Related Party Transactions in 2017 of Luzhou City Commercial Bank Co., Ltd., Articles of Association of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H Shares), Rules of Procedure for General Meetings of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H Shares), Rules of Procedure for Board Meetings of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H Shares), Rules of Procedure for Meetings of the Board of Supervisors of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H Shares), Proposal on Considering the Measures for Equity Management of Luzhou City Commercial Bank Co., Ltd. (applicable after listing of H Shares), Proposal on Improving Allowance for Independent Non-executive Directors of Luzhou City Commercial Bank Co., Ltd., Proposal on Electing Mr. YE Changqing as Independent Non-executive Director of the 6th Board of Directors of Luzhou City Commercial Bank Co., Ltd., Proposal on Electing Mr. TANG Baoqi as Independent Non-executive Director of the 6th Board of Directors of Luzhou City Commercial Bank Co., Ltd. and Proposal on Issuance of Capital Supplementation Bonds of Luzhou City Commercial Bank Co., Ltd.



IV. BOARD

(I) Implementation of Resolutions Passed at the General Meeting by the Board

In 2018, the Board strictly implemented the resolutions passed at the general meeting for 2017 and earnestly executed various proposals deliberated at the general meeting.

(II) Board Composition

At the end of the Reporting Period, the Board consists of 12 Directors in total, including three executive Directors, namely, Mr. YOU Jiang, the Chairman of the Board of Directors, Mr. XU Xianzhong, the president, and Mr. LIU Shirong, the vice president and secretary to the Board of Directors; four non-executive Directors, namely Ms. XU Yan, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei, and five independent non-executive Directors, namely Mr. LIU Xiaoyu, Mr. GU Mingan, Mr. HUANG Yongqing, Mr. YE Changqing and Mr. TANG Baoqi.

Our Directors (including non-executive Directors) shall serve a term of three years, and may seek re-election upon expiry of the said term. Our independent non-executive Directors shall serve a term of three years, and may seek re-election upon expiry of the said term, but the cumulative term shall not exceed six years.

(III) Board Diversity Policy

We believe that diversity of board of directors will contribute a lot to improving our performance. We regard the increasing diversity of board of directors as a key to achieve sustainable development and support us to meet our strategic objectives and maintain good corporate governance.

In designing the Board composition, we consider diversity from various aspects, including but not limited to gender, region and industry experience, skills, knowledge and educational background. All Board appointments are based on meritocracy, and candidates are considered with due regard for the benefits of Board diversity under objective conditions.

Selection of candidates of the Board is based on a series of diversified categories, including but not limited to gender, region, industry experience, skills, knowledge and educational background.

The Nomination Committee will review the policy in due time to ensure its effectiveness, and will discuss any or necessary amendments and propose the amendments to the Board for approval.

Corporate Governance Report

(IV) Change of Board Members

For details on change of Directors, please refer to the section headed Directors, Supervisors, Senior Management and Employees in this annual report.

(V) Chairman and President

The roles, duties and responsibilities of our chairman and president are held by different individuals in accordance with the Hong Kong Listing Rules. Mr. YOU Jiang is our chairman, responsible for presiding over general meetings, convening and presiding over Board meetings, supervising and examining the implementation of resolutions of the Board. Mr. XU Xianzhong is our president, responsible for managing the business operations of the Bank and reporting to the Board.

(VI) Operation of the Board

The Board shall hold at least four regular meetings annually, and arrange extraordinary meetings if necessary. Board meetings shall be held onsite or by means of teleconference. The agenda of regular meeting of the Board shall be determined after consultation with the Directors, and the notice on meeting proposals and related materials shall be generally served to all Directors and Supervisors at least five days prior to the Board meeting. All Directors maintain communication with the secretary of the Board to ensure compliance with Board procedures and all applicable rules and regulations.

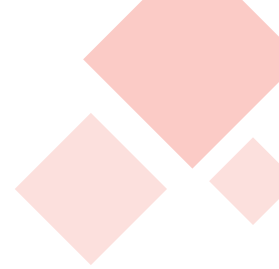
Minutes of Board meetings shall be recorded in detail and be provided to all attending Directors after the meetings, who shall propose relevant amendments after receipt of the minutes. The finalized meeting minutes shall be sent to all Directors as soon as possible. Minutes of Board meetings shall be kept as per our file management regulations and are open for inspection by Directors at any time.

A good communication and reporting mechanism has been established among the Board, Directors and senior management. Our president reports to the Board on a regular basis and accepts supervision. Relevant senior executives are invited to attend the Board meetings from time to time to make explanations or reply to inquiries.

At the Board meetings, Directors may freely express their opinions, but important decisions shall be subject to detailed discussion. If any Director has a material interest in the matter to be considered by the Board, the relevant director shall abstain from discussion and voting on the relevant proposal, and shall not be counted in the quorum voting on the proposal.

The Board sets an office as its administrative body, responsible for the preparations for and information disclosure of general meetings, Board meetings and meetings of special committees under the Board and other daily affairs.

Corporate Governance Report



(VII) Duties of the Board

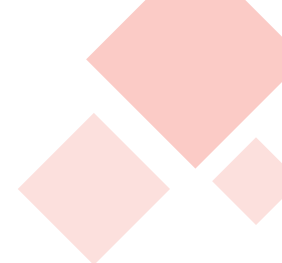
According to the Articles of Association, the Board shall exercise the following functions and powers:

- (I) to convene a general meeting and report its work to the general meeting;
- (II) to implement resolutions of the general meeting;
- (III) to decide on the Bank's business plans, investment proposals and development strategies;
- (IV) to formulate the Bank's annual financial budget plans, final accounts, risk capital allocation plans, profit distribution plans and loss recovery plans;
- (V) to formulate proposals for increases in or reductions of registered capital, issuance of bonds or other securities and listing plans of the Bank;
- (VI) to formulate plans for material acquisitions, purchase of shares of the Bank, or merger, division, dissolution and transformation of the Bank;
- (VII) to decide on major events of the Bank within the authorization of the general meeting, such as daily operations, external investments, acquisition, sales and swap of assets, external guarantees, pledge of assets, entrusted wealth management, financial lease, related party transactions and disposal of non-performing assets;
- (VIII) to appoint or dismiss any senior executives including the president, vice president and secretary of the Board of the Bank as nominated by the chairman, and decide on their remunerations, rewards and punishments;
- (IX) to formulate the basic management system of the Bank, and decide on the rights of senior management on the formulation of business procedures and other specific rules;
- (X) to formulate proposals for any amendment to our Articles;
- (XI) to be responsible for the Bank's information disclosure, and undertake the ultimate responsibility for the completeness and accuracy of the Bank's accounting and financial reports;
- (XII) to formulate a standard scheme for the remuneration and allowances of the Directors of the Bank;
- (XIII) to listen to work reports of the Bank's president and examine his/her work;
- (XIV) to decide on the Bank's risk management and internal control policies;

Corporate Governance Report

- (XV) to supervise the work performance of the Bank's senior management and deliberate senior management's evaluation on the Bank's president, vice president, chief financial officer and other senior managers and the reports of evaluation by the Bank's senior managers on each other; and to organize the evaluation on Directors and evaluation by independent Directors on each other and report relevant evaluation result to the Supervisory Committee;
- (XVI) to regularly evaluate and improve the Bank's governance;
- (XVII) to nominate the candidates of the next session of the Board;
- (XVIII) to apply for bankruptcy to the People's Court on behalf of the Bank according to the authorization of the general meeting;
- (XIX) to decide on the plans for establishment of internal management structure of the Bank and establishment and withdrawal of branches of the Bank;
- (XX) to establish an identification, investigation and management mechanism for the conflict of interest between the Bank and substantial Shareholders;
- (XXI) to undertake the ultimate responsibility for information technology risks and examination and approval of mid-and-long term information technology strategies, and regularly review the Bank's reports on information technology construction and risk management;
- (XXII) to have the right to determine the pricing and the business investment between the Bank and other financial institutions, including bond investment, entrusted wealth management, purchase of wealth management products, purchase of designated (specialized) asset management plans, trust plans, beneficiary certificates issued by securities companies, right to yields on claims of margin trading and short selling, securities investment funds and other business investment and pricing;
- (XXIII) to determine green credit development strategies, examine and approve the green credit objectives determined and the green credit reports submitted by senior management, and supervise and appraise the Bank's implementation of green credit development strategies;
- (XXIV) to assume the ultimate responsibility for the protection of consumer rights of the Bank, regularly listen to the reports on the progress of the protection of consumer rights; assume the ultimate responsibility for anti-money laundering (AML) management, and ensure that the Bank establishes and implements a complete and effective AML internal control system; and
- (XXV) to exercise other functions and powers that shall be exercised by the Board according to the laws, regulations, Hong Kong Listing Rules and our Articles.

Corporate Governance Report



(VIII) Board Meetings

During the Reporting Period, we convened 13 Board meetings in total (including meetings by means of teleconference), including seven onsite meetings and six meetings by means of teleconference, and primarily considered and approved 68 proposals including operation plans, fixed asset investment plans, financial budget plans, capital management plans, profit distribution plans and rules and measures in relation to the issue and listing of H Shares.

The attendance of Directors during their respective tenure of office is as follows (Directors abstaining from the meetings for their involvement in connected transactions shall be deemed as having attended the meetings):

Attendance in person/Attendance by proxy/Number of meetings held

Directors	Board	Audit committee	Development and strategy committee	Nomination and remuneration committee	Related party (Connected) transactions control committee	Risk management committee	Consumer rights protection committee	General meeting
YOU Jiang	13/0/13	-	1/0/1	1/0/1	-	1/0/1	1/0/1	1/0/1
XU Xianzhong	13/0/13	-	-	-	-	-	1/0/1	1/0/1
LIU Shirong	13/0/13	-	-	-	15/0/15	1/0/1	-	1/0/1
XU Yan	11/2/13	4/0/4	1/0/1	-	-	-	-	1/0/1
XIONG Guoming	11/2/13	-	1/0/1	1/0/1	-	1/0/1	-	0/0/1
LIU Qi	12/1/13	-	0/0/0	-	-	-	1/0/1	0/0/1
DAI Zhiwei	11/2/13	-	1/0/1	-	-	-	-	0/0/1
LIU Xiaoyu	13/0/13	4/0/4	-	1/0/1	15/0/15	1/0/1	1/0/1	1/0/1
GU Mingan	13/0/13	4/0/4	-	1/0/1	15/0/15	-	-	0/0/1
HUANG Yongqing	13/0/13	-	-	-	4/0/15	-	1/0/1	0/0/1
YE Changqing	1/0/1	1/0/1	-	0/0/0	-	0/0/0	-	0/0/0
TANG Baoqi	1/0/1	1/0/1	-	0/0/0	0/0/0	-	-	0/0/0

Corporate Governance Report

(IX) Continuous Professional Development Plan of Directors

We also attach importance to the on-going trainings for Directors to ensure that they have adequate knowledge of our operation and businesses and their responsibilities and duties as stipulated by relevant laws, regulatory requirements and the Articles of Association.

During the Reporting Period, all of our Directors participated in the training for directors, supervisors and senior management prior to the issue and listing of H Shares as well as training on publicity and connected transactions. Our executive Directors Mr. YOU Jiang and Mr. XU Xianzhong participated in the lecture about structural deleveraging and current economic climate, Mr. LIU Shirong participated in the 2018 press conference of Luzhou City and the training on guidance of public opinions on public emergencies, China's cross-border capital flows and special seminars of macro prudent management for finance, and our shareholder Director Ms. XU Yan and our executive Director Mr. LIU Shirong participated in the 108th phase of training on the qualification for the secretary of the Board held by the Shanghai Stock Exchange to have a systematic study on corporate governance, information disclosure and compliance operation of listed companies, and rights, obligations and legal liabilities of the secretary of the Board, etc.

(X) Information on Remuneration Paid to Directors, Supervisors and Senior Management

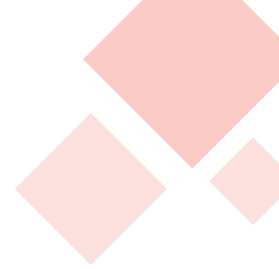
Please refer to Note 11 to the financial statements for the total amount of the remuneration of Directors and Supervisors during the Reporting Period. For the year ended December 31, 2018, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

Remuneration paid to the senior management⁽¹⁾ (excluding the Directors and Supervisors) by bands for the year ended December 31, 2018 is set out below:

	Number of employees	% of total
0 to RMB1,000,000	5	62.5%
Over RMB1,000,000	3	37.5%

Note:

- (1) As of December 31, 2018, two of the Bank's senior management members were concurrently the Directors, namely Mr. XU Xianzhong and Mr. LIU Shirong, respectively. For the details of the remuneration of Mr. XU Xianzhong and Mr. LIU Shirong, please refer to Note 11 of the financial statements of this annual report.



(XI) Performance of Duties by Independent Non-executive Directors

During the Reporting Period, we have five independent non-executive Directors, which meets relevant regulations of the CBRC, CSRC and Listing Rules of the Hong Kong Stock Exchange for their number and proportion. Independent non-executive Directors serve as chairpersons of our audit committee, nomination and remuneration committee, related party (connected) transactions control committee and consumer rights protection committee. During the Reporting Period, independent non-executive Directors took an active part in the meetings of the Board and its special committees where they played their due roles by making proposals, and kept effective communication with the Bank by multiple ways such as participating in field studies, special surveys and trainings.

All of the independent non-executive Directors have expressed written independent opinions on the proposals considered by the Board. In particular, they have expressed independent opinions on profit distribution plans, appointment of senior management, engagement of audit institutions and other resolutions, and expressed written independent opinions on material connected transactions and other significant matters. In addition, the independent non-executive Directors of the Bank gave full play to their respective professional advantages in the special committees under the Board and provided professional and independent opinions on the Bank's corporate governance and operation management, thereby providing a strong guarantee for the Board's scientific decision-making.

(XII) Directors' Duties for Preparing Financial Statements

Directors of the Bank acknowledged their responsibilities for preparation of the financial statements of the Bank for the year ended December 31, 2018.

Directors are responsible for examining and approving the financial statements of each accounting period, to make the financial statements truthfully and fairly reflect the Bank's financial condition, operating results and cash flows.

In preparation of the financial statements for the year ended December 31, 2018, Directors have adopted and implemented applicable accounting policies and have made prudent and reasonable judgements.

Corporate Governance Report

(XIII) Special Committees under the Board of Directors

Pursuant to relevant laws and regulations, Articles of Association of the Bank and the Listing Rules, our Board has set up six special committees, namely, the audit committee, the development and strategy committee, the nomination and remuneration committee, the related party (connected) transactions control committee, the risk management committee and the consumer rights protection committee.

During the Reporting Period, the special committees under our Board independently, normatively and effectively performed their duties and effectively improved the corporate governance level of the Board and work efficiency, thereby ensuring steady and healthy development of various businesses of the Bank.

1. Audit committee

During the Reporting Period, the audit committee of the Bank consisted of five Directors, namely chairperson Mr. LIU Xiaoyu and members Ms. XU Yan, Mr. GU Mingan, Mr. TANG Baoqi and Mr. YE Changqing.

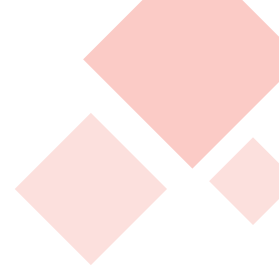
The primary duties of the audit committee during the Reporting Period include:

- conducting inspections on our accounting policies, financial condition and financial report procedures;
- being responsible for our annual audit work;
- issuing report regarding the truthfulness, accuracy and completeness of the audited financial reports and submitting them to our Board for review;
- making recommendations on appointment, re-appointment or removal of external auditors;
- conducting inspections on our internal control systems and conducting audit on material related party transactions and connected transactions;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

In 2018, the audit committee held four meetings in total and reviewed and approved five proposals, mainly involving such issues as fixed asset investment plans, financial budget plans and audit work plans.

During the Reporting Period, the Audit Committee had several meetings and communications with the external auditors in the absence of executive Directors and senior management. On March 25, 2019, the Audit Committee reviewed the audited consolidated financial statements for the year ended December 31, 2018 prepared in accordance with the accounting principles and policies of the Bank. It also reviewed the internal control system and the effectiveness of the Bank's internal audit function by periodically hearing the internal audit work report of our audit department.

Corporate Governance Report



2. Development and strategy committee

During the Reporting Period, the development and strategy committee of the Bank consisted of five Directors, namely chairperson Ms. XU Yan and members Mr. YOU Jiang, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei.

The primary duties of the development and strategy committee during the Reporting Period include:

- reviewing our business objectives, investment plans and medium and long term development strategies;
- supervising and inspecting the implementation of our operation plans, investment plans and medium and long term development strategies;
- conducting research and making recommendations on merger, spin-offs, capital increase and decrease and other matters that are material to our development; and
- performing other responsibilities as authorized by the Board.

In 2018, the development and strategy committee held 1 meeting in total and reviewed and approved 1 proposal, mainly involving such issues as annual operation plans.

3. Nomination and remuneration committee

During the Reporting Period, the nomination and remuneration committee of the Bank consisted of five Directors, namely chairperson Mr. GU Mingan and members Mr. YOU Jiang, Mr. XIONG Guoming, Mr. TANG Baoqi and Mr. YE Changqing.

The primary duties of the nomination and remuneration committee during the Reporting Period include:

Nomination duties

- making recommendations on the size and composition of the Board in accordance with the business activities, asset size and equity structure of the Bank;
- conducting study on the criteria and procedures for selecting Directors and senior managers and making recommendations to the Board;
- identifying qualified individuals as Directors and selecting or making recommendations to the Board on selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the president of the Bank; and
- conducting preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board.

Corporate Governance Report

Remuneration and appraisal duties

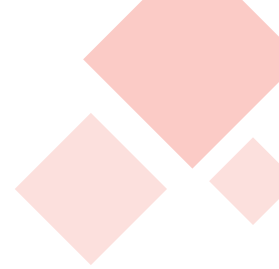
- contemplating the criteria for appraising Directors, conducting assessment and evaluation and making recommendations to the Board according to our actual conditions;
- making recommendations to the Board on the policy and structure for all Directors' and senior management' remuneration and on the establishment of formal and transparent procedures for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of our non-executive Directors;
- reviewing and approving compensation payable to executive Directors and the senior management for any loss or termination of office to ensure that it is consistent with contractual terms and is otherwise fair and reasonable and not excessive; and
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

In 2018, the nomination and remuneration committee held one meeting in total, and considered and approved three proposals, mainly involving such issues as improvement of independent non-executive Directors' performance allowance and consideration of the proposal on examination of appointing Mr. YE Changqing and Mr. TANG Baoqi as the candidates for independent non-executive Directors of the sixth session of the Board.

The nomination and remuneration committee of the Bank shall recommend candidates for Directors (including independent non-executive Directors) to the Board in accordance with the following selecting criteria and nomination procedures:

- identifying qualified individuals as Directors and selecting or making recommendations to our Board of Directors on selection of individuals nominated for directorships after due consideration of the requirements of the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Commercial Banking Law of the PRC, the Securities Law of the People's Republic of China, the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) of the CBIRC, the Management Measures on Qualifications of Directors (Council Members) and Senior Management of Banking Institutions (《銀行業金融機構董事(理事)和高級管理人員任職資格管理辦法》), the Listing Rules, the Basic Procedures for Re-election of City Commercial Banks in Sichuan (《四川法人城市商業銀行換屆工作基本流程》) and the Articles of Association (Applicable after listing of H Shares), the Rules of Procedure for Shareholders' General Meetings (Applicable after listing of H Shares), the Rules of Procedure for Board Meetings (Applicable after listing of H Shares) of the Bank and other laws and regulations, normative documents and documents in relation to internal governance with combination of the actual situation of the Bank's work and the contributions that such candidates may make to the Board with respect to its qualification, skills, experience, independence, gender diversity and other aspects; and
- assessing the independence of independent non-executive Directors with reference to the factors as set out in Rule 3.13 of the Listing Rules and any other factors the nomination and remuneration committee or the Board deems appropriate to determine their qualifications; assessing the sufficiency of time commitment of an independent non-executive Director to affairs of the Board in the event that the proposed independent non-executive Director shall hold his/her position as a director in seven (or more) listed companies.

Corporate Governance Report



When nominating members of the seventh session of the Board, the nomination and remuneration committee of the Bank has considered each of the independent non-executive Directors' rich experience and biographies in their respective areas of expertise and other experience, and satisfied that such independent non-executive Directors possess requisite quality, integrity and experience to perform their duties as independent non-executive Directors in a continuous and effective manner. Contributions of such independent non-executive Directors to the diversity of the Board of the Bank are set forth in their respective biographies. In addition, such independent non-executive Directors have confirmed to the Bank their compliance with the requirements regarding independence under Rule 3.13 of the Listing Rules in their election, therefore, the Board considers that such independent non-executive Directors are independent.

4. Related party (connected) transactions control committee

During the Reporting Period, the related party (connected) transactions control committee of the Bank consisted of five Directors, namely chairperson Mr. LIU Xiaoyu and members Mr. GU Mingan, Mr. HUANG Yongqing, Mr. TANG Baoqi and Mr. LIU Shirong.

The primary duties of the related party (connected) transactions control committee during the Reporting Period include:

- reviewing and approving related party transactions and connected transactions within the authorization of the Board;
- reviewing the related party transactions and connected transactions to be submitted to the Board and general meeting for consideration and approval and reporting to the Board;
- collecting and organizing list and information of our related parties and connected persons and identifying our related parties and connected persons;
- examining and supervising control of our related party transactions and connected transactions and implementation of systems in relation to related party transactions and connected transactions by our Directors, Supervisors, the senior management, related parties and connected persons and reporting to the Board;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

In 2018, the related party (connected) transactions control committee held 15 meetings in total, considered and approved 15 proposals, in particular, updated the list of related parties, amended the administrative measures for related party transactions and reviewed the annual related party transactions report and material related party transactions, etc.

Corporate Governance Report

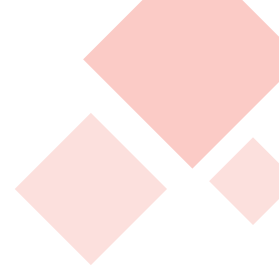
5. Risk management committee

During the Reporting Period, the risk management committee of the Bank consisted of five Directors, namely chairperson Mr. XIONG Guoming and members Mr. YOU Jiang, Mr. LIU Xiaoyu, Mr. YE Changqing and Mr. LIU Shirong.

The primary duties of the risk management committee during the Reporting Period include:

- reviewing risk management policies, measures and preference in relation to our credit risk, liquidity risk, market risk, operation risk, compliance risk and reputation risk;
- supervising our control over credit risk, liquidity risk, market risk, operation risk, compliance risk and reputation risk by our senior management;
- conducting periodic assessment upon our risk policies, management status and risk tolerance ability, evaluating the working procedures and working proficiency of our internal supervision department and advising on improvement of our risk management and internal control;
- performing other responsibilities as authorized by the Board; and
- performing other responsibilities in accordance with applicable laws and regulations.

In 2018, the risk management committee held one meeting and reviewed and approved one proposal, mainly involving such issues as establishment of a comprehensive risk management system to realize high-quality development.



6. Consumer rights protection committee

During the Reporting Period, the consumer rights protection committee of the Bank consisted of five Directors, namely chairperson Mr. HUANG Yongqing and members Mr. YOU Jiang, Mr. XU Xianzhong, Mr. LIU Xiaoyu and Mr. LIU Qi.

The primary duties of the consumer rights protection committee during the Reporting Period include:

- formulating strategies, policies and objectives of our consumer rights protection work, incorporating contents relating to consumer rights protection into our corporate governance and business development strategies and providing guidance on a general planning level to our senior management to strengthen the construction of our corporate culture of consumer rights protection;
- supervising our senior management to effectively implement consumer rights protection work, periodically listening to our senior management's special reports on consumer rights protection work, reviewing and approving the special reports and submitting the same to the Board and making relevant work as important part of information disclosure;
- supervising and evaluating the comprehensiveness, promptness and effectiveness of our consumer rights protection work and the performance of our senior management in this respect;
- reviewing and providing comments on proposals in relation to consumer rights protection to be submitted to the Board in accordance with our overall strategies; and
- performing other responsibilities as required by consumer rights protection related regulations in the banking industry or as required by the Articles of Association.

In 2018, the consumer rights protection committee held one meeting and reviewed and approved one proposal, mainly involving such issues as report on our consumer rights protection work.

Corporate Governance Report

V. BOARD OF SUPERVISORS

(I) Composition of the Board of Supervisors

The Board of Supervisors of the Bank consists of five members, including one Shareholders' representative Supervisor, namely Ms. YUAN Shihong; two external Supervisors, namely Ms. HUANG Ping and Mr. DUAN Xuebin; and two employees' representative Supervisors, namely Ms. LIU Yongli and Mr. CHEN Yong.

Our Supervisors are elected for a term of three years and may seek re-election upon expiry of the said term. The cumulative term of an external Supervisor shall not exceed six years.

(II) Duties of the Board of Supervisors

The duties of the Board of Supervisors mainly include:

1. to examine the regular reports and bonus scheme of the Bank prepared by the Board and produce written opinions thereon;
2. to examine and supervise financial activities of the Bank;
3. to conduct off-office auditing for Directors, president, and other senior management personnel and to guide the work of the internal audit department of the Bank;
4. to inquire Directors, president and other senior management personnel;
5. to supervise the fulfilment of duties of the Board of Directors, senior management, Directors, chairman and senior management personnel and to propose dismissal of Directors and senior management personnel who have violated laws, administrative regulations, our Articles or resolutions of the Shareholders' general meetings;
6. when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;
7. to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the Shareholders' general meetings in accordance with the Company Law, to convene and preside over the Shareholders' general meetings;
8. to submit proposals to the Shareholders' general meeting;
9. to initiate legal proceedings against the Directors and senior management personnel in accordance with Article 152 of the Company Law;

Corporate Governance Report

10. to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms, professional auditors etc. if necessary to assist its duties at the expenses of the Bank;
11. to formulate a standard scheme for the remuneration and allowances of the members of the Board of Supervisors of the Bank for review and determination at the Shareholders' general meeting;
12. to audit the business decisions, risk management and internal controls of the Bank, and to supervise the information technology risks of the Bank;
13. to attend board meetings and obtain meeting materials;
14. to supervise the directors recruiting procedures;
15. to organize the evaluation of Supervisors and the mutual evaluation of external Supervisors, and to report the evaluation results to the Shareholders' general meeting for deliberation; and
16. to exercise other functions and powers stipulated by laws, administrative regulations and other regulations, or our Articles, or granted by the Shareholders' general meetings.

(III) Primary Ways for Performance of Duties by the Board of Supervisors

The Board of Supervisors convenes meetings of the Board of Supervisors and its special committees to review resolutions and listen to reports, convenes joint meetings of the Chairman of the Board of Supervisors on a regular basis and conducts special inspections as well as investigations and researches to make recommendations, attends the Shareholders' general meeting and important meetings of the Board and the Bank, through which the Board of Supervisors supervises and evaluates the performance of duties by the Board and senior management and its members, oversees the financial activities, risk management and internal control of the Bank, makes recommendations on supervision and continuously supervises the implementation of all recommendations by the Bank.

During the Reporting Period, the Board of Supervisors organized and conducted evaluation on the performance of duties by our Board of Directors, Directors, senior management and its members and our Supervisors in 2018 and reported to regulatory authorities.

(IV) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened 7 meetings in total, all of which were onsite meetings, considered and approved 39 resolutions, and listened to 10 reports. The contents for consideration includes our operation plans, financial budget and final accounts, fixed assets investment plans, profit distribution and evaluation on the performance of duties by the Board and senior management. During the Reporting Period, our Board of Supervisors had no objection to all supervisory issues.

Corporate Governance Report

(V) Special Committees under the Board of Supervisors

Our Board of Supervisors has established nomination committee and audit and supervision committee.

1. Nomination committee

During the Reporting Period, the nomination committee of the Bank consisted of three Supervisors with Mr. DUAN Xuebin being the chairperson and Ms. YUAN Shihong and Mr. CHEN Yong being the members.

The primary duties of the Nomination Committee during the Reporting Period include the following:

- providing recommendations on the size and composition of our Board of Supervisors;
- conducting study on the criteria and procedures for selecting supervisors and making recommendations to our Board of Supervisors;
- identifying qualified supervisors candidates;
- conducting preliminary examination of qualifications and credentials of supervisors candidates nominated by Shareholders, and making recommendations to our Board of Supervisors accordingly; and
- other responsibilities as authorized by our Board of Supervisors.

In 2018, the nomination committee under the Board of Supervisors did not convene any meetings.

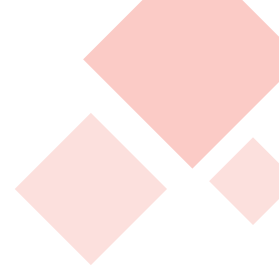
2. Audit and supervision committee

During the Reporting Period, the audit and supervision committee consisted of three Supervisors with Ms. HUANG Ping being the chairperson and Ms. YUAN Shihong and Ms. LIU Yongli being the members.

The primary duties of the audit and supervision committee during the Reporting Period include the following:

- formulating proposals for inspecting and supervising our financial activities;
- formulating proposals for off-office auditing on Directors and senior management;
- formulating proposals for auditing our operational decision, risk management and internal control; and
- performing other responsibilities as authorized by our Board of Supervisors.

In 2018, the audit and supervision committee under the Board of Supervisors convened 3 meetings and considered and approved 3 proposals.



VI. SENIOR MANAGEMENT

The Bank shall have one president, who shall be elected via public employment, internal competition or external transfer, which shall be decided by the Board of Directors. The chairman of the Board shall communicate with the local party committee and government, substantial shareholders and banking regulatory authorities under the State Council, so as to reach a consensus on the president candidates. The president shall be nominated by the chairman of the Board, and appointed or dismissed by the Board of Directors. The Bank may set a number of vice presidents and other senior managers to meet the needs for business development. The officer in charge of audit shall be appointed and dismissed by the Board of Directors; vice presidents and other senior managers shall be appointed or dismissed by the Board of Directors. All the senior managers meet the qualification conditions required by laws and regulations and banking regulatory authorities.

VII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

Our Bank has adopted the Model Code as its code for regulating securities transactions by Directors and Supervisors of the Bank. Having made specified enquiry with all Directors and Supervisors of the Bank, our Directors and Supervisors confirmed that they have been in compliance with the Model Code throughout the Reporting Period.

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, kinship or other significant relationship between the Directors, Supervisors and the senior management of the Bank.

IX. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Bank, which took effect after the Listing, was adopted at the general meeting held on May 30, 2018, and approved by the CBRC Sichuan Office on August 10, 2018.

X. JOINT COMPANY SECRETARIES

Mr. LIU Shirong and Ms. SO Shuk Yi Betty are the joint company secretaries of the Bank. All Directors can discuss with the company secretaries to seek advice and obtain information. Mr. LIU Shirong is the main contact person of Ms. SO Shuk Yi Betty in the Bank. Mr. LIU Shirong and Ms. SO Shuk Yi Betty confirmed that they have received no less than 15 hours of relevant professional training during the Reporting Period.

Corporate Governance Report

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2018 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2018 financial statements prepared in accordance with International Financial Reporting Standards. In 2018, the Bank had emoluments of RMB2,700,000 paid/payable to the above accounting firms for the audit services provided.

During the Reporting Period, the Bank also incurred expenses of RMB6,130,000 in aggregate payable/paid to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for the preparation of the accounting reports for Listing of the Bank's H Shares.

XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

The Board has reviewed the risk management and internal control system for the year ended December 31, 2018 to ensure its effectiveness and sufficiency. Such review shall be conducted on an annual basis. The Board is of the view that the risk management and internal control system of the Bank for the year ended December 31, 2018 is effective and adequate.

(I) Procedures Used to Identify, Evaluate and Manage Significant Risks

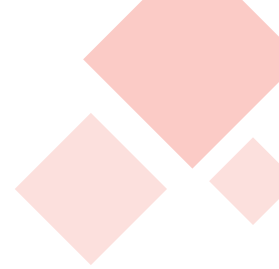
Leveraging our information technology system and specifically designed mechanism, we closely monitor different types of risks to make timely response, particularly for key risks associated with our daily operations, including credit risk, market risk, liquidity risk and operational risk. The Bank focuses on developing the rules and policies in relation to key risks and implements the relevant measures, so as to enhance the efficiency and effectiveness of risk identification, analysis, evaluation and mitigation. We have established clear and specific reporting and communication procedures to ensure an efficient and effective coordination among departments to address various risks and risk incidents, including our branches and sub-branches, various departments relating to risk management at our headquarters and the Risk Management Department.

(II) Main Features of the Risk Management and Internal Control System

The overall target of our risk management is to maintain the balance of risks and business development so that we could effectively mitigate risks and develop our business in a sustainable way. To achieve the abovementioned objectives, we have implemented the guiding principles of "comprehensiveness, balance, centralization and compliance" in our risk management.

The objectives of internal control of the Bank are to reasonably ensure the legal and regulatory compliance of operations and management and the security of corporate assets, and to ensure the truthfulness and completeness of financial reports and the relevant information; to enhance the efficiency and effectiveness of operations and facilitate the implementation of development strategies. The Bank's internal control is compatible with its operational scale, business scope, competitive landscape and risk level, and adjustments will be made in a timely manner to keep in pace with any changes of the circumstances.

Corporate Governance Report



(III) The Board's Ultimate Responsibility for the Management of Risk Management and Internal Control System

The Board of the Bank is responsible for deciding on the Bank's risk management and internal control policies. The ultimate responsibility for risk management rests with the Board of Directors. The Board of Directors' responsibilities include establishing an adequate and effective risk management system to ensure the Bank's prudent operation and compliance with relevant laws and financial policies; monitoring and assessing the sufficiency and effectiveness of our risk management system; reviewing internal control evaluation reports and being liable for material losses caused by a breakdown in internal control. The Board has delegated its duties with respect to risk management and internal control, together with relevant authorities, to the audit committee.

The risk management and internal control system of the Bank is designed to manage rather than eliminate the risk of failure to meet business objectives. As of the Reporting Period, the Bank has maintained an effective internal control and a controllable risk profile in general. Due to its inherent limitations, the internal control can only provide reasonable assurance for achieving the above objectives. In addition, since changes may result in inappropriate internal control or a lower compliance extent for control policies and procedures, there are certain risks in relation to the prediction of effectiveness of the future internal control based on the evaluation results of internal control of our Bank.

(IV) Procedures Used to Review the Effectiveness of the Risk Management and Internal Control System and to Resolve Material Internal Control Defects

All departments of the Bank have established a series of rules which specifically set out the corresponding risk management policies and procedures for business to reasonably identify the risk control point for each business and management activity, take appropriate control measure and implement standardized and united business and management procedures to ensure a standard operation. Failure to establish such rules may not carry out the relevant business. The Bank includes the overall risk management into the internal audit, and the Internal Audit Department is responsible for reviewing and evaluating the sufficiency and effectiveness of the overall risk management on a regular basis. We have established an integrated risk management system with comprehensive risk coverage and invested in continuous upgrade and optimization.

The internal control is conducted across the daily management activities by the Bank. Each business management department conducts routine monitoring on key risk points and key procedures based on the frequency and carry out regular inspection and supervision. The internal supervision and audit department formulates the supervision and audit plans and conducts supervision and audits on key risk points and key procedures. Our Internal Control and Compliance Department takes the lead in organizing all departments to conduct an overall evaluation once a year based on the internal and external inspection and supervision and formulate an annual self-evaluation report of internal control. The Bank will continue to improve its internal control system, regulate implementation of the internal control system, optimize the evaluation methods of internal control and strengthen the internal control supervision and inspection to facilitate the healthy and sustainable development of the Bank in line with its development strategies and changes in business procedures.

Corporate Governance Report

(V) Procedures and Internal Control Measures for Handling and Distributing Inside Information

The Bank handles and distributes inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in June 2012 to ensure the inside information remains confidential until the disclosure of such information is appropriately approved, and the distribution of such information is efficiently and consistently made. The Bank reminds its Directors and employees to properly comply with all policies in relation to inside information on a regular basis. Furthermore, the Bank will issue notices of the latest regulatory developments to its Directors, senior management and employees and prepare or update the appropriate policies and guidelines to ensure compliance with regulatory requirements.

The Bank is aware of its responsibilities under the SFO and the Listing Rules and the overriding principle that the information shall be published as soon as practicable if it is determined to be inside information, and that it shall handle such information with close regard to the applicable laws and regulations.

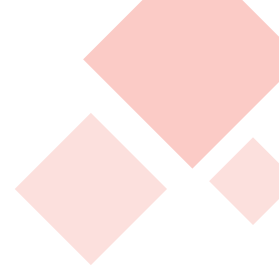
XIII. SHAREHOLDERS' RIGHTS

(I) Convening of Extraordinary General Meetings

According to the Articles of Association, the Shareholders have the following rights:

The Board of Directors shall convene Shareholders' general meetings as required by laws and regulations, the Articles and the terms of reference of the Shareholders' general meeting. Where the Board of Directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene such meeting in a timely manner; if the supervisory board fails to convene such meeting, shareholders individually or in aggregate holding 10% or more of the Bank's shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

Above half of the independent Directors are entitled to propose to the Board for convening of extraordinary general meetings. For the proposal of convening extraordinary general meetings by such independent Directors, the Board shall provide feedback in a written form of agreeing or disagreeing the convening of extraordinary general meetings within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles. If the Board agrees to convene extraordinary general meetings, a notice of convening a general meeting shall be given within 5 days upon resolution of the Board; if the Board disagrees with convening extraordinary general meetings, an explanation of the reasons shall be provided.



(II) Proposals to Shareholders' General Meetings

When the Bank is to convene a Shareholders' General Meeting, the Board and the Board of Supervisors and Shareholders who individually or jointly hold more than 3% of the Bank's Shares are entitled to submit proposals in writing to the Bank. The Bank should include matters in the proposals which fall within the terms of reference of Shareholders' General Meeting into the meeting agenda.

Shareholders who individually or jointly hold more than 3% of the Bank's Shares may submit a temporary proposal in writing 10 days before the Shareholders' General Meeting to the convener. The convener should dispatch a supplementary notice of Shareholders' General Meeting announcing the contents of the temporary proposal within two days after receiving such temporary proposal. If listing rules of the stock exchange where our securities are listed provide otherwise, such provisions shall also be followed.

Besides circumstances provided by the preceding paragraph, the convener shall not amend the proposals listed in the aforesaid notice or add any new proposals subsequent to the dispatch of a notice of the General Meeting. The General Meeting shall not vote and adopt a resolution on any proposal that is not listed in the notice of the Shareholders' General Meeting or that is inconsistent with Article 80 of the Articles of Association.

(III) Enquires from Shareholders

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

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel.: +852 2862 8555

Fax: +852 2865 0990/2529 6087

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

The Bank's Office of the Board of Directors

Building 1, No. 18 Section 3 Jiucheng Avenue, Luzhou, Sichuan Province

Tel.: +86 830-2362606

Fax: +86 830-3100625

Corporate Governance Report

(IV) Management of Investor Relations

Shareholders and investors may send enquiries to the Board to the Bank's office of the Board of Directors.

Address: Building 1, No. 18 Section 3 Jiucheng Avenue, Luzhou, Sichuan Province, the PRC

Tel.: +86 830-2362606

Fax: +86 830-3100625

E-mail: ir@lzccb.cn

(V) Information Disclosure

The Bank attaches great importance to communication with Shareholders and enhances understanding and communication among Shareholders through various channels such as general meetings, results announcements, roadshows, visitors' reception, and telephone consultation.

XIV. REMUNERATION MANAGEMENT

(I) Remuneration System

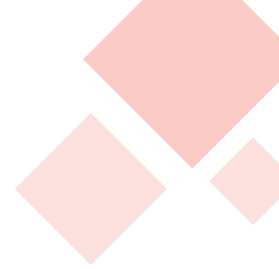
The Bank implements a post wages-based incentive & restraint mechanism for remuneration assessment to mobilize the staff and improve overall effectiveness. The Bank strictly implements the relevant requirements for supervision of remuneration payment, and implements deferred payment for middle and senior executives as well as employees having great effect on risks.

(II) Total Remuneration in 2018

The remuneration of employees of the Bank in 2018 is detailed in the section headed Management Discussion and Analysis.

(III) Remuneration of Senior Executives

The remuneration of senior executives of the Bank in 2018 is detailed in the section headed Directors, Supervisors, Senior Management and Employees.



XVI. DIVIDEND POLICY

The Bank may distribute dividends in the following forms:

- (i) cash;
- (ii) shares.

The dividend from any Share paid prior to a capital call is entitled to interest, but the holder of the Shares is not entitled to the dividend declared after the call in respect of prepayments of Shares. The Bank may exercise the power to forfeit unclaimed dividends in accordance with relevant laws and regulations, departmental rules, normative documents and the relevant provisions stipulated by the securities regulatory authorities in the locality in which the securities of the Bank are listed, but such power should not be exercised until the relevant applicable period has expired.

The Bank shall have the right to cease delivering dividend notice to the Shareholders of H Shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly. The Bank shall have the right to sell the shares of the Shareholders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

- (i) the Bank has distributed dividends on such shares at least 3 times in a period of 12 years and the dividends are not claimed by anyone during that period;
- (ii) after the expiration of a period of 12 years, the Bank makes a public announcement in one or more newspaper at the place where the Bank's securities are listed, stating its intention to sell such shares and notifies the Hong Kong Stock Exchange of such intention.

Our Bank shall appoint for Shareholders of overseas listed shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed shares.

The recipient agent appointed by the Bank shall comply with the laws of the locality in which the Bank's shares are listed or the relevant requirements of the stock exchange where the Bank's shares are listed. The recipient agent appointed by the Bank for Shareholders of H Shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

The profit distribution policy of the Bank shall be focused on generating reasonable investment returns to investors and be favorable for the Bank's long-term development. The profits of the Bank may be distributed in the form of bonus share and cash dividend, etc., and the cumulative distribution amount in any three consecutive years shall not be less than 20% of the annual average distributable profits realized in the said three years.

Directors' Report

The Board hereby presents the Directors' report and audited financial statements of the Bank for the year ended December 31, 2018.

I. BUSINESS REVIEW

(I) Business Review

We are the only city commercial bank headquartered in Luzhou. We offer various banking services and relevant financial services. Our principal business lines include corporate banking, retail banking and financial markets. The information on business review of the Bank for the year ended December 31, 2018 is set out in "Management Discussion and Analysis" of this annual report.

(II) Relationship with Customers and Employees

For further information of the employees and employment policies of the Bank, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" above as well as the 2018 Environmental, Social and Governance Report to be published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(III) Environmental Policy and Performance

For further information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2018 Environmental, Social and Governance Report to be published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank in due course.

(IV) Permitted Indemnity Provisions

Pursuant to Article A.1.8 of the Code provisions, the Bank should purchase appropriate insurance covering potential legal proceedings against the Directors of the Bank. To comply with the Code provisions, the Bank had purchased appropriate liability insurance for the Directors to provide indemnity for the liabilities incurred in the corporate activities for the year ended December 31, 2018.

At no time during the financial year and up to the date of the Directors' report, there was, or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Bank (whether or not entered into by the Bank or otherwise) or any director of an associated company of the Bank (if entered into by the Bank).

(V) Equity-linked Agreements

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

II. THE LISTING OF H SHARES ON THE HONG KONG STOCK EXCHANGE

The Bank's H Shares were listed on the Hong Kong Stock Exchange on December 17, 2018 with an offer price fixed at HK\$3.18 per Offer Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Bank issued 545,740,000 H Shares in total under the Global Offering. Three Cornerstone Investors subscribed for 270,000,000 H Shares in total issued by the Bank. After deduction of the underwriting fees, commissions and expenses payable by us in relation to the Global Offering and excluding the impact of the exercise of Over-allotment Option, the net proceeds of the Global Offering accruing to us would be approximately HK\$1,638.2 million.

Directors' Report

On January 9, 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, 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\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on January 14, 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank were approximately HK\$255.5 million (after deducting underwriting commissions, brokerage, transaction levy and transaction fee).

Our proceeds from the issuance of H Shares have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

III. PROFITS AND DIVIDENDS

(I) Dividends

According to the resolution of the general meeting held on May 30, 2018, the Bank distributed 2017 annual cash dividends as per RMB0.12 (tax inclusive) per share to all Shareholders, totaling RMB196.5 million (tax inclusive). The dividends were distributed to holders of Domestic Shares whose names appeared on the register of members on December 31, 2017. The aforesaid dividends were denominated in Renminbi and paid in Renminbi to Shareholders on July 27, 2018. Furthermore, according to the resolution approved on July 21, 2017, the Bank declared additional dividends of RMB45.7 million and RMB176.8 million for the years ended 2015 and 2016, respectively, to the holders of Domestic Shares whose names appeared on the register of members on December 31, 2016, which were distributed in July 2018.

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

Our Board of Directors has proposed to distribute final cash dividends for the year ended December 31, 2018 at RMB0.15 (tax inclusive) per share to all shareholders in an aggregate amount of RMB339.72 million (tax inclusive). The dividend distribution plan will be proposed at the annual general meeting of 2018 for consideration.

If the proposal is approved at the annual general meeting of 2018 ("**2018 AGM**"), the dividends will be distributed to holders of domestic Shares and holders of H Shares whose names appear on the register of members of our Bank as at Thursday, June 6, 2019. The proposed dividends are denominated in Renminbi and will be distributed to holders of domestic Shares and holders of H Shares in Renminbi and Hong Kong dollars, respectively. The applicable exchange rate for calculating dividends to be distributed in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars used by the interbank foreign exchange market as published by the PBoC of the five working days preceding and inclusive of the date of declaration of such dividends at the annual general meeting of 2018. The registration of transfers of domestic Shares and H Shares will be closed from Saturday, June 1, 2019 to Thursday, June 6, 2019 (both days inclusive). In order to be entitled to the final dividend for 2018, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents accompanied by the relevant share certificates with our 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 on or before 4:30 p.m. on Friday, May 31, 2019.

Directors' Report

Our Board of Directors has determined to distribute the final dividends for 2018 on or before Friday, July 26, 2019.

In the past three years, the Bank did not convert capital reserve into share capital. The cash dividends of ordinary shares in the past three years are as follows:

Item	2015	2016	2017
Cash dividend (tax inclusive, in millions of RMB)	72.4	106.7	54.4
Proportion of annual profit (%)	21.22	23.63	10.03

(II) Tax on Dividends of Ordinary Shares

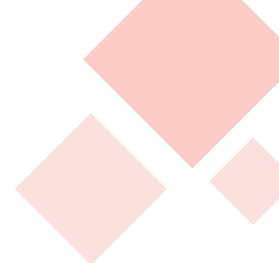
(1) For holders of domestic Shares

Our corporate holders of domestic Shares shall handle their income tax by themselves. Pursuant to the relevant provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), our Bank shall withhold and pay an individual income tax at a rate of 20% for individual shareholders whose names appear on the domestic share register of members as at June 6, 2019.

(2) For holders of H Shares

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the relevant implementation regulations effective on January 1, 2008, our Bank shall withhold and pay an enterprise income tax at a rate of 10% for non-resident enterprise shareholders listed on the H Share register of members as at June 6, 2019. Pursuant to the Notice of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No. 348) issued by the SAT on June 28, 2011, overseas resident individual shareholders' receipt of dividends from the shares issued in Hong Kong by domestic non-foreign-invested enterprises is subject to withholding of individual income tax by the payer of the income according to laws; however, overseas resident individual shareholders holding shares issued in Hong Kong by domestic non-foreign-invested enterprises can enjoy relevant preferential tax treatments according to the tax treaties entered into by the countries they reside in with the PRC and the tax arrangements between mainland China and Hong Kong (Macau).

In accordance with the above tax regulations, we generally withhold individual income tax on dividends at a rate of 10% for the individual holders of H Shares, unless otherwise provided in the relevant tax regulations and tax treaties where the Bank shall go through the specific procedures under taxation and administration requirements of tax authorities.



IV. 2018 AGM AND CLOSURE OF THE REGISTRATION OF TRANSFERS OF SHARES

The 2018 AGM is scheduled to be held on Tuesday, May 28, 2019. For the purpose of determining the list of shareholders who are entitled to attend and vote at the 2018 AGM, the registration of transfers of our H Shares will be closed from Saturday, April 27, 2019 to Tuesday, May 28, 2019 (both days inclusive). In order to attend and vote at the 2018 AGM, the holders of H Shares of the Bank shall lodge all the transfer documents accompanied by the relevant share certificates with our 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 before 4:30 p.m. on Friday, April 26, 2019.

V. RESERVE

Details of changes in the Bank's reserves available for distribution to Shareholders for the year ended December 31, 2018 are set out in the Statement of Changes in Equity.

VI. SUMMARY OF FINANCIAL INFORMATION

A summary of the Bank's operating results, assets and liabilities for the entire year ended December 31, 2018 is set out in the Summary of Financial Information of this annual report.

VII. DONATION

The Bank's charitable and other donations totaled nearly RMB5,465,000 for the year ended December 31, 2018.

VIII. PROPERTY AND EQUIPMENT

Details of changes in the property and equipment of the Bank for the year ended December 31, 2018 are set out in note 41.2 to the financial statements of this annual report under Property and Equipment.

IX. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees by the Bank are set out in note 31 to the financial statements of this annual report under Payroll Payable.

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

During the Reporting Period, the Bank issued 545,740,000 H Shares which were listed on the main board of the Hong Kong Stock Exchange on December 17, 2018. Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

XI. PRE-EMPTIVE RIGHTS

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

XII. MAJOR CUSTOMERS

As at the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The five largest depositors and the five largest borrowers of the Bank accounted for less than 30% of total deposits and total loans and advances. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares had any interest in the said top five largest customers.

XIII. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 33 Share Capital to the Financial Statements of this annual report.

XIV. TOP TEN SHAREHOLDERS AND SHAREHOLDINGS

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

XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

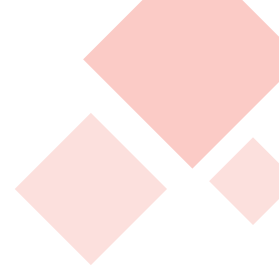
XVI. CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THEIR INDEPENDENCE

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

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

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

Directors' Report



XVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

XIX. SIGNIFICANT INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

The Bank did not enter into any transaction, arrangement or significant contract where directors and/or supervisors (or connected entity of directors and/or supervisors) directly or indirectly held material interests for the year ended December 31, 2018.

XX. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Bank has entered into a service contract with each of its Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, obedience of the Articles of Association and provisions on arbitration. During the Reporting Period, none of the Directors or Supervisors have entered into a service contract with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

XXI. MANAGEMENT CONTRACT

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

XXII. DIRECTORS' AND SUPERVISORS' INTERESTS IN THE BUSINESS WHICH COMPETES WITH THE BANK

As of the Latest Practicable Date, Mr. XIONG Guoming, a non-executive Director of our Bank, was also a non-executive director of Luzhou Rural Commercial Bank Co., Ltd. (瀘州農村商業銀行股份有限公司) ("Luzhou Rural Commercial Bank"). As a non-executive director of Luzhou Rural Commercial Bank, Mr. Xiong Guoming is primarily responsible for participating in making decisions and giving advice on the corporate governance, compliance and risk management of Luzhou Rural Commercial Bank and is not involved in its daily operation and management. Accordingly, the Directors consider that the directorship of Mr. Xiong in Luzhou Rural Commercial Bank does not and is unlikely to give rise to significant competition or conflict of interest between Mr. Xiong and our Bank.

As of the Latest Practicable Date, Mr. GU Mingan, an independent non-executive Director of our Bank, was also an independent director of Sichuan Longchang Rural Commercial Bank Co., Ltd. (四川隆昌農村商業銀行股份有限公司) ("Longchang Rural Commercial Bank"). As an independent director of Longchang Rural Commercial Bank, Mr. Gu is mainly responsible for participating the meetings of its board of directors and providing independent advise on major issues on corporate operation and management to protect the overall interest of Longchang Rural Commercial Bank and its shareholders and is not involved in the daily operation and management of Longchang Rural Commercial Bank. In addition, we have different geographical coverage with Longchang Rural Commercial Bank. We are located in Luzhou, Sichuan Province with one branch in Chengdu. Longchang Rural Commercial Bank is located in Longchang county, Neijiang, Sichuan Province. Accordingly, the Directors consider that there is no actual competition between our Bank and Longchang Rural Commercial Bank.

Save as disclosed herein, none of our Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business which require to be disclosed under Rule 8.10(2) of the Listing Rules.

XXIII. CONNECTED TRANSACTIONS

The transactions entered into among the Bank and its connected persons (as defined in the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules, subject to the exemption from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all connected transactions and confirmed that such transactions were in compliance with the disclosure requirement under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, Related Party Disclosures, and its interpretations by the IASB. Related party transactions set out in note 41 to the financial statements do not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

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

XXIV. REMUNERATION POLICIES

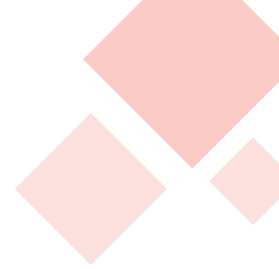
The Bank has implemented an incentive and restrictive performance-based remuneration appraisal mechanism based on the principle of "placing the efficiency as priority", in which the remuneration of employees are determined individually on merits on the basis of their salary of posts. The Bank has also established a market-based remuneration allocation system under which the income depends on the contribution by closely connecting the employees' remuneration with their work performance, so as to give a continual play to the incentive and guiding effects of remuneration, arouse employees' enthusiasm and thereby to improve the overall efficiency. The Bank has maintained various social insurances and supplementary medical insurance in accordance with the relevant laws to provide a comprehensive security system for its employees. In respect of payment of remuneration, the Bank has strictly complied with relevant regulatory requirements and deferred payment for middle and senior management and employees holding positions with material impact on risks.

Our Bank offers our executive Directors, employees' representative Supervisors and senior management members, who are also our employees, compensation in the form of salaries, social security, housing provident fund, enterprise annuity and other benefits. Our independent non-executive Directors and external Supervisors receive fixed compensation.

XXV. PUBLIC FLOAT

As of December 31, 2018, the public float for H Shares of the Bank was 25%. Based on information that is publicly available to the Bank and to the knowledge of the Directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

Directors' Report



XXVI. AUDITORS

The Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the auditor of the Bank's 2018 financial statements prepared in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers as the auditor of the Bank's 2018 financial statements prepared in accordance with International Financial Reporting Standards.

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

In 2017, for the preparation of issuance and listing of H Shares, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers, both of which have the qualification recognized by the Hong Kong Stock Exchange, to act as our annual auditors. Sichuan Huaxin (Group) CPA Firm ceased to be our auditor.

XXVII. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2018, the Bank 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.

XXVIII. MAJOR RISKS AND UNCERTAINTIES

The major risks and uncertainties the Bank is exposed to include: major risks relating to our operations include credit risks, market risks, liquidity risks and operational risks. The Bank is also exposed to information technology risks, reputational risks and legal and compliance risks. We are unable to predict all the risks and uncertainties that we are exposed to as a result of the current economic, political, social and regulatory developments, and many of these risks are beyond our control. All these factors may adversely affect our business, financial condition and results of operations. Please see the sections headed "Management Discussion and Analysis – Risk Management" and "Corporate Governance Report – Risk Management, Internal Control and Inside Information Management" of this annual report.

XXIX. FUTURE DEVELOPMENT OF BUSINESS

Please refer to "Management Discussion and Analysis – Environment and Outlook" and "Management Discussion and Analysis – Development Strategies" of this annual report for further details.

XXX. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2018, as indicated in the information prepared according to IFRS, the total assets of the Bank amounted to RMB82,549.8 million, representing a year-on-year increase of 16.47%; the total customer loans amounted to RMB31,279.19 million, representing a year-on-year increase of 61.22%; the NPL ratio was 0.80%; the total customer deposits amounted to RMB52,385.6 million, representing a year-on-year increase of 24.30%; the operating income of the Bank amounted to RMB1,934.1 million, representing a year-on-year increase of 15.13%; the net profit of the Bank amounted to RMB658.3 million, representing a year-on-year increase of 6.40%. As of December 31, 2018, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 13.29%, 10.69% and 10.69%, respectively.

XXXI. 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 Bank has complied in all material respects with all applicable laws and regulations which could materially affect the Bank.

XXXII. SUBSEQUENT EVENTS

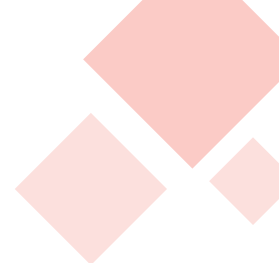
As disclosed in the announcement of the Bank dated January 9, 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, and the Bank further completed the issuance of 81,860,000 H Shares. The total share capital of the Bank after the over-allotment was RMB2,264,793,385, representing 2,264,793,385 Shares with a nominal value of RMB1 each, including 627,600,000 H Shares.

As disclosed in the announcement of the Bank dated March 6, 2019, the Chinese name of the Bank will be changed from “泸州市商业银行股份有限公司” to “泸州银行股份有限公司”, and the English name of the Bank will be changed from “Luzhou City Commercial Bank Co., Ltd.” to “Luzhou Bank Co., Ltd.”. The change of name is subject to the fulfillment of certain conditions, including the passing of special resolutions by our Shareholders at the annual general meeting to amend the Articles of the Bank.

Save for the above, the Bank had no other significant event subsequent to the Reporting Period.

By order of the Board
YOU Jiang
Chairman

Report of the Board of Supervisors



I. BASIC INFORMATION OF THE BOARD OF SUPERVISORS

Changes in personnel: During the Reporting Period, there was no change in the Board of Supervisors and its Nomination Committee and Audit and Supervision Committee. As of December 31, 2018, the Bank had 5 supervisors in total, including 2 employee representative supervisors, 1 shareholder representative supervisor and 2 external supervisors. Each of the Nomination Committee and Audit and Supervision Committee of the Board of Supervisors consists of 3 members, with Mr. DUAN Xuebin and Ms. HUANG Ping being the chairperson, respectively.

Institutional development: The terms of reference of the Board of Supervisors (applicable after the listing of H Shares) were amended.

Enhancement of self-construction: All supervisors participated in the special training on laws, regulations and regulatory requirements for the listing of H Shares and the senior training course organized by the Banking Association, which enabled them to have a deeper understanding about the responsibilities and obligations of supervisors as required by relevant laws and regulations.

During the Reporting Period, all members of the Board of Supervisors were able to diligently perform their duties, actively participate in meetings, carefully consider the resolutions, conduct in-depth investigations and research, regularly participate in training, and continuously improve their ability to perform duties.

II. MEETINGS OF THE BOARD OF SUPERVISORS

Meetings of the Board of Supervisors: During the Reporting Period, the Board of Supervisors has convened 7 meetings in total, considered and approved 39 resolutions, including our operation plans, financial budget and final accounts, profit distribution and fixed assets investment plans.

During the Reporting Period, the Nomination Committee of the Board of Supervisors did not convene any meetings.

Meetings of the committees: During the Reporting Period, the Audit and Supervision Committee of the Board of Supervisors convened 3 meetings in total and considered 3 resolutions primarily in relation to the 2018 audit work plan, special examination plan for financial management and special examination plan for internal control and litigation prevention.

The below table set forth the attendance of each supervisor at the meetings of the Board of Supervisors and its committees in 2018:

Supervisors	Board of Supervisors	Nomination Committee	Audit and Supervision Committee
YUAN Shihong	7	0	3
HUANG Ping	7	0	3
DUAN Xuebin	7	0	0
LIU Yongli	6	0	3
CHEN Yong	6	0	0

Report of the Board of Supervisors

III. MAJOR WORK

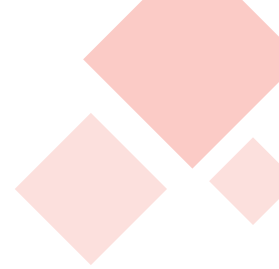
During the Reporting Period, in accordance with the relevant laws, regulations and regulatory requirements of the PRC and the requirements of Articles of Association of the Bank, the Board of Supervisors continued to carry out in-depth supervision based on the strategic objectives and core missions of the Bank.

Performance supervision: The Board of Supervisors conducted departure audits on senior management and evaluation on the performance supervision of directors, supervisors and senior management. The Board of Supervisors also conducted investigations and research on the duty and responsibility performance of the Board of Directors and senior management, learnt about the overall comment of the staff on the Board and senior management through investigations and interviews, and made recommendations on strategic development plans, junior management guidance, risk management and control measures, system procedure optimization and workforce development in the form of reminder letters.

Financial supervision: The Board of Supervisors conducted special supervision and examination on financial management and made recommendations on improving financial management system, enhancing financial management efficiency and cultivating the ability of financial management members in the form of reminder letters.

Risk management supervision: The Board of Supervisors delegated representatives to attend important meetings of senior management such as risk management meeting, loan review meeting and tender evaluation meeting, and made supervision recommendations on risk management. It also convened the joint meeting of the chairman of the Board of Supervisors to listen to the risk prevention measures of relevant departments on a quarterly basis and made recommendations on implementing joint supervision.

Internal control supervision: The Board of Supervisors conducted special supervision and examination on internal control and litigation prevention, and made recommendations on improving internal control system, building compliance culture and cultivate staff's quality in the form of reminder letters. It also convened the joint meeting of the chairman of the Board of Supervisors to listen to the internal control and management work of relevant departments on a quarterly basis and made recommendations on strengthening internal control and management.



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

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

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

Asset acquisition and disposal by the Company: During the Reporting Period, the Bank did not have material new acquisition or disposal of assets.

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

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

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

Important Events

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance structure and improved its corporate governance in strict compliance with laws and regulations such as the Company Law of the PRC, the Commercial Banking Law of the PRC as well as the Listing Rules and in line with the actual conditions of the Bank.

For the twelve months ended December 31, 2018, save as disclosed in this annual report, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank also complied with some of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon approval of the Shareholders of the Bank, the Bank distributed final dividends for 2017 on July 27, 2018 of RMB0.12 per share (tax inclusive) and RMB196.5 million (tax inclusive) in aggregate to the holders of Domestic Shares whose names appeared on the register of members of the Bank as of December 31, 2017. The Bank did not declare any interim dividend for 2018.

Furthermore, according to the resolution approved on July 21, 2017, the Bank declared additional dividends of RMB45.7 million and RMB176.8 million for the years ended 2015 and 2016, respectively, to the existing Shareholders on the share register as of December 31, 2016, which were distributed in July 2018.

MATERIAL LITIGATIONS AND ARBITRATIONS

During the Reporting Period, there were no litigations or arbitrations which had a material impact on the operation activities of the Bank.

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

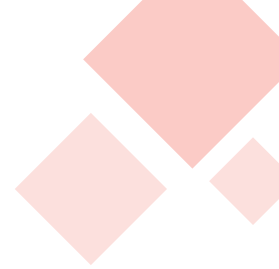
During the Reporting Period, the Bank and all its Directors, Supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by the CSRC or public censures by the Hong Kong Stock Exchange, or penalties by other regulatory bodies that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

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

Please refer to "Changes in Share Capital and Information on Shareholders" in this report for further details about the Shareholders holding 5% or more of the share capital of the Bank.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts or their performance.



Important Events

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

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

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank had no major capital operation.

Independent Auditor's Report

To the Shareholders of Luzhou City Commercial Bank Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audit

The financial statements of Luzhou City Commercial Bank Co., Ltd. (the "Bank") set out on pages 132 to 258, which comprise:

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

Our opinion

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

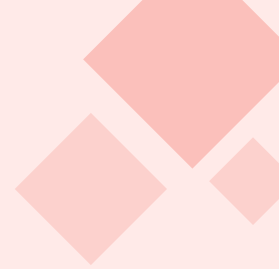
BASIS FOR OPINION

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

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

Independence

We are independent of the Bank 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.



Independent Auditor’s Report

KEY AUDIT MATTERS

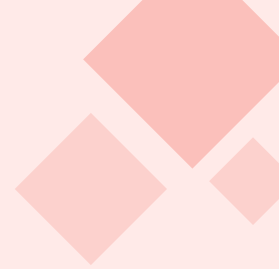
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do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

Key audit matter identified in our audit is related to measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i></p>	<p>We understood and tested the internal controls relating to the measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost, primarily including:</p> <ol style="list-style-type: none"> (1) Controls over the ECL models, including the selection, approval and application of modelling methodology; and the on-going monitoring and optimization of the models; (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking adjustments; (3) Internal controls over the accuracy and completeness of key inputs used by the models.
<p>Refer to Note 3.1.6, Note 3.1.7, Note 17, Note 18 and Note 22.</p>	
<p>As at 31 December 2018, the Bank’s gross customer loans amounted to RMB31.28 billion, and a loss allowance of RMB0.80 billion was recognized in the Bank’s statement of financial position; credit related financial assets amounted to RMB5.91 billion, for which a provision of RMB0.09 billion was recognized; financial investments measured at amortised cost amounted to RMB21.61 billion, for which a provision of RMB0.21 billion was recognized. The impairment losses on customer loans, credit related financial assets and financial investments measured at amortised cost recognized in the Bank’s income statement for the year ended 31 December 2018 amounted to RMB0.38 billion.</p>	
<p>The balances of loss allowances for customer loans and provision for credit related financial assets and financial investments measured at amortised cost represent the management’s best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models (“ECL Models”).</p>	

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p> <p>The Bank assesses whether the credit risk of customer loans, credit related financial assets and financial investments measured at amortised cost have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans classified into stages 1 and 2, all personal loans, credit related financial assets and financial investments measured at amortised cost, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3, management assesses loss allowance by estimating the cash flows from the loans.</p> <p>The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:</p> <ol style="list-style-type: none">(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;(3) Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.	<p>In addition, we preformed other procedures, primarily including:</p> <ol style="list-style-type: none">(1) We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.(2) We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the Bank's identification of significant increase in credit risk, defaults and credit-impaired loans.(3) For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.(4) We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.



Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost</i> (continued)</p> <p>For measuring expected credit losses, the Bank adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the customer loans, credit related financial assets and financial investments measured at amortised cost, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter</p>	<p>In addition, we preformed other procedures, primarily including: (continued)</p> <p>(5) For corporate loans in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Bank based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.</p> <p>Based on our procedures performed, for the measurement of expected credit losses for customer loans, credit related financial assets and financial investments measured at amortised cost, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.</p>

OTHER INFORMATION

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

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

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

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

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

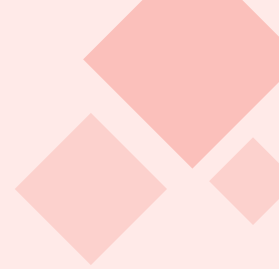
The Audit Committee is responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



Independent Auditor's Report

- 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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current year 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 Mr. Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

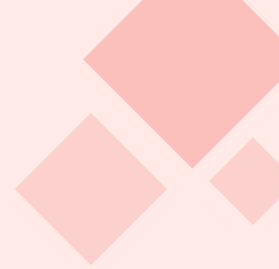
Statement of Comprehensive Income

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

	Note	Year ended 31 December	
		2018	2017
Interest income		3,998,714	3,328,474
Interest expense		(2,226,316)	(1,754,139)
Net interest income	5	1,772,398	1,574,335
Fee and commission income		9,245	8,110
Fee and commission expense		(7,377)	(10,000)
Net fee and commission income/(expense)	6	1,868	(1,890)
Net gains on trading activities	7	24,111	–
Net gains arising from financial investments	8	134,775	97,784
Other operating income	9	936	9,727
Operating income		1,934,088	1,679,956
Operating expenses	10	(686,928)	(543,168)
Expected credit losses/Impairment losses	12	(396,810)	(324,846)
Operating profit		850,350	811,942
Share of profit of an associate	24	3,640	2,544
Profit before income tax		853,990	814,486
Income tax expense	13	(195,683)	(195,783)
Net profit attributable to shareholders of the Bank		658,307	618,703
Other comprehensive income/(losses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		N/A	(314,675)
Fair value changes on financial assets at fair value through other comprehensive income		121,230	N/A
Expected credit losses of financial assets at fair value through other comprehensive income		13,647	N/A
Less: Related income tax impact		(33,718)	78,669
Subtotal	39	101,159	(236,006)
Total comprehensive income attributable to the shareholders of the Bank		759,466	382,697
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)			
– basic and diluted	14	0.40	0.38

Statement of Financial Position

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



		As at 31 December	
	Note	2018	2017
ASSETS			
Cash and balances with central bank	15	8,373,038	8,145,703
Financial assets held under resale agreements, due from other banks and financial institutions	16	7,633,381	13,344,757
Customer loans	17	30,486,354	18,833,833
Financial investments – credit related financial assets	18	5,821,602	8,279,379
Financial investments – fair value through profit or loss	19	1,841,322	N/A
Financial investments – fair value through other comprehensive income	20	5,867,342	N/A
Financial investments – Available-for-sale ('AFS')	21	N/A	11,376,611
Financial investments – amortized cost	22	21,395,762	N/A
Financial investments – investments classified as receivables	23	N/A	9,340,174
Investment in an associate	24	36,651	33,011
Property, plant and equipment	25	675,358	614,772
Deferred income tax assets	30	186,871	244,306
Other assets	26	232,134	666,890
Total assets		82,549,815	70,879,436
LIABILITIES			
Borrowings from central bank		865,000	590,000
Financial liabilities sold under repurchase agreements, due to other banks and financial institutions	27	8,675,639	12,063,909
Customer deposits	28	52,385,604	42,145,297
Debt securities issued	29	13,800,494	10,775,243
Current tax liabilities		135,457	28,768
Other liabilities	32	320,835	940,504
Total liabilities		76,183,029	66,543,721
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	33	2,182,933	1,637,193
Share premium	33	2,094,444	1,174,606
Other reserves	34	1,246,558	738,689
Retained earnings		842,851	785,227
Total equity		6,366,786	4,335,715
Total liabilities and equity		82,549,815	70,879,436

The accompanying notes form a part of these financial statements.

You Jiang
Chairman and Executive Director

Xu Xianzhong
Executive Director and President

Statement of Changes In Equity

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

	Equity attributable to shareholders of the Bank							
	Share capital (Note 33)	Share premium (Note 33)	Other reserves			Subtotal	Retained earnings	Total
			Surplus reserve (Note 34)	General reserve (Note 34)	Revaluation reserve (Note 34)			
Balance at 1 January 2017	1,448,844	1,174,606	208,639	409,303	12,399	630,341	753,623	4,007,414
Net profit for the year	-	-	-	-	-	-	618,703	618,703
Other comprehensive losses	-	-	-	-	(236,006)	(236,006)	-	(236,006)
Total comprehensive income	-	-	-	-	(236,006)	(236,006)	618,703	382,697
Transfer to surplus reserve	-	-	61,870	-	-	61,870	(61,870)	-
Transfer to general reserve	-	-	-	282,484	-	282,484	(282,484)	-
Cash dividends (Note 35)	-	-	-	-	-	-	(54,396)	(54,396)
Share dividends (Note 35)	188,349	-	-	-	-	-	(188,349)	-
Balance at 31 December 2017	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Balance at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Effects of applying IFRS9 (Note 2.1)	-	-	-	-	185,117	185,117	39,816	224,933
Balance restated at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(38,490)	923,806	825,043	4,560,648
Net profit for the year	-	-	-	-	-	-	658,307	658,307
Other comprehensive income	-	-	-	-	101,159	101,159	-	101,159
Total comprehensive income	-	-	-	-	101,159	101,159	658,307	759,466
Issue of shares	545,740	919,838	-	-	-	-	-	1,465,578
Transfer to surplus reserve	-	-	65,831	-	-	65,831	(65,831)	-
Transfer to general reserve	-	-	-	155,762	-	155,762	(155,762)	-
Cash dividends (Note 35)	-	-	-	-	-	-	(418,906)	(418,906)
Balance at 31 December 2018	2,182,933	2,094,444	336,340	847,549	62,669	1,246,558	842,851	6,366,786

Statement of Cash Flows

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

	Year ended 31 December	
	2018	2017
Cash flows from operating activities:		
Profit before income tax	853,990	814,486
Adjustments:		
Depreciation and amortisation	58,274	41,991
Expected credit losses/Impairment losses on customer loans	312,370	216,528
Expected credit losses/Impairment losses on other assets	84,440	108,318
Net (losses)/gains on disposal of property, plant and equipment and foreclosed assets	(8,888)	296
Net gains arising from financial investments	(134,775)	(97,784)
Changes in fair value of financial assets – fair value through profit or loss	(43,400)	–
Interest income from financial instruments	(2,069,015)	(2,234,629)
Interest expense on debt securities	580,600	405,912
Net change in operating assets:		
Net increase in balances with central bank	(273,378)	(1,732,164)
Net decrease/(increase) in financial assets held under resale agreements, due from banks and other financial institutions	7,542,717	(9,720,175)
Net increase in customer loans	(11,772,000)	(4,901,045)
Net decrease/(increase) in other operating assets	68,433	(392,973)
Net change in operating liabilities:		
Net increase in due to central bank	275,000	340,000
Net decrease in financial assets sold under repurchase agreements, due to banks and other financial institutions	(3,493,481)	(327,829)
Net increase in customer deposits	9,721,622	11,126,540
Net increase in other operating liabilities	145,554	248,798
Income tax paid	(209,419)	(262,591)
Net cash generated from/(used in) operating activities	1,638,644	(6,366,321)

Statement of Cash Flows (continued)

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

	Year ended 31 December	
	2018	2017
Cash flows from investing activities:		
Proceeds from disposal of property and equipment, and other long-term assets	5,732	36,891
Purchase of property and equipment, and other long-term assets	(195,554)	(130,696)
Interest income arising from financial investment securities	2,266,764	2,362,545
Purchase of investment securities	(24,682,230)	(36,309,289)
Proceeds from sale and redemption of investments	19,295,639	33,587,094
Net cash used in investing activities	(3,309,649)	(453,455)
Cash flows from financing activities:		
Proceeds from issuance of shares	1,540,006	–
Proceeds from issuance of debt securities	21,390,000	11,956,223
Repayment of debt securities upon maturity	(18,413,119)	(6,082,382)
Interest paid on debt securities	(580,600)	(405,912)
Dividends paid to shareholders	(415,918)	(45,567)
Others paid for financing activities	(74,429)	–
Net cash generated from financing activities	3,445,940	5,422,362
Impact of exchange rate fluctuation on cash and cash equivalents	(9,850)	–
Net increase/(decrease) in cash and cash equivalents	1,765,085	(1,397,414)
Cash and cash equivalents at the beginning of the year	3,159,660	4,557,074
Cash and cash equivalents at the end of the year (Note 40)	4,924,745	3,159,660

Notes to the Financial Statements

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

1 GENERAL INFORMATION

With the approval of the People's Bank of China, the Bank was established on 15 September 1997 as a joint-stock commercial bank under the name of "Luzhou City United Bank (泸州城市合作银行)" in accordance with the Company Law of China. The Bank was jointly initiated by the shareholders of Luzhou Finance Bureau, eight urban credit cooperatives, two rural credit cooperatives and other new corporate shareholders.

On 8 May 1998, the Sichuan Branch of the People's Bank of China approved the renaming of the Bank from "Luzhou City United Bank(泸州城市合作银行)" to "Luzhou City Commercial Bank Co., Ltd. (泸州市商业银行股份有限公司)".

The main lines of business of the Bank include corporate banking, retail banking and financial markets operations.

The financial statements are approved by the board of directors of the Bank on 26 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards board (the "IASB").

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The Bank's structured entities (Note 36) are the Bank's only consolidated subsidiaries and are already measured according to accounting policies applicable to financial instruments. So there is no difference between the Bank's consolidated financial statements and its standalone financial statements.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS

New and revised IFRSs effective by 1 January 2018 applied by the Bank

Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	IASB Annual Improvements (2014-2016 cycle)
IFRS 15	Revenue from contracts with customers
IFRIC 22	Foreign currency transactions and advance consideration
IFRS 9	Financial instruments

The adoption of the revised International Financial Reporting Standards, with the exception of International Financial Report Standard 9 'Financial instruments' ('IFRS 9'), have no significant impact on the Bank in 2018.

International Financial Reporting Standard 2 (Revised)

On 20 June 2016, the International Accounting Standards Board issued a revised version of International Financial Reporting Standards No. 2 – Share-based Payments, which provides guidance for three categories and measures.

This revision provides additional guidance for cash-settled share-based payments and accounting treatment that includes incentives with net settlement characteristics due to withholding of personal income tax.

The revised edition clarifies the measurement basis of cash settlement incentives and the

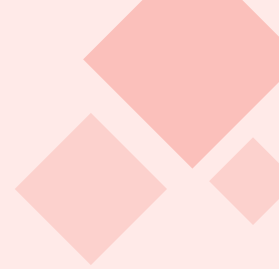
accounting treatment of the change from cash settlement to equity settlement. At the same time, an exception was added to the revised edition, requiring that rewards with net settlement

International Accounting Standards 40 (Revised)

On 8 December 2016, IASB issued an amendment to IAS 40 for investment real estate. The amendment makes it clear that access or transfer can be made only when there is evidence that the use of investment real estate has changed. At the same time, the revision clarifies that a series of examples listed in the guidelines are not exhaustive. These examples include not only completed real estate conversion, but also increased real estate conversion under construction and development. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

International Accounting Standards 28 (Revised)

The annual improvement of IFRS (2014-2016 cycle) includes the revision of IAS 28 Accounting for joint venture investments. The revision clarifies the choice of measuring joint venture investments or joint venture investments by means of fair value measurement and changes in current profits and losses. Each joint venture investment or joint venture investment should be considered separately at the time of initial confirmation. The adoption of the amendment has not had a significant impact on the Bank's financial statements.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

International Financial Reporting Standards 15

IFRS 15 establishes a comprehensive framework for determining when and how much revenue should be recognized through a five-step approach. The core principle is that the principal part should recognize revenue to reflect the amount of goods or services promised to the customer and reflect the consideration due to the principal part's expectation of exchanging such goods or services. It abandons the income recognition model based on the "income process" and turns to the "asset-liability" model based on the control transfer. IFRS 15 provides specific guidance on capitalization and licensing arrangements for contract costs. It also includes a set of disclosure requirements concerning the nature, amount, time and uncertainty of revenue and cash flow of customer contracts. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

International Financial Reporting Interpretation 22

The International Accounting Standards Board issued IFRIC No. 22 on the prepayment/receipt consideration of foreign currency transactions to clarify that in order to determine the exchange rate for initial confirmation of related projects, the transaction date should be the date when the non-monetary assets or liabilities arising from the initial confirmation of prepayment/receipt consideration by the main body. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

Significant Accounting Policy Change

International Financial Reporting Standards 9 "Financial Instruments"

The Bank has adopted International Financial Reporting Standard 9 "Financial Instruments"

IFRS 9 was issued by the IASB in July 2014 with a date of transition of 1 January 2018 to replace International Accounting Standard 39 ("IAS 39"), which resulted in adjustments to the amounts previously recognised on 1 January 2018. The Bank did not early adopt IFRS 9.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year. The comparative year notes disclosures are consistent with those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets for the Bank. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. For details of the specific accounting policies applicable to the new financial instrument accounting standards in the current year, are discussed as follows:

(1) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

The Bank	As at				As at
	31 December 2017	Reclassifications	Remeasurements	ECL allowance	1 January 2018
Financial assets					
Cash and balances with central banks	8,145,703	-	-	-	8,145,703
financial assets held under resale agreements, Due from banks and other financial institutions	13,344,757	-	-	(3,175)	13,341,582
Customer loans	18,833,833	-	-	61,181	18,895,014
Financial investments – credit related financial assets	8,279,379	-	-	(2,479)	8,276,900
Financial investments – fair value through profit or loss	N/A	2,311,836	-	-	2,311,836
Financial investments – fair value through other comprehensive income	N/A	1,790,596	-	(1,110)	1,789,486
Financial investments – available-for-sale	11,376,611	(11,376,611)	-	-	N/A
Financial investments – amortized cost	N/A	16,614,353	257,781	(4,436)	16,867,698
Financial investments – investments classified as receivables	9,340,174	(9,340,174)	-	-	N/A
Other financial assets	514,681	-	-	-	514,681
Subtotal	69,835,138	-	257,781	49,981	70,142,900

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(1) Classification and measurement of financial instruments (continued)

The Bank	As at				As at
	31 December 2017	Reclassifications	Remeasurements	ECL allowance	1 January 2018
Non-financial assets					
Deferred income tax assets	244,306	-	(64,535)	(10,562)	169,209
Other non-financial assets	799,992	-	-	-	799,992
Subtotal	1,044,298	-	(64,535)	(10,562)	969,201
Total assets	70,879,436	-	193,246	39,419	71,112,101
Provision	-	-	-	7,732	7,732
Others	66,543,721	-	-	-	66,543,721
Total liabilities	66,543,721	-	-	7,732	66,551,453
Other reserves	738,689	-	185,117	-	923,806
Retained earnings	785,227	-	8,129	31,687	825,043
Other equity	2,811,799	-	-	-	2,811,799
Total equity	4,335,715	-	193,246	31,687	4,560,648
Total equity and liabilities	70,879,436	-	193,246	39,419	71,112,101

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 on 31 December 2017 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Ref	IAS 39 carrying amount As at 31 December 2017	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount As at 1 January 2018 (restated)
At amortized cost						
Cash and balances with central banks						
Opening balance under IAS 39 and closing balance under IFRS 9		8,145,703	-	-	-	8,145,703
Financial assets held under resale agreements, due from banks and other financial institutions						
Opening balance under IAS 39		13,344,757	-	-	-	13,344,757
Remeasurement: ECL allowance		-	-	-	(3,175)	(3,175)
Closing balance under IFRS 9		13,344,757	-	-	(3,175)	13,341,582

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount
		As at 31 December 2017				As at 1 January 2018 (restated)
Customer loans						
Opening balance under IAS 39		18,833,833	-	-	-	18,833,833
Subtraction: To FVOCI (IFRS 9)	(A)	-	(2,443,400)	-	-	(2,443,400)
Remeasurement: ECL allowance for customer loans		-	-	-	62,689	62,689
Closing balance under IFRS 9		18,833,833	(2,443,400)	-	62,689	16,453,122
Financial investments – credit related financial assets						
Opening balance under IAS 39		8,279,379	-	-	-	8,279,379
Remeasurement: ECL allowance		-	-	-	(2,479)	(2,479)
Closing balance under IFRS 9		8,279,379	-	-	(2,479)	8,276,900

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount As at 31 December 2017	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount As at 1 January 2018 (restated)
Financial investments - amortized cost						
Opening balance under IAS 39		-	-	-	-	-
Addition: From available-for-sale	(C)	-	7,274,179	257,781	-	7,531,960
Addition: From investments classified as receivables	(D)	-	9,340,174	-	-	9,340,174
Remeasurement: ECL allowance		-	-	-	(4,436)	(4,436)
Closing balance under IFRS 9		-	16,614,353	257,781	(4,436)	16,867,698
Financial investments – investments classified as receivables						
Opening balance under IAS 39		9,340,174	-	-	-	9,340,174
Subtraction:						
To financial investment – amortized cost	(D)	-	(9,340,174)	-	-	(9,340,174)
Closing balance under IFRS 9		9,340,174	(9,340,174)	-	-	-
Total financial investments – at amortized cost		57,943,846	4,830,779	257,781	52,599	63,085,005

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount
		As at 31 December 2017				As at 1 January 2018 (restated)
At fair value through profit or loss						
Financial investments – fair value through profit or loss						
Opening balance under IAS 39		-	-	-	-	-
Addition: From available-for-sale	(B)	-	2,311,836	-	-	2,311,836
Closing balance under IFRS 9		-	2,311,836	-	-	2,311,836
Total financial assets measured at fair value through profit and loss		-	2,311,836	-	-	2,311,836

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount
		As at 31 December 2017				As at 1 January 2018 (restated)

Fair value through other comprehensive income (FVOCI)

Financial investments – available-for-sale

Opening balance under IAS 39		11,376,611	-	-	-	11,376,611
Subtraction: To financial assets at fair value through profit and loss	(B)	-	(2,311,836)	-	-	(2,311,836)
Subtraction: To financial investment – FVOCI	(D)	-	(1,790,596)	-	-	(1,790,596)
Subtraction: To Financial investments – amortized cost	(C)	-	(7,274,179)	-	-	(7,274,179)
Closing balance under IFRS 9		11,376,611	(11,376,611)	-	-	-

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount As at 31 December 2017	Reclassifications	Remeasurements	ECL allowance	IFRS 9 carrying amount As at 1 January 2018 (restated)
Financial investments - FVOCI						
Opening balance under IAS 39		-	-	-	-	-
Addition: From financial investments - available-for-sale	(D)	-	1,790,596	-	-	1,790,596
Remeasurement: ECL allowance		-	-	-	(1,110)	(1,110)
Closing balance under IFRS 9		-	1,790,596	-	(1,110)	1,789,486
Customer loans						
Opening balance under IAS 39		-	-	-	-	-
Addition: From customer loans (IAS 39)	(A)	-	2,443,400	-	(1,508)	2,441,892
Closing balance under IFRS 9		-	2,443,400	-	(1,508)	2,441,892
Total financial assets measured at FVOCI		11,376,611	(7,142,615)	-	(2,618)	4,231,378

The total remeasured Expected Credit Loss ("ECL") of reversal of RMB42,249 thousand was recognised in opening reserves at 1 January 2018. The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

- (A) Discounted bills
Provided the business model of discounted bills is being held to collect the contractual cash flows and sell, their measurement method are reclassified from amortized cost to fair value through other comprehensive income.
- (B) Financial investments
The cashflow characteristics of part of the financial investments held by the Bank do not meet the Sole Payment of Principal and Interest (“SPPI”) test. Consequently, these financial assets are reclassified to financial investments – fair value through profit or loss.
- (C) Debt instruments
Part of the debt investments held by the Bank have been reassessed. The Bank intends to hold these investments to maturity. The cashflow characteristics of the financial contracts meet SPPI test. Consequently, these financial assets are reclassified from financial investments – available-for-sale to financial investments – amortized cost.
- (D) Reclassification from retired categories with no change in measurement
In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were ‘retired’, with no changes to their measurement basis:
- (i) Those previously classified as held to maturity and now classified as measured at amortized cost.
 - (ii) Those previously classified as available for sale and now classified as measured at FVOCI.

For the financial assets that have been reclassified to amortize cost categories, the following table shows their fair value in 31 December 2018 and the original fair value gains and losses will be identified under the assumption that IFRS 9 was not applied.

Transition from financial investments-available-for-sale(IAS39) to financial investments-amortized cost (C)

Fair value at 31 December 2018	8,081,864
Fair value gain that would be identified if financial investments were not reclassified for the year	111,112

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new and revised IFRS (continued)

(3) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model ("ECL") at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	ECL allowance	Loan loss Allowance under IFRS 9
FVOCI				
Customer loans	-	37,753	1,508	39,261
Financial investments -FVOCI	-	-	1,110	1,110
Subtotal	-	37,753	2,618	40,371
Amortized cost				
Financial assets held under resale agreements, due from banks and other financial institutions	-	-	3,175	3,175
Customer loans	567,523	(37,753)	(62,689)	467,081
Financial investments – credit related financial assets	124,671	-	2,479	127,150
Financial investments – amortized cost	-	124,096	4,436	128,532
Financial investments – investments classified as receivables	124,096	(124,096)	-	-
Other assets	1,655	-	-	1,655
Subtotal	817,945	(37,753)	(52,599)	727,593
Total	817,945	-	(49,981)	767,964
Off balance sheet guarantees and commitments	-	-	7,732	7,732

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised IFRS issued but not yet in force

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2022
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

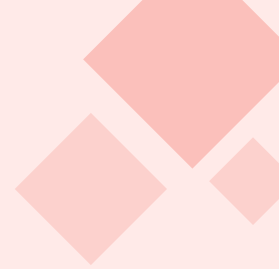
A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

IFRIC 23

The IASB issued IFRIC 23 to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Bank anticipates that the adoption of this interpretation will not have a significant impact on the Bank's financial statements.

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised IFRS issued but not yet in force (continued)

IFRS 16 (continued)

As at 31 December 2018, the Bank has non-cancellable operating lease commitments of RMB39,541 thousand, see Note 37. Some of the commitments may not be recognized as assets and liabilities because of the shorter term and lower value. The Bank anticipates that the adoption of this standard will not have a significant impact on the Bank's financial statements.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank expects that, as a lessor, there will be no significant impact on the financial statements.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Bank anticipates that the adoption of the amendments will not have a significant impact on the Bank's financial statements.

Except the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Bank's operating results, financial position or other comprehensive income.

IFRS 17

IFRS 17 was issued in May 2017 and will replace the current IFRS 4 Insurance Contracts. It applies to the measurement of insurance contracts issued, all reinsurance contracts and investment contracts with discretionary participating features. It requires a current measurement model where estimates are re-measured each reporting period. The Bank anticipates that the adoption of IFRS 17 will not have a significant impact on the Bank's financial statements.

2.2 Associates

Associates are all entities over which the Bank has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of the accounting and are initially recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The unrealized profits from the transactions between the Bank and associates are offset by investments percentages in associates. Unless the evidence of assets impairment from such transactions can be provided, the unrealized loss are also offset.

The Bank assesses at each financial reporting date whether there is objective evidence that investments in associates are impaired. Impairment losses are recognised for the amounts by which the investments in associates' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates' fair value less costs to sell and value in use.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018

2.3.1 Financial assets and liabilities-IFRS9

Since 1 January 2018, the Bank has adopted the IFRS 9 to measure financial instruments.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date. The trade-date refers to the date when the Bank undertakes to buy or sell financial assets.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ('FVOCI'), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (1) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (2) In all other cases, the difference is deferred and the timing of recognition of deferred profit or loss in day one is determined individually. It is either amortised over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

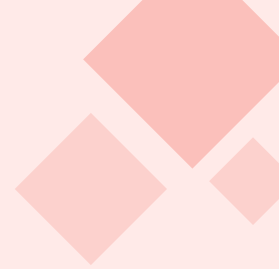
Measurement methods

Amortization cost and effective interest rate

The amortization cost refers to the result of the following adjustment: first, the amount of the initial confirmation amount of a financial asset or financial liability is deducted from the principal repayment; the accumulated amortization of the balance between the initial confirmation amount and the maturity date plus or minus the actual interest rate method; and the loss preparation (except for financial assets) is deducted.

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

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate cashflow discounted using the original effective interest rate. Any changes are recognised in profit or loss.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

Interest income

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

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance).

a) *Financial assets*

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

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

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset;
- (ii) the cash flow characteristics of the asset.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

a) *Financial assets* (continued)

(i) Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model, and classified into fair value measures and their changes are recorded in profits and losses. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated, how risks are assessed and managed and how managers are compensated. Tradable securities are mainly held for sale in the near future or managed as part of a portfolio of financial instruments with short-term profitability. The business model of these securities is "other", which is measured at fair value and its changes are recorded in profits and losses.

(ii) Solely Payments of Principal and Interest (the 'SPPI test')

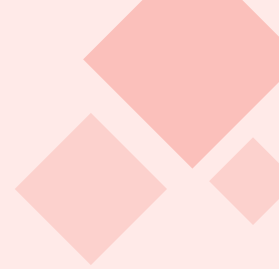
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest ("SPPI"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

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

(i) Amortised cost

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



Notes to the Financial Statements

For the year ended December 31, 2018
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

a) *Financial assets* (continued)

(ii) Solely Payments of Principal and Interest (the 'SPPI test') (continued)

(ii) Fair value through other comprehensive income:

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains or losses on financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

(iii) Fair value through profit or loss:

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement, and reported it as "net transaction income" in the comprehensive income statement.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and do not occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, the gains and losses from the change in fair value are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECL (and reversal of ECL) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss when the Bank's right to receive payments is established.

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

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

a) *Financial assets* (continued)

Impairment of financial assets

The Bank assesses the expected credit losses in terms of the amortized cost measurement, the debt instrument assets measured at fair value and their changes included in other comprehensive gains, as well as loan commitments and financial guarantee contracts, in combination with forward-looking information. The Bank confirms the relevant loss provisions on each reporting day. The measurement of expected credit losses reflects the following elements:

- The unbiased probability weighted amount determined by evaluating a range of possible outcomes;
- The time value of money
- Reasonable and valid information on past events, current conditions and future economic forecasts that can be obtained without unnecessary additional costs or efforts on the reporting day (Note 3.1.4).

Modification of loans contract

The Bank sometimes renegotiates or otherwise modifies the contraction of loans to customers resulting in the changes of cash flow. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

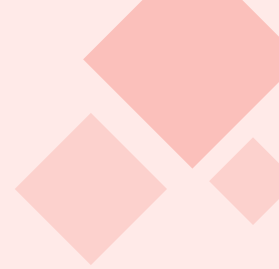
If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;

If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;

- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

a) *Financial assets* (continued)

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification of gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification of contract

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- 1) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- 2) Is prohibited from selling or pledging the assets; and
- 3) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. For some securitized transactions in which our bank retains subordinate rights, for the same reason, they do not meet the requirement of termination of confirmation.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

a) *Financial assets* (continued)

When the contractual rights to receive the cash flows from the assets have been transferred, and the Bank neither transfers nor retains substantially all the risks and rewards of ownership, and the Bank has retained control of the transferred assets, the Bank applies continuing involvement approach. Under this approach, the Bank continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Bank. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Bank, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Bank, if the transferred asset is measured at fair value.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

b) *Financial liabilities*

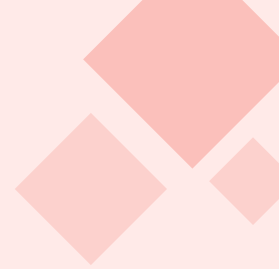
(a) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.

When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; when continuing involvement approach applies and please refer to Note 2.4.4.

- Financial guarantee contracts and loan commitments.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

b) Financial liabilities (continued)

(b) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants for the borrower are also taken into consideration. If an exchange of contract or modification of terms is accounted for as an extinguishment and derecognition of relevant financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts

According to the contract, the issuer of a financial guarantee contract must compensate the holder of the relevant loss when a specific debtor is unable to pay the debt. Financial guarantee contracts include loans to banks, financial institutions and other units, overdraft of accounts or guarantees provided by other banking businesses.

The financial guarantee contract is initially measured at fair value, followed by the following two items:

- the amount of expected credit loss calculated according to Note 3.1.4
- the premiums received at the initial confirmation excluding the income recognized according to IFRS 15

The loan commitments provided by the Bank are measured in accordance with the amount of expected credit loss calculated as stated in Note 3.1.4. The Bank has not promised to make loans at any price below market interest rate, nor to pay cash or issue other financial instruments as a net settlement of loan commitments.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 The following financial instrument-related accounting policies apply to 2018 (continued)

2.3.1 Financial assets and liabilities-IFRS9 (continued)

b) Financial liabilities (continued)

The Bank recorded the loss of loan commitments and financial guarantee contracts in provisions. However, if a tool contains both loans and unused commitments, and the Bank cannot separate the expected credit loss from the part of the loan and the uncommitted part of the commitment, the loss preparation is tied up in the loss preparation of the loan, unless the loss is more than the total amount of the loan, the loss preparation is reported in the projected liabilities.

2.4 The following financial instrument-related accounting policies apply to 2017

2.4.1 Financial assets and liabilities – IAS 39

In 2017, the Bank applied the International Accounting Standards 39 – Financial Instruments: Recognition and Measurement (IAS 39) to measure financial assets and liabilities.

According to the transition requirements of IFRS 9, the Bank chose not to restate the information during the comparison period. The book value adjustment of financial assets and financial liabilities on the first day of execution shall be recorded in the undistributed profits and other reserves at the beginning of the current period. Based on the above treatment, in accordance with the requirements of the revised IFRS 7 in accordance with IFRS 9, the Bank only makes relevant disclosures on current information.

a) Classification

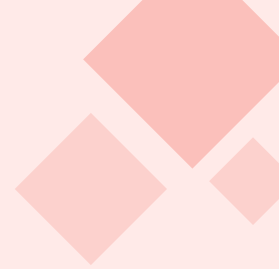
The Bank's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, assets and investments classified as receivables, held-to-maturity investments and available-for-sale financial.

- 1) Financial assets measured at fair value and their changes recorded in current profits and losses

Financial assets measured at fair value and whose changes are included in profits and losses refer to transactional financial assets. Financial assets are classified into this category if they are purchased mainly for short-term sale.

- 2) Investments classified as receivables

Investments classified as receivables (include credit related financial assets) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.



Notes to the Financial Statements

For the year ended December 31, 2018
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.1 Financial assets and liabilities – IAS 39 (continued)

a) Classification (continued)

3) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity is measured at amortized cost using real interest rate method minus any identified impairment loss.

The Bank shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than sales or reclassifications due to a significant deterioration in the issuer's credit worthiness.

4) Available-for-sale financial assets

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

b) Recognition and valuation of financial assets

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

For financial assets that are not measured at fair value and whose changes in fair value are included in current profits and losses, the initial entry is made at fair value plus directly related transaction costs on the trading day. Financial assets measured at fair value and whose changes in fair value are recorded in current profits and losses are initially recorded at fair value on the trading day, and transaction costs related to them are recorded in the current comprehensive income statement. When the contractual authority for cash flow of a financial asset expires or major risks and returns related to ownership have been transferred, the financial asset will be terminated.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Investments classified as receivables and held to maturity investments are carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss. Gains or losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gains or losses previously recognised in equity is recognised in profit or loss. Interest earned whilst holding monetary financial assets, including available-for-sale financial assets, is reported as interest income using the effective interest rate method.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.1 Financial assets and liabilities – IAS 39 (continued)

b) *Recognition and valuation of financial assets* (continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

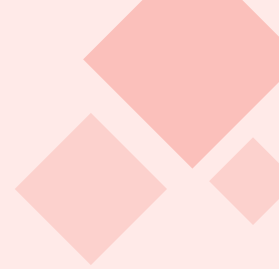
c) *Termination of financial assets*

Only when the contractual rights of the cash flow generated by the financial assets expire, or the risks and interests of the financial assets and almost all the ownership of the assets are transferred to another body, will the Bank terminate the confirmation of the financial assets. If the Bank has neither transferred nor retained almost all the risks and rewards of ownership of the financial assets, it has not waived of its control over the financial assets, and shall confirm the relevant financial assets in accordance with the extent of continuing involvement in the transferred financial assets and confirm corresponding liabilities accordingly. If the Bank reserves almost all the risks and rewards of the ownership of the transferred financial assets, it should continue to recognize the financial assets and confirm the collected proceeds as a mortgage loan.

When the financial assets are terminated as a whole, the book value of the transferred financial assets and the difference between the receivable or receivable consideration and the sum of the fair value change accumulated in other comprehensive income shall be included in the current profits and losses.

For financial assets derived by fair value measurement and whose changes are included in the profits and losses of the current period, the Bank shall evaluate the objective evidence of any impairment of a particular group of financial assets on the date of each financial statement. A certain group or a group of financial assets is impaired, and when the objective evidence shows that the impairment of assets is caused by one or more events ("loss event") caused by the initial confirmation, and the loss event will have a reliable impact on the estimated future cash flow of the financial asset or the group financial assets, the Bank determines that the financial assets of the group or group have already been impaired. And confirm the impairment loss.

The fair value of investments with active market transactions is based on the current purchase quotation. If there is no active market for a financial asset, the Bank uses some valuation methods to determine its fair value. These valuation methods include the use of recent fair trade, discounted cash flow analysis, option pricing models and valuation techniques commonly used by other market participants.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.2 The impairment of financial assets – IAS 39

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including: adverse changes in the payment status of borrowers in the Bank; and national or local economic conditions that correlate with defaults on the assets in the Bank;
- Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- A significant or prolonged decline in the fair value of equity instrument investments; and
- Other objective evidence indicating impairment of the financial asset.

The Bank firstly makes separate assessment of the existence of an impairment of the financial assets with significant amount, and then make separate or portfolio assessment of the existence of impairment of all other financial assets with insignificant amount. If there is no evidence indicating that financial assets assessed separately are devalued, the Bank will include them in a financial asset group with similar credit risk and make combined impairment assessment no matter how significant the amount is. Assets that are assessed separately and are recognized impairment losses are no longer included in the scope of the combined impairment assessment.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.2 The impairment of financial assets – IAS 39 (continued)

Assets carried at amortized cost

For investments classified as receivables category, the amount of a loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

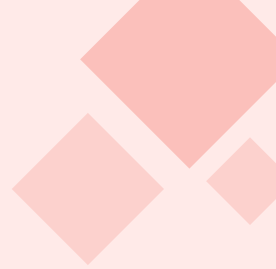
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank) to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related provision. Such financial asset is written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss in the impairment charge for credit losses.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.3 Determination of fair value of financial assets – IAS 39 & IFRS 9

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank determines fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.4.4 Financial liabilities -IAS 39

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

All financial liabilities are recognised in the statement of financial position, when and only when, the Bank becomes a party to the contractual provisions of the instrument.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities, which are measured at fair value and whose changes are included in current profits and losses, include transactional financial liabilities and financial liabilities designated at the time of initial recognition as financial liabilities measured at fair value and whose changes are included in current profits and losses. Transactional financial liabilities refer to financial liabilities that satisfy one of the following conditions: (1) the purpose of assuming the financial liabilities is to repurchase them in the near future; (2) they are part of a centrally managed identifiable portfolio of financial instruments, and there is objective evidence that the Bank has recently managed the portfolio in a short-term profitable manner; (3) they are derivatives, but they have been designated and are effective. The derivatives of hedging instruments, derivatives belonging to financial guarantee contracts, and derivatives that are linked to investments in equity instruments that are not quoted in active markets and whose fair value cannot be reliably measured, and which must be settled by delivering the equity instruments, are excluded. For such financial liabilities, follow-up measurements are made according to fair value, and all realized and unrealized gains and losses are included in current profits and losses. If the purpose of assuming financial liabilities is mainly to repurchase in the near future, it is classified as transactional financial liabilities. Such financial liabilities are measured at fair value, and the gains or losses caused by changes in fair value are recognized as current gains and losses.

As of 31 December 2017, the Bank did not hold financial liabilities measured at fair value and their changes were included in current profits and losses.

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost, with gain or losses arising from derecognition or amortisation recognized in profit or loss.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 The following financial instrument-related accounting policies apply to 2017 (continued)

2.4.5 Interest income and interest expense – IAS 39

Interest income and interest expenses of interest bearing instruments are recognised in profit and loss by accrual basis according to the effective interest rate method. The real interest rate method refers to the method of calculating the amortization cost and interest income or interest expenses according to the real interest rates of financial assets or financial liabilities. The real interest rate refers to the interest rate that is used to discount the future cash flow of a financial asset or financial liability within the shorter period of the expected duration or to the current value of the financial liabilities. When determining the actual interest rate, the Bank forecasts the future cash flow on the basis of considering all the contractual terms of the financial assets or financial liabilities, for example, the prepayment right, but does not consider future credit losses. The charges, transaction costs, premiums or discounts that are paid or charged by the Bank, which are part of the real interest rate, should be considered when determining the actual interest rate. When a financial asset or a group of similar financial assets is recognized as impairment loss, the interest rate used to confirm interest income is the interest rate used to discount the future cash flow when the impairment loss is measured.

2.5 Fee and commission income

For the performance obligation implemented at a certain point of time, the Bank recognises revenue when the customer obtains and consumes the economic benefits of the performance of the Bank. For the performance obligation implemented during a certain period, the Bank recognizes the income according to the progress of the performance during the period.

2.6 Dividend income

Dividends are recognised when the right to receive payment is established.

2.7 Resale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('Repos') with banks and other financial institutions are retained in the financial statements as financial assets held for trading or investment securities, as the Bank still retains substantially all risk and rewards of the ownership of the underlying securities. The related liability is recorded as 'financial assets sold under repurchase agreements', due to other banks and financial institutions.

Securities and bills purchased under agreements to re-sell ('Reverse repos') are not recognised. The receivables are recorded as 'Financial assets held under resale agreements, due from other banks and financial institutions'.

The difference between purchase and sale price is recognised as 'Interest income' or 'Interest expense' in the income statement over the life of the agreements using the effective interest method.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment

The Bank's fixed assets mainly comprise buildings, motor vehicles, electronic equipment, office equipment and construction in progress.

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Property, plant and equipment are reviewed for impairment at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and present value of expected future cash flows.

Buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, motor vehicles, electronic equipment and office equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20 years	5.0%	4.75%
Motor vehicles	5 years	5.0%	19.00%
Electronic equipment	3 years	5.0%	31.67%
Office equipment	5 years	5.0%	19.00%

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use and begin to account for depreciation.

When a fixed asset is disposed or cannot generate economic benefits, it should be derecognized. Gains or losses caused by derecognition (disposal income minus its book value) are accounted for in profit or loss of the current period.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Foreclosed assets

When the Bank's obligor use foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised and measured at fair value. When there is evidence indicating that the recoverable amount of the foreclosed assets is lower than the book value, the Bank will reduce the book value to the recoverable amount.

2.10 Investment properties

Real estate held by the Bank for rental income and not used by the Bank is listed as investment properties. Investment properties includes land, housing and buildings.

Investment properties are initially measured at cost, including costs that are directly attributable to the properties at the time of acquisition. The Bank adopts the cost model for subsequent measurement of investment properties. The type of assets, estimated useful lives, estimated net residual value, depreciation rate (amortisation rate) and estimated residual value rate of investment properties are as follows:

Type of assets	Estimated useful lives (years)	Estimated residual value rate	Depreciation rate
Buildings	20 Years	5.0%	4.75%

Investment properties are reviewed for impairment at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher between the fair value minus the disposal cost and the present value of the expected future cash flow of the asset.

When an investment property is sold, transferred, retired or damaged, the Bank recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.11 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Bank reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately. The recoverable amount is the higher between the fair value minus the disposal cost and the present value of the expected future cash flow of the asset. Asset impairment loss is calculated and recognized on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of the asset group is determined according to the asset group to which the asset belongs. Asset group is the smallest asset portfolio that can generate cash inflow independently.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Operating leases

Leases in which a significant portion of the risk and rewards are retained by the lessor are classified as operating lease.

When the Bank is the lessee under an operating lease, rental expenses are charged to 'Operating expenses' in the income statement on a straight-line basis over the period of the lease.

When the Bank is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Bank's assets. Rental income is recognised as 'Other operating income' in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

2.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash, unrestricted balances with central bank and amounts due from banks and other financial institutions.

2.14 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the risks specific to the obligation, the uncertainties and the time value of money.

2.15 Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. As at the financial statements date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the related deferred income tax asset is realised or the deferred income tax liability is settled pursuant to tax laws.

The temporary differences primarily arise from expected credit loss allowance for customer loans, expected credit loss allowance for financial investments, and unrealized gain/loss of financial investments – fair value through profit or loss and financial investments – fair value through other comprehensive income.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income taxes (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred income tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Share capital

Share capital comprises ordinary shares issued.

2.17 Dividend

Dividends on ordinary shares are recognized in the period in which they are declared and approved by the Bank's shareholders.

2.18 Government subsidies

Government subsidies are recognized when they are able to meet the conditions attached to government grants and can be received. In connection with assets related government subsidies, the Bank recognised its initial value as deferred income at fair value and allocated it equally to the relevant assets during its useful life. The government subsidy used to compensate the relevant expenses of the Bank shall be included in the current profits and losses during the period of confirming the relevant expenses.

2.19 Employee benefits

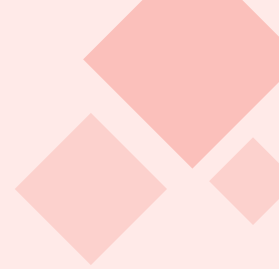
Employee benefits refer to the rewards that the Bank offers to its employees for the services they provided or the compensation that is given to dissolve their labour relations. During the accounting period of employees providing services, the Bank will recognize the salary as liabilities and increase the cost of capital or period cost.

a) Basic Pension Insurance

According to the relevant laws and regulations of China, the employees of the Bank have joined the basic social endowment insurance organized by the local labour and social security departments. The Bank has paid the endowment premium to the local social endowment insurance agencies according to the base and proportion in the local requirements for social basic endowment insurance. The social basic endowment insurance mentioned above is accrued to the profit and loss of the current period according to the principle of accrual basis. The labour and social security bureaus will pay the basic social pension benefits to those retired employees.

b) Enterprise Annuity

Since 2016, apart from the basic social pension insurance, the employees of our Bank have also voluntarily participated in the enterprise annuity plan established by the Bank in accordance with the relevant national policies in relation to the enterprise annuity system. The Bank contributes a certain portion of the employees' gross salaries of the previous year to the annuity plan. Expenses with respect to the contribution born by the Bank are recognized in current profit or loss. The contributions the Bank contributes to the enterprise annuity plan are recognized as expenses when incurred, and will not be deducted by forfeit contributions of employees who left the plan before the contributions are fully attributed.



Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.21 Trusteeship

Financial information does not include the assets generated when the Bank acts as trustee (e.g. agent, trustee, manager or agent), together with the commitment to return such assets to customers.

The Bank grants entrusted loans on behalf of third-party lenders. The Bank (acting as an agent) grants loans to borrowers at the direction of third-party lenders who provide funds for such loans. The Bank has contracted with such third-party lenders to manage such loans and receipts on their behalf. Third-party lenders determine the lending requirements of entrusted loans and all their terms, including their purpose, amount, interest rate and repayment period. The Bank collects commissions on entrusted loan business (prorated confirmation during service delivery). The risk of loan loss shall be borne by the third party lenders.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Bank with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial statements for the component is available to the Bank. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are included in determining segment performance.

The classification of reporting segments are based on the operating segments, and the assets and expenses shared by all the segments are allocated according to their scales.

The Bank has the following segments: Corporate Banking, Retail Banking, Financial Markets and Others.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT

Overview

The Bank's business activities expose to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is the highest authority for the Bank's overall risk management. It examines and approves strategy and measures of risk management and monitors risk management and internal control system. It assesses overall risk based on monitoring information and the risk report of senior management. The Risk Management Committee is responsible for approving risk management policies for the Bank. The senior management of the Bank is responsible for overall risk management and internal control, formulating and implementing risk management policies and procedures. In addition, the internal audit department is responsible for independent review of risk management and control environment.

The Bank is subject to a number of financial risks, primarily including credit risk, interest risk, operation risk and liquidity risk.

3.1 Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Changes in the economy or those in credit quality of a particular industry segment or concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from customer loans, debt securities and due from banks and other financial institutions. There are also credit risk exposures in off-balance sheet financial arrangements such as loan commitments, guarantees, acceptances and letters of credit.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement

(a) Credit business

The Bank measures and manages the quality of its credit assets in accordance with the CBIRC's Guidelines of Risk Classification of Loans and Guidelines of Risk Classification of Micro Enterprises loans (Trial Implementation). The classification of loans is based on the borrowers' repayment ability, payment history, willing of repayment, guarantee of loans, legal responsibility and loan administration. The Guidelines of Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, substandard, doubtful and loss, of which the last three categories are non-performing loans. The Bank monitors the overdue status of its loans to retail customers in managing credit risk.

The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Pass: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.

Substandard: The borrower's repayment ability has been impaired and their normal income cannot repay the loan principal plus interest in full. Even with execution of guarantee, there may be certain level of loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantee, there will be a significant loss.

Loss: After taking consideration of all possible recovery actions or all necessary legal proceedings, the future outcome of recovery is likely to be little or no recovery.

Risk management department coordinates the classification of loans. The classification of loans is performed quarterly and adjusted timely. Risk management department summarises the reclassification information justified by related department quarterly and reports to risk management committee for approval. The classification of loans is monitored through credit management system.

(b) Financial market business

The Bank manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties. For debt securities and other financial market business, the Bank manages the credit risk exposures by setting limits to the external credit ratings of its investments.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

(a) Credit business

The Bank takes the same credit risk management control procedure for on and off-balance sheet risk exposures. The risk control procedure of the Bank's credit risk includes the following: credit policy stipulating, pre-credit investigation, risk assessment, collateral assessment, examination and approval of credit loans, draw-down, post-loan management, management on non-performing loans, due-diligence on non-performing loans.

The Bank has established a mechanism of risk warning for credit business, mainly including single customer credit authorisation risk and systematic risk. Unified credit authorisation management is implemented for key customers. Once the maximum exposure of a single customer is determined, the customer's exposure limit should not exceed its credit limit in the Bank at any time before it achieved new credit limit.

The Bank takes action to strengthen controls over credit risk in relation to group customer and related party customer. The Bank places limits in relation to key group customers to control credit risk. The committee of related party transactions is set up under the Board to manage controls on related party transaction.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice.

Except for few customers with excellent quality, the Bank requires the borrowers provide collateral for loans. The type of collateral mainly includes collateral, pledge and guarantee. The Bank employs property appraisal companies with certificates to evaluate the collateral. The detailed collateral type and amount is determined by credit risk of counterparty or customers.

The Bank employs a range of asset evaluation companies to value the collaterals. The Bank generally accepts assets whose value are clear as collaterals, such as deposit receipt and real estate.

(b) Financial market business

Financial Interbank Department centralises control over financial market business with hierarchical authorisation from department heads to the president for different business types such as sale, distribution, trade and repurchase of debt securities.

The Bank invests in debt securities with hierarchical authorisation under the guidelines of asset and liability committee. The Bank sets stop-loss point based on analysis of trend of macroeconomic situation and monetary policy. The Bank places limits for interbank borrowing and lending. The Bank manages the credit risk exposures of interbank borrowing and lending strictly within the limit of regulation and credit authorisation.

The debt security traders regularly review and monitor the changes of market interest and report the market value of debt securities to Financial Interbank Department and Assets Liability Department. If there is any violation of interest rate in the market or any significant credit risk encountered to debtors, the business department responsible for security investment will ask for holding extraordinary asset and liability management meeting to conclude an emergency plan. The debt trader will react according to the plan.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Collateral and guarantee

The Bank has a range of policies and practices intended to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collateral. The maximum loan-to-value ratio is determined by the credit business department. The follow-up management of the collateral is carried out by the related business management department. The principal types of collateral for corporate loans and personal loans are as follows:

Type of Collateral	Maximum loan-to-value ratio Collaterals
Residential and Commercial properties	60%
Land use rights for commercial, residential and comprehensive use	50%
Land use rights for industrial use	40%
Plants, workshops and factories or office and warehouse in non-urban area	40%
Forestry, trees and woodland usage rights	40%
Construction in progress	50%
Pledges	
Security deposits and certificates of deposit (including electronic certificates of deposits) issued by the Bank	100%
Certificates of deposit issued by other banks	90%
Treasury bonds, bank checks and bank acceptance bills	90%
Commercial acceptance bills	80%
Debt securities issued by corporations with rating of AA or above	50%
Shares and equities	50%
Warehouse receipts and bills of lading	50%
Receivables	50%
Property right from intellectual properties rights including patents and copyrights	30%

Mortgage loans to retail customers are generally collateralised by residential properties. Other loans are collateralised according to the nature of the loan.

For loans guaranteed by a third party guarantor, the Bank will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than customer loans is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Details of collateral accepted and which the Bank is obligated to return are disclosed in Note 38.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Bank classified the financial instruments into three stages. Stage 1 includes performing financial instruments that are “not credit-impaired on initial recognition”. 12-month expected credit losses (“ECL”) are recognized and calculated for those financial instruments in stage 1. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition and stage 3 includes credit-impaired financial assets. ECL for the entire life cycle are recognized for those financial instruments in stage 2 and stage 3.

3 stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, that are “not credit-impaired on initial recognition” will be classified in stage 1 and calculate the 12-month ECL. If “a significant increase in credit risk” is identified, the financial instrument will be moved to stage 2 and calculate the lifetime ECL. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The detailed classification criteria has been set up, and take into consideration of overdue days, etc.

The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increase, they will be transferred to second stage.

(1) Financial assets with significant increase in credit risk

When triggering one or more of the following quantitative, qualitative or upper bound indicators, the Bank considers that the credit risk of financial instruments has increased significantly.

Quantitative standard

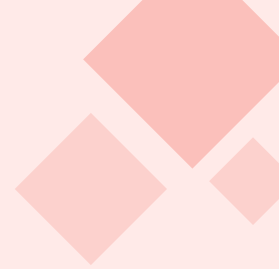
The principal or interest of the contract is overdue for more than 30 days, but less than 90 days.

The debtor’s external credit rating (bond rating or issuer rating) is lower than BBB-

Qualitative standard

The economic, technological or legal environment in which the debtor is situated will change at the present time or in the near future, thereby adversely affecting the Bank.

The debtor violated the terms of the contract, such as overdue payment of interest or principal or default.



Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(2) Definition of default and loss incurred.

When a financial instrument meets one or more of the following conditions, the Bank considers the financial asset as being defaulted, and the criteria are consistent with the definition of the loss incurred

Quantitative criteria

The principal or interest of the contract is overdue for more than 90 days.

The debtor's external credit rating (bond rating or issuer rating) has broken down.

Qualitative criteria

The debtor is likely to go bankrupt or carry out other financial restructuring.

The issuer of financial instruments assets held by the Bank has serious financial difficulties.

The Bank has made concessions to the debtor in financial difficulty for economic or legal reasons.

The market of related financial instruments is deserted due to the debtor's financial difficulty.

The above criteria apply to all financial instruments of the Bank; the definition of default is consistently applied to the calculation of expected credit losses of the Bank, including default probability (PD), exposure at default (EAD) and loss given default (LGD) modeling.

When a financial instrument does not meet any definition of default for six consecutive months, the Bank no longer regards it as an asset in default (reversal). According to the relevant analysis, the Bank has considered the possibility that the financial instruments will be in default again from the reversal under various circumstances, and decided to adopt the six-month observation period.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

- (3) measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques.

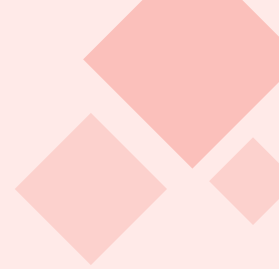
Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the loss provision for different assets by expected credit losses for 12 months or entire life of the asset. Expected credit loss is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after term adjustment and discount. Related definitions are as follows:

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Bank builds the migration matrix based on historical data to calculate the 12-month probability of default, and derives the default probability of the entire duration from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty and the availability of collateral or other credit support.

Exposure at default (EAD) refers to the amount that the Bank should pay when the default occurs in the next 12 months or throughout the remaining life. The Bank's exposure at default is determined by the expected repayment arrangements, and different types of products will vary. For installments and one-time repayments, the Bank determines the exposure at default according to the repayment plan stipulated in the contract.

The Bank determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Bank multiplies the three items and adjusts their duration (if there is no early repayment or breach of contract). This approach can effectively calculate the expected credit losses for future periods, and then discount the results of each period to the report date and add up. The discount rate used in the calculation of expected credit loss is the real interest rate or its approximate value.



Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

3 stage classification (continued)

(4) Establishment of impairment model

The Bank has established macro-economic forecast model, along with adjustments from external economy experts. The Bank conducts forecasts regularly and establishes three possible economic scenario, optimistic, basic and pessimistic. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than basic scenario respectively.

The impairment model is established through a top down approach. The Bank has developed several corporate and retail impairment models, including regression models for different macro-economic indicators such as Macro-economic Climate Index, Enterprise Climate Index, National Housing Climate Index and the Ratio of Non-performing Loans of Commercial Banks etc. and use MERTON formula and historical default information to make ‘forward looking’ adjustments to probability of default to achieve “forward-looking” calculation of provision.

For asset portfolios that regression model cannot be established, for example, customers’ default rate is extremely low or assets without an appropriate internal rating method, the Bank mainly applies expected loss rate from similar portfolios which regression model have been established so as to increase coverage range of existing impairment models.

(1) Forwarding-looking information included in ECL model

The assessment of significant increases in credit risk and the calculation of expected credit losses involve forward-looking information. The Bank identifies the key economic indicators affecting the credit risk and expected credit loss of each asset portfolio, through historical data analysis,

Coverage	
Macro-economic Climate Index	Corporate loans, Bill discount, Retail loans, Financial investments – credit related financial assets, Off-balance sheet business
National Housing Climate Index	Retail Loans

These economic indicators and their impact on PD, EAD and LGD depend on different financial instruments, in which involved expert judgments. The Bank annually makes forecasts on these economic indicators (“basic economic scenarios”) and provides the best estimation of the economics for the next two years. The Bank believes that the economic indicators from two years later to the end of the maturity of financial instruments tend to maintain average or average growth for a long time in the following period through the mean regression method. The Bank finds the relationship between these economic indicators and their impact of historical changes on PD, EAD and LGD.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(1) *Forwarding-looking information included in ECL model (continued)*

The Bank sets other possible scenarios and scenario weightings according to external data. Based on the analysis for each major portfolio and the number of scenarios, the Bank keeps their non-linear characteristics. The Bank reassesses the number and characteristics of scenarios annually. From 1 January 2018 to 31 December 2018, the Bank's three scenarios (basic, optimism and pessimism) can properly reflect the non-linear characteristics of each portfolio. The Bank determines scenario weightings through statistical analysis and expert credit judgment, and also considers the possible range of outcomes represented by scenarios. The Bank recognizes the ECL both for 12-month and whole life time with the classification of stage1, stage 2 and stage 3 of financial instruments. The Bank measures the ECL with weighted ECL for 12-month (Stage 1) and weighted ECL for whole life (Stage 2 and Stage 3), which is calculated by multiplying the ECL under each scenario by their weightings respectively, rather than by weighting the parameters. On 31 December 2018, the weightings allocated to each economic scenario were 60% for basic, 30% for optimism and 10% for pessimism.

Similar to other economic predictions, there is highly inherent uncertainty to the prediction and estimation of probability. Therefore, the actual results may significantly differ from the prediction. The Bank believes that these predictions reflect the best estimation of possible outcomes, and the chosen scenarios can represent possible scenarios appropriately.

(2) *Hypothesis on Economic Indicators*

On 31 December 2018, the important assumptions used for ECL are listed below. The three scenarios of basic, optimism and pessimism apply to all combinations.

	2019	2020
Macro-economic Climate Index	92.76-93.41	92.51-93.32
National Housing Climate Index	98.74-101.00	99.12-100.39

(3) *Sensitivity Analysis*

Important assumptions affecting the ECL allowance are as follows:

Retail loans	<ul style="list-style-type: none">i. Macro-economic Climate Index: Impact on the contractual repayment capacity of non-mortgage borrowers;ii. National Housing Climate Index: Impact on the contractual repayment capacity of mortgage borrowers;
Corporate loans	<ul style="list-style-type: none">i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the borrowers;
Financial investments – credit related financial assets	<ul style="list-style-type: none">i. Macro-economic Climate Index: Impact on the performance and the contractual repayment capacity of the underlying borrowers;

Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(3) Sensitivity Analysis (continued)

On 31 December 2018, assuming that the economic indicators used by the Bank have changed reasonably, the expected credit losses will change as follows:

Retail Loans

		Macro-economic Climate Index		
		Down 0.1%	No change	Up 0.1%
National Housing Climate Index	Down 1%	1,293	730	182
	No change	562	–	(548)
	Up 1%	(81)	(643)	(1,192)

Corporate Loans

	Change	Amount
Macro-economic Climate Index	Up 0.1%	(12,631)
	Down 0.1%	12,875

Financial investments – credit related financial assets

	Change	Amount
Macro-economic Climate Index	Up 0.1%	(6,058)
	Down 0.1%	6,208

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements:

	As at 31 December 2017
Assets	
Balances with central bank	8,076,470
Financial assets held under resale agreements, due from other banks and financial institutions	13,344,757
Customer loans	
– Corporate loans	11,492,441
– Personal loans	4,897,992
– Discounted bills	2,443,400
Investment securities – credit related financial assets	8,279,379
Investment securities – available-for-sales	9,065,771
Financial investments – investments classified as receivables	9,340,174
Other investment securities	514,682
	67,455,066
Off-balance sheet exposures	
Acceptances	1,238,938
Financial guarantees	573,240

Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

	As at 31 December 2018			Total
	Non-default	Defaulted	ECL allowance	
Assets				
Balances with central bank	8,273,126	-	-	8,273,126
Financial assets held under resale agreements, due from other banks and financial institutions	7,646,936	-	(13,555)	7,633,381
Customer loans	31,019,962	259,225	(792,833)	30,486,354
- stage 1	30,493,449	-	(535,225)	29,958,224
- stage 2	526,513	-	(139,135)	387,378
- stage 3	-	259,225	(118,473)	140,752
Financial investments- credit related financial assets	5,910,012	-	(88,410)	5,821,602
Financial investments – fair value through profit or loss	1,841,322	-	-	1,841,322
Financial investments – fair value through other comprehensive income	5,867,342	-	-	5,867,342
Financial investments – amortized cost	21,608,925	-	(213,163)	21,395,762
Other financial assets	32,009	-	-	32,009
	82,199,634	259,225	(1,107,961)	81,350,898
Off balance sheet guarantees and commitments	2,762,118	-	-	2,762,118

The above table represents a case scenario of the maximum credit risk exposure to the Bank at 31 December 2018, without taking account of any related collateral or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, as at 31 December 2018, the total on-balance sheet exposure which were derived from customer loans and financial investments were 80.41%. (2017: 67.48%)

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans

Customer loans are summarised as follows:

	As at 31 December 2018			
	Corporate loans	Personal loans	Discounted bills	Total
Stage 1	24,174,699	5,572,367	644,908	30,391,974
Stage 2	435,088	90,211	–	525,299
Stage 3	174,688	73,566	–	248,254
Total	24,784,475	5,736,144	644,908	31,165,527
Accrued interest	67,015	46,645	–	113,660
Less: ECL allowance	(727,189)	(65,644)	–	(792,833)
Net amount	24,124,301	5,717,145	644,908	30,486,354

	As at 31 December 2017			
	Corporate loans	Personal loans	Discounted bills	Total
Neither overdue nor impaired (a)	11,760,239	4,855,341	2,481,153	19,096,733
Overdue but not impaired (b)	67,000	44,909	–	111,909
Impaired (c)	123,923	68,791	–	192,714
Total	11,951,162	4,969,041	2,481,153	19,401,356
Less: Collective impairment allowances	(372,213)	(71,050)	(37,752)	(481,015)
Individual impairment allowances	(86,508)	–	–	(86,508)
Total allowance	(458,721)	(71,050)	(37,752)	(567,523)
Net amount	11,492,441	4,897,991	2,443,401	18,833,833

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(a) Gross Customer loans neither overdue nor impaired

As at 31 December 2017	Internal classification		Total
	Pass	Special mention	
Corporate loans	11,383,056	377,183	11,760,239
Personal loans	4,791,507	63,834	4,855,341
Discounted bills	2,481,153	–	2,481,153
Total	18,655,716	441,017	19,096,733

(b) Customer loans overdue but not impaired

Gross amount of customer loans by types of customers that were overdue but not impaired are as follows:

	As at 31 December 2017				Total
	Overdue up to 30 days	Overdue 30 – 60 days	Overdue 60 – 90 days	Overdue over 90 days	
Corporate loans	67,000	–	–	–	67,000
Personal loans	29,321	12,468	3,120	–	44,909
Discounted bills	–	–	–	–	–
Total	96,321	12,468	3,120	–	111,909

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(c) Stage-3 loans/Impaired loans

	As at 31 December	
	2018	2017
Stage-3 loans		
Corporate loans	174,688	N/A
Personal loans	73,566	N/A
Discounted bills	–	N/A
Total	248,254	N/A
Impaired loans		
Corporate loans	N/A	123,923
Personal loans	N/A	68,791
Total	N/A	192,714

The breakdown of the fair value of related collateral held by the Bank as security for individually impaired/Stage-3 customer loans, are as follows:

	As at 31 December	
	2018	2017
Corporate loans	470,168	259,455
Personal loans	223,768	141,542
Total	693,936	400,997

The amount of the fair value of the collaterals are limited to the credit risk exposure of each loan and advance payment secured.

The fair value of collaterals is estimated based on the latest available external valuations, the realization experience of the current collaterals and the market conditions.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(d) Restructured customer loans

Restructuring activities include approved debt repayment plans, modification and deferral of payments. Following restructuring, deferred customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue to be made. These policies are under regular review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans.

	As at 31 December	
	2018	2017
Restructured customer loans	185,139	121,493

(e) Overdue customer loans by security and overdue date

	As at 31 December 2018				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Pledged loans	980	820	–	–	1,800
Collateralised loans	48,460	88,878	55,273	22,208	214,819
Guaranteed loans	30,707	26,025	–	1,500	58,232
Unsecured loans	137	120	2,207	67	2,531
Total	80,284	115,843	57,480	23,775	277,382

	As at 31 December 2017				
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	Total
Pledged loans	290	340	–	–	630
Collateralised loans	48,081	20,697	87,913	1,430	158,121
Guaranteed loans	40,420	3,734	2,850	312	47,316
Unsecured loans	27,310	2,158	129	564	30,161
Total	116,101	26,929	90,892	2,306	236,228

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(f) Industry analysis

Concentration risks analysis for customer loans(gross) by economic sectors:

	As at 31 December			
	2018		2017	
	Amount	%	Amount	%
Corporate loans				
Renting and business activities	6,962,009	22.26	2,941,430	15.16
Construction	4,435,333	14.18	1,913,529	9.86
Wholesale and retail trade	3,380,618	10.81	1,087,680	5.61
Manufacturing	3,338,540	10.67	1,023,967	5.28
Real estate	2,836,858	9.07	2,077,794	10.71
Accommodation and catering	1,030,228	3.29	314,738	1.62
Education	887,400	2.84	227,125	1.17
Administration of water conservancy, environment and public facilities	878,110	2.81	967,175	4.99
Transportation, warehousing and express service	351,819	1.12	365,320	1.88
Scientific research and technology services	128,540	0.41	205,300	1.06
Agriculture, forestry, animal husbandry and fishery	114,620	0.37	153,737	0.79
Electricity, heat,gas and water production and supply	105,500	0.34	144,233	0.74
Culture, sports and entertainment	93,600	0.30	172,950	0.89
Mining	91,000	0.29	67,000	0.35
Household services, repairs and other services	87,850	0.28	200,574	1.03
Health and social work	57,950	0.19	30,090	0.16
Information transmission, software and information technology services	4,500	0.01	3,000	0.02
Others	-	-	55,520	0.29
Total corporate loans	24,784,475	79.24	11,951,162	61.61
Personal business loans	2,876,068	9.19	2,017,935	10.40
Residential mortgage loans	2,100,873	6.72	2,253,925	11.61
Personal consumption loans	759,203	2.43	697,182	3.59
Total personal loans	5,736,144	18.34	4,969,042	25.60
Discounted bills	644,908	2.06	2,481,153	12.79
Interest receivable	113,660	0.36	N/A	N/A
Total customer loans	31,279,187	100.00	19,401,357	100.00

The concentration risks analysis of customer loans is analyzed based on industry classification of the borrowers.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(g) Type of collateral analysis

Analysis for customer loans(gross) by type of collateral:

	As at 31 December	
	2018	2017
Collateralised loans	12,869,755	7,671,090
Guaranteed loans	10,493,307	4,342,813
Pledged loans	5,170,934	5,944,666
Unsecured loans	2,631,531	1,442,787
Interest receivable	113,660	N/A
Total	31,279,187	19,401,356

3.1.7 Investment securities

The table below presents an analysis of investment securities by independent rating agencies designation including China Chengxin International Credit Rating Co., Ltd., China Lianhe Credit Rating Co., Ltd., Shanghai Fareast Credit Rating Co., Ltd, Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. and Pengyuan Credit Rating Co., Ltd., for RMB securities as at 31 December 2017 and 2018.

The rating results of investment securities as following:

	As at 31 December 2018				
	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortized cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	–	–	39,993	–	39,993
AA- to AA+	102,858	1,051,807	946,341	–	2,101,006
Unrated ^(a)	1,738,464	4,695,362	20,217,498	5,896,000	32,547,324
Minus: expected credit impairment provision	–	–	(213,163)	(88,410)	(301,573)
Interest receivable	–	120,173	405,093	14,012	539,278
Total	1,841,322	5,867,342	21,395,762	5,821,602	34,926,028

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For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

	As at 31 December 2017			Total
	Financial investments – credit related financial assets	Financial investments – investments classified as receivables	Financial investments – available-for-sale	
RMB securities				
AA- to AA+	–	–	1,787,819	1,787,819
Unrated ^(a)	8,279,379	9,340,174	7,276,956	24,896,509
Total	8,279,379	9,340,174	9,064,775	26,684,328

(a) Unrated financial investment mainly include national debt, securities issued by policy banks, wealth management products issued by other commercial banks, monetary fund, and financial investments whose bottom financiers are qualified and large state-owned enterprises or private enterprises.

Financial investments-investments classified as receivables are summarised as follows:

	As at 31 December	
	2018	2017
Neither overdue nor impaired	N/A	9,464,270
Less: Impairment allowances	N/A	(124,096)
Net amount	N/A	9,340,174

Financial investments-amortized cost are summarised as follows:

	As at 31 December	
	2018	2017
Stage 1	21,203,832	N/A
Add: Interest receivable	405,093	N/A
Less: ECL allowance	213,163	N/A
Net amount	21,395,762	N/A

Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

Financial investments- credit related financial assets are summarised as follows:

	As at 31 December	
	2018	2017
Stage 1	5,896,000	N/A
Neither overdue nor impaired	N/A	8,404,050
Add: Interest receivable	14,012	N/A
Less: Impairment allowances	N/A	(124,671)
Less: ECL allowance	(88,410)	N/A
Net amount	5,821,602	8,279,379

Concentration risks analysis for financial investments – credit related financial assets by economic sectors:

	As at 31 December			
	2018		2017	
	amount	%	amount	%
Financial assets- credit related financial assets				
Real estate	2,414,850	40.86	3,222,050	38.35
Renting and business activities	2,201,000	37.24	2,966,000	35.29
Wholesale and retail trade	530,000	8.97	570,000	6.78
Administration of water conservancy, environment and public facilities	281,250	4.76	450,000	5.35
Construction	246,000	4.16	206,000	2.45
Manufacturing	222,900	3.77	290,000	3.45
Public administration, social security and social organizations	-	-	700,000	8.33
Interest receivable	14,012	0.24	N/A	N/A
Total	5,910,012	100.00	8,404,050	100.00

The concentration risks analysis of financial assets – credit related financial assets is analyzed based on industry classification of the borrowers.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.8 Foreclosed assets

	As at 31 December	
	2018	2017
Business properties	152,877	111,574
Other properties	–	5,179
Provision for foreclosed assets	(23,446)	(1,655)
Total	129,431	115,098

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are classified in the statement of financial position as other assets.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

The Bank's geographical risk is primarily concentrated in Mainland China.

3.2 Market risk

3.2.1 Overview

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates and prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by risk management department and asset and liability management department. Regular reports are submitted to the Board of Directors and head of each business unit.

In accordance with the requirements of the CBIRC, the Bank categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to economically hedge other elements of the trading book or the banking book. The banking book consists of the financial instruments purchased with excess funds and other financial instruments that are not captured in trading book.

Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk

The Bank's interest rate risk mainly includes cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate due to changes in market interest rates.

The interest rate risk of the Bank mainly comes from the interest rate change's impact on net interest income, which was caused by the mismatch of the interest-rate-sensitive assets and liabilities' maturity date or the re-pricing date. The Chinese government has gradually liberalized interest rates in recent years. From 20 July 2013, commercial banks can independently determine the interest rate of RMB loans (except individual mortgage loans). From 24 October 2015, commercial banks can independently determine the interest rate of deposits. With the liberalization of interest rates, the interest rate volatility has gradually shifted from policy oriented to market oriented, and therefore faces more uncertainties.

The Bank has implemented a unified interest rate management policy to manage interest rate risk. The Bank complies with relevant laws and regulations to determine price for deposits and loan products. The Bank uses the PBOC's benchmark interest rate, capital cost, asset risk status and other indicators as the pricing benchmark, and takes into account customer needs and business operations, the prices of similar products in the industry and competitors, and the business relationship with the customers to determine the product price.

The Bank regularly conducts sensitivity analysis on interest rates. The Bank regularly analyzes the interest rate gap between interest bearing assets and interest bearing liabilities in bank accounts and transaction accounts, thereby guiding the development of business.

The Bank pays close attention to the latest development of the government's economic policies, especially those that have a significant impact on market interest rates. The Bank continuously monitor and conduct in-depth research on financial market conditions and macroeconomic conditions, thereby improving the ability to predict interest rate fluctuations. Based on the ever-changing trend of market interest rates, the Bank dynamically adjusts the size and structure of assets to cope with changes in the market environment so as to match the maturity of assets and liabilities. For example, when predicting a downward trend in the bond market, the Bank will keep bond assets at a low level to minimize the associated risks. In addition, the Bank has increased the sales and marketing efforts of long-term deposits, thereby stabilizing capital and reducing interest risk from deposits. The Bank has formulated risk management policies for financial market operations.

The Bank uses internal management system to monitor and manage the overall interest rate risk of the assets and liabilities under the non-trading book. At the current stage, the Bank manages the interest rate risk mainly through raising suggestion about the re-pricing date of assets and liabilities, setting market risk limit and other methods. The Bank analyses the interest rate gap and assesses the difference between the interest-bearing assets and liabilities which would mature or re-price within certain time period, to provide instruction for the adjustment of interest-bearing assets and liabilities' re-pricing date. Meanwhile, the Bank controls and manages interest risk by establishing the instruction and authorisation limit of investment portfolio. The Bank's financial market management conducts real-time market value assessment to monitor the investment risk more accurately. In addition, the Bank embranchments' interest rate risk for managing using the internal funding transfer-pricing system.

Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

The tables below summarise the Bank's exposures to interest rate risks. The tables show the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central bank	8,369,517	-	-	-	-	3,521	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	5,604,982	997,830	996,801	-	-	33,768	7,633,381
Financial investments at fair value through profit or loss	-	-	-	-	-	1,841,322	1,841,322
Financial investments – fair value through other comprehensive income	-	-	178,813	3,021,223	2,547,133	120,173	5,867,342
Customer loans	15,280,247	1,311,439	7,878,042	5,099,116	814,731	102,779	30,486,354
Financial investments – credit related financial assets	-	-	436,057	3,392,878	1,978,655	14,012	5,821,602
Financial investments – amortized cost	464,379	687,616	3,143,101	12,215,311	4,480,262	405,093	21,395,762
Other financial assets	-	-	-	-	-	1,131,014	1,131,014
Total assets	29,719,125	2,996,885	12,632,814	23,728,528	9,820,781	3,651,682	82,549,815
Liabilities							
Due to central bank	-	-	865,000	-	-	-	865,000
Financial assets sold under repurchase agreements, due to other banks and financial institutions	1,904,059	1,000,000	5,670,000	-	-	101,580	8,675,639
Customer deposits	23,716,087	1,251,249	8,274,710	18,665,611	-	477,947	52,385,604
Debt securities issued	1,468,307	2,764,917	8,518,900	-	1,000,000	48,370	13,800,494
Other financial liabilities	-	-	-	-	-	456,292	456,292
Total liabilities	27,088,453	5,016,166	23,328,610	18,665,611	1,000,000	1,084,189	76,183,029
Total interest sensitivity gap	2,630,672	(2,019,281)	(10,695,796)	5,062,917	8,820,781	2,567,493	6,366,786

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For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017							
Assets							
Cash and balances with central bank	8,145,703	-	-	-	-	-	8,145,703
Financial assets held under resale agreements, due from other banks and financial institutions	9,709,561	2,875,196	760,000	-	-	-	13,344,757
Financial investments - available-for-sale	-	1,620,215	-	3,427,380	4,017,179	2,311,837	11,376,611
Customer loans	7,090,958	808,918	6,082,117	3,709,639	1,142,201	-	18,833,833
Financial investments - credit related financial assets	-	197,033	2,508,231	3,419,509	2,154,606	-	8,279,379
Financial investments - investments classified as receivables	-	499,927	599,422	6,640,051	1,600,774	-	9,340,174
Other financial assets	-	-	-	-	-	1,558,979	1,558,979
Total assets	24,946,222	6,001,289	9,949,770	17,196,579	8,914,760	3,870,816	70,879,436
Liabilities							
Due to central bank	100,000	200,000	290,000	-	-	-	590,000
Financial assets sold under repurchase agreements, due to other banks and financial institutions	46,989	4,253,770	4,608,890	3,154,260	-	-	12,063,909
Customer deposits	24,468,324	1,025,313	3,597,056	13,053,446	-	1,158	42,145,297
Debt securities issued	-	2,873,081	6,902,162	-	1,000,000	-	10,775,243
Other financial liabilities	-	-	-	-	-	969,272	969,272
Total liabilities	24,615,313	8,352,164	15,398,108	16,207,706	1,000,000	970,430	66,543,721
Total interest sensitivity gap	330,909	(2,350,875)	(5,448,338)	988,873	7,914,760	2,900,386	4,335,715

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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.3 Sensitivity tests

Interest rate sensitivity test

The result of the interest rate sensitivity tests set out in the table below is based on the following assumptions. The projections assume that yield curves move parallel to the change of interest rate; the assets and liabilities portfolio has a static structure of interest rate; all positions are held and renewed after maturity. But the Bank has not considered the following: changes after the balance sheet date; the impact of interest rate fluctuations on the customers' behaviors; the complicated relationship between complex structured products and interest rate fluctuations; the impact of interest rate fluctuations on market prices; the impact of interest rate fluctuations on off-balance sheet products; and impact of risk management.

On the basis of the above gap analysis on the interest rate, the Bank implemented sensitivity test to analyse the sensitivity of Bank's net interest income against change in interest rate. The table below illustrates the analysis of potential impact on the Bank's net interest income at 31 December 2018 and 2017 on the assumption of a 100 basis point parallel move of the yield curves on each balance sheet date.

	Expected changes of net interest income	
	As at 31 December	
	2018	2017
+ 100 basis point parallel move in all yield curves	(31,726)	(36,851)
- 100 basis point parallel move in all yield curves	31,726	(36,851)

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Bank.

	Change of other comprehensive income	
	As at 31 December	
	2018	2017
+ 100 basis point parallel move in all yield curves	(229,598)	(393,742)
- 100 basis point parallel move in all yield curves	245,862	426,712

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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk

The main place of business of the Bank is located in China, and the main business is settled in RMB. However, the Bank's foreign currency assets and liabilities and forward foreign exchange transactions still have exchange rate risks. Exchange rate risk arises from adverse exchange rate movements.

The Bank's main principle of controlling exchange rate risks is to match assets and liabilities in different currencies as much as possible and to control exchange rate risks within the limits set by the Bank. The Bank sets risk tolerance limits in accordance with the guiding principles of the risk management committee, relevant regulatory requirements and the assessment of the current environment by the management, and minimizes the currency mismatch of assets and liabilities by reasonably arranging the sources of foreign currency funds and using them. The Bank shall set strict position limits, risk limits and stop-loss limits for its foreign exchange exposure arising from its trading business.

The following table summarizes the distribution of the Bank's exchange rate exposure at the end of the year, and the book value of each foreign currency asset and liability has been converted into RMB amount.

	RMB	HKD	Total
As at 31 December 2018			
ASSETS			
Cash and balances with central bank	8,373,038	-	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	6,112,809	1,520,572	7,633,381
Customer loans (including discounted bills)	30,486,354	-	30,486,354
Financial investments – fair value through profit or loss	1,841,322	-	1,841,322
Financial investments – fair value through other comprehensive income	5,867,342	-	5,867,342
Financial investments – amortized cost	21,395,762	-	21,395,762
Financial investments – credit related financial assets	5,821,602	-	5,821,602
Other financial assets	1,131,014	-	1,131,014
Total assets	81,029,243	1,520,572	82,549,815
Liabilities			
Due to central bank	(865,000)	-	(865,000)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(8,675,639)	-	(8,675,639)
Customer deposits	(52,385,604)	-	(52,385,604)
Debt securities issued	(13,800,494)	-	(13,800,494)
Other financial liabilities	(456,292)	-	(456,292)
Total liabilities	(76,183,029)	-	(76,183,029)
Total exchange rate sensitivity gap	4,846,214	1,520,572	6,366,786
Financial guarantee and credit commitment	2,762,118	-	2,762,118

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3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

3.2.4 Foreign exchange risk (continued)

Exchange rate sensitivity test

Following table shows the impact on pre-tax profit when foreign exchange rate changes by 1% against RMB exchange rate:

	Anticipated change in pretax profit/loss	
	31 December 2018	31 December 2017
Up 1%	15,206	–
Down 1%	(15,206)	–

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due or to meet immediate fund needs. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Bank's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposits withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, matured deposits, loan draw downs, guarantees and cash deposit hold as collateral. The Board of Directors set the minimum proportion of funds to be made available to meet such calls and the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2018, 12.50% (31 December 2017: 13.50%) of the Bank's total RMB-denominated deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Board of Directors and the liquidity risk management department formulate the policies, strategies, procedures, limits and contingency plans relate to the overall management of liquidity risk according to risk preference. The assets and liabilities management department cooperates with other business department to form a well-organised, fully functional liquidity risk management system.

The Bank proactively applies new technology to enhance the involvement of IT in liquidity risk management. The system monitors the liquidity index and exposure, which form a mechanism in regular, automatic liquidity risk assessment, and arrange the Banking processes according to current liquidity exposure. The Bank actively modifies the assets and liabilities maturity structure by applying internal fund transfer pricing, while taking control of the limit of the liquidity risk positively by carrying out performance assessment. The Bank pays constant attention to its liquidity risk management process, holds the weekly meeting for assets and liabilities integration, enhances and improves liquidity risk related policy timely, eventually achieve its goal in liquidity risk management.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the undiscounted cash flows of the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2018									
Liabilities									
Due to central bank	-	-	-	888,722	-	-	-	-	888,722
Financial assets sold under repurchase agreements, due to other banks and financial institution	163,238	1,742,506	1,048,460	5,969,290	-	-	-	-	8,923,494
Customer deposits	22,805,339	967,981	1,390,359	8,941,043	21,462,481	-	1,036	-	55,568,239
Debt securities issued	-	1,470,000	2,790,000	8,740,000	-	1,000,000	-	-	14,000,000
Total liabilities (contractual maturity dates)	22,968,577	4,180,487	5,228,819	24,539,055	21,462,481	1,000,000	1,036	-	79,380,455
Assets									
Cash and balances with central bank	2,085,335	-	-	-	-	-	6,287,703	-	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	115,721	5,518,796	1,035,950	1,049,503	-	-	-	-	7,719,970
Financial investments – fair value through profit or loss	-	-	1,693,111	30,000	119,295	-	15,352	-	1,857,758
Financial investments – FVOCI	-	120,173	38,204	445,179	3,856,995	2,856,151	-	-	7,316,702
Customer loans	-	1,236,659	1,440,774	8,675,285	13,768,843	17,030,875	-	78,214	42,230,650
Financial investments – credit related financial assets	-	-	14,011	470,878	3,948,296	3,121,399	-	-	7,554,584
Financial investments – amortized cost	-	570,284	1,034,860	3,662,362	15,772,074	6,927,740	-	-	27,967,320
Assets held for managing liquidity risk (contractual maturity dates)	2,201,056	7,445,912	5,256,910	14,333,207	37,465,503	29,936,165	6,303,055	78,214	103,020,022
Net positions	(20,767,521)	3,265,425	28,091	(10,205,848)	16,003,022	28,936,165	6,302,019	78,214	23,639,567

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2017									
Liabilities									
Due to central bank	-	100,175	201,505	296,032	-	-	-	-	597,712
Financial assets sold under repurchase agreements, due to other banks and financial institution	46,989	4,257,700	4,764,884	3,300,055	-	-	-	-	12,369,628
Customer deposits	24,258,420	416,287	1,033,956	3,627,378	13,163,484	-	1,040	-	42,500,565
Debt securities issued	-	-	2,955,000	7,140,000	220,000	1,275,000	-	-	11,590,000
Total liabilities (contractual maturity dates)	24,305,409	4,774,162	8,955,345	14,363,465	13,383,484	1,275,000	1,040	-	67,057,905
Assets									
Cash and balances with central bank	2,131,378	-	-	-	-	-	6,014,325	-	8,145,703
Financial assets held under resale agreements, due from other banks and financial institutions	87,327	9,665,392	2,942,302	787,130	-	-	-	-	13,482,151
Financial investments – available-for-sale	-	1,269,562	2,898,480	150,512	4,489,708	4,956,030	996	-	13,765,288
Customer loans	-	670,883	849,299	6,049,572	6,961,440	11,204,207	-	96,812	25,832,213
Financial investments – credit related financial assets	-	-	202,342	2,703,378	4,191,438	3,564,734	-	-	10,661,892
Financial investments – investments classified as receivables	-	-	515,750	624,864	8,250,967	2,702,712	-	-	12,094,293
Assets held for managing liquidity risk (contractual maturity dates)	2,218,705	11,605,837	7,408,173	10,315,456	23,893,553	22,427,683	6,015,321	96,812	83,981,540
Net positions	(22,086,704)	6,831,675	(1,547,172)	(4,048,009)	10,510,069	21,152,683	6,014,281	96,812	16,923,635

Assets available to meet all of the liabilities include cash, balances with central bank, items in the course of collection and treasury; due from other banks and financial institutions; and customer loans. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities, using credit commitments from other financial institutions, early termination of borrowings from other financial institutions and repurchase agreements and using the mandatory reserve deposits upon the PBOC's approval.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2018									
Assets									
Cash and balances with central bank	2,085,335	-	-	-	-	-	6,287,703	-	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	114,993	5,523,755	997,830	996,803	-	-	-	-	7,633,381
Financial investments – fair value through profit or loss	-	-	1,693,111	30,000	102,859	-	15,352	-	1,841,322
Financial investments – FVOCI	-	120,173	-	178,813	3,021,223	2,547,133	-	-	5,867,342
Customer loans	-	1,186,711	1,348,426	7,976,804	10,717,205	9,178,994	-	78,214	30,486,354
Financial investments – credit related financial assets	-	14,011	436,057	3,392,878	1,978,656	-	-	-	5,821,602
Financial investments – amortized cost	-	628,791	928,297	3,143,101	12,215,312	4,480,261	-	-	21,395,762
Other assets, including deferred income tax assets	-	-	-	-	-	-	1,131,014	-	1,131,014
Total assets	2,200,328	7,473,441	5,403,721	15,718,399	28,035,255	16,206,388	7,434,069	78,214	82,549,815
Liabilities									
Due to central bank	-	-	-	865,000	-	-	-	-	865,000
Financial assets sold under repurchase agreements, due to other banks and financial institution	163,238	1,842,401	1,000,000	5,670,000	-	-	-	-	8,675,639
Customer deposits	23,291,822	901,176	1,251,249	8,274,710	18,665,611	-	1,036	-	52,385,604
Debt securities issued	-	1,516,677	2,764,917	8,518,900	-	1,000,000	-	-	13,800,494
Other financial liabilities including deferred income tax liabilities	-	-	-	-	-	-	456,292	-	456,292
Total liabilities	23,455,060	4,260,254	5,016,166	23,328,610	18,665,611	1,000,000	457,328	-	76,183,029
Net liquidity gap	(21,254,732)	3,213,187	387,555	(7,610,211)	9,369,643	15,206,388	6,976,741	78,214	6,366,786

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis (continued)

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Overdue	Total
As at 31 December 2017									
Assets									
Cash and balances with central bank	2,131,378	-	-	-	-	-	6,014,325	-	8,145,703
Financial assets held under resale agreements, due from other banks and financial institutions	87,327	9,622,234	2,875,196	760,000	-	-	-	-	13,344,757
Financial investments –available-for-sale	-	1,210,841	2,720,215	-	3,427,380	4,017,179	996	-	11,376,611
Customer loans	-	640,220	811,683	5,684,534	5,323,110	6,277,474	-	96,812	18,833,833
Financial investments – credit related financial assets	-	-	197,033	2,508,231	3,419,509	2,154,606	-	-	8,279,379
Financial investments – investments classified as receivables	-	-	499,927	599,422	6,640,051	1,600,774	-	-	9,340,174
Other assets, including deferred income tax assets	-	-	-	-	-	-	1,558,979	-	1,558,979
Total assets	2,218,705	11,473,295	7,104,054	9,552,187	18,810,050	14,050,033	7,574,300	96,812	70,879,436
Liabilities									
Due to central bank	-	100,000	200,000	290,000	-	-	-	-	590,000
Financial assets sold under repurchase agreements, due to other banks and financial institution	46,989	4,253,770	4,608,890	3,154,260	-	-	-	-	12,063,909
Customer deposits	24,055,635	412,807	1,025,313	3,597,056	13,053,446	-	1,040	-	42,145,297
Debt securities issued	-	-	2,873,081	6,902,162	-	1,000,000	-	-	10,775,243
Other financial liabilities including deferred income tax liabilities	-	-	-	-	-	-	969,272	-	969,272
Total liabilities	24,102,624	4,766,577	8,707,284	13,943,478	13,053,446	1,000,000	970,312	-	66,543,721
Net liquidity gap	(21,883,919)	6,706,718	(1,603,230)	(4,391,291)	5,756,604	13,050,033	6,603,988	96,812	4,335,715

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.5 Off-balance-sheet items

The table below lists the off-balance-sheet statement items of the Bank according to their remaining term to maturity, and also includes the future minimum lease payments under non-cancellable operating leases where the Bank are the lessees. The financial commitments are listed by the earliest maturity date in its notional principal.

As at 31 December 2018	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	1,585,988	–	–	1,585,988
Guarantees	300,000	876,130	–	1,176,130
Operating lease commitments	11,824	24,917	2,800	39,541
Capital expenditure commitments	76,466	10,630	–	87,096
Total	1,974,278	911,677	2,800	2,888,755

As at 31 December 2017	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	1,210,628	28,310	–	1,238,938
Guarantees	450,750	122,490	–	573,240
Operating lease commitments	10,994	30,510	3,490	44,994
Capital expenditure commitments	30,185	12,345	–	42,530
Total	1,702,557	193,655	3,490	1,899,702

The Bank has no irrevocable loan commitments.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

Financial assets and liabilities that are not measured at fair value in consolidated financial position mainly include: balances with central bank, due from other banks and financial institutions, loans and advances to customers, credit related financial assets, financial assets-amortized cost, due to other banks and financial institutions, customer deposits, debt securities issued. Except for the following financial assets and financial liabilities, the carrying amounts of financial assets and liabilities that are not measured at fair value are quite small from the fair value.

The table below summarises the financial assets and liabilities that have difference between carrying amounts (include accrued interest) and fair value as at 31 December 2017 and 2018.

	Carrying amount	As at 31 December 2018				Total
		Fair value				
		Level 1	Level 2	Level 3		
Financial assets						
Financial investments – amortized cost	21,395,762	-	8,081,864	13,335,412	21,417,276	
Financial investments – credit related financial assets	5,821,602	-	-	5,900,218	5,900,218	
Financial liabilities						
Debt securities issued	13,800,494	-	13,793,731	-	13,793,731	

	Carrying amount	As at 31 December 2017				Total
		Fair value				
		Level 1	Level 2	Level 3		
Financial assets						
Financial investments – investments classified as receivables	9,540,446	-	-	9,197,128	9,197,128	
Financial investments – credit related financial assets	8,299,815	-	-	8,147,967	8,147,967	
Financial liabilities						
Debt securities issued	10,775,243	-	10,771,304	-	10,771,304	

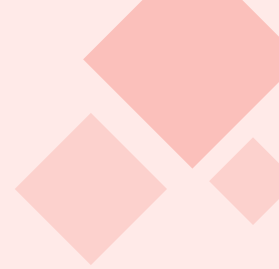
Financial investments – credit related financial assets

The fair value for financial investments – credit related financial assets is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

Financial investments – amortized cost

The fair value for financial investments – amortized cost (excluding bonds) is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

The fair value for bonds measured at amortized cost are based on market prices or broker/dealer price quotations. Where the information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.



Notes to the Financial Statements

For the year ended December 31, 2018
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3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

Debt securities issued

The fair value of fixed interest bearing debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

Other than above, the carrying values of those financial assets and liabilities not presented at their fair value on the consolidated statement of financial position are a reasonable approximation of their fair values. Those financial assets and liabilities include balances with central bank, due from other banks and financial institutions, loans and advances to customers, due to other banks and financial institutions, customer deposits, etc. Fair value is measured using a discounted future cash flow model.

(b) Fair value hierarchy

IFRS 7 specifies the levels of valuation techniques that based on the inputs of valuation techniques that are observable or not. The observable inputs reflect the market data obtained from independent sources. These two inputs lead to the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments in house (e.g. Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly. This level includes the debt instruments dealing in the interbank market. For example, the input parameters of bond yield curves and counterparty credit risk stem from China bond information website and Bloomberg.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs). This level includes equity instruments and structural financial instruments.

The Bank determines the fair value of the financial instrument by valuation techniques when it is difficult to obtain quotations from the open market.

The main parameters of valuation techniques used in financial instruments includes the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

The measurement of the fair value of those asset-backed securities and unlisted equity (private equity) held by the Bank adopts unobservable parameters that may have significant impact on the valuations. Thus, the Bank would better classify these financial instruments to the third level. Management has assessed the influence of macroeconomic factors, the valuation by external appraiser, loss coverage, and many other parameters, so as to examine the correlation between the fair value of third level financial instruments and the above parameters. . The Bank has established an internal control system to supervise the exposure of the Bank to such financial instruments.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Fair values of assets and liabilities are as below

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	644,908	–	644,908
Financial investments – fair value through profit or loss	1,810,326	–	30,996	1,841,322
Financial investments – FVOCI	–	5,867,342	–	5,867,342
Total	1,810,326	6,512,250	30,996	8,353,572

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Investment securities-available-for-sale				
– Bond securities	–	9,064,774	–	9,064,774
– Equity securities	–	–	2,311,837	2,311,837
Total	–	9,064,774	2,311,837	11,376,611

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Movement of Level-3 valuation methodology

	Financial investments – fair value through profit or loss
Balance at 1 January 2018	2,311,837
Total gains or losses	–
– Other comprehensive income	(10,841)
Purchase of level 3	6,030,000
Maturity of level 3	(8,300,000)
Balance at 31 December 2018	30,996
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2018	–

	Investment securities-AFS
Balance at 1 January 2017	1,711,834
Total gains or losses	3
– Other comprehensive income	3
Purchase of level 3	10,600,000
Maturity of level 3	(10,000,000)
Balance at 31 December 2017	2,311,837
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2017	–

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

The information of Level-3 Valuation by adopting important, non-observable input as following:

The Bank	Fair values	Valuation methodology	Non-observable input		
			Range/ Weighted Item	Relationship with fair value	
As at 31 December 2018					
Financial investments – fair value through profit or loss					
– Equity investment	996	Market approach	Note 1	Note 1	Note 1
– Joint investment plan	30,000	Net value approach	N/A	N/A	N/A

The Bank	Fair values	Valuation methodology	Non-observable input		
			Range/ Weighted Item	Relationship with fair value	
As at 31 December 2017					
Investment securities: available-for-sale					
– Equity investment	996	Cost approach	Note 1 Discounted	Note 1 5.3%-	Note 1
– Wealth management products	2,310,841	Return approach	rate	6.1%	Reverse

Note 1: Available-for-sale equity instruments refer to equity investment to Southern Sichuan Expressway Co., Ltd., Sichuan Tianhua Co., Ltd., and Clearing Center for City Commercial Banks.

The Bank conducts sensitivity tests to analyze the sensitivity of the level 3 of fair value of the Bank to discount rate changes. Assuming that the discount rate curve moves 100 basis points parallel to each balance sheet date, the potential impact on the fair value of the third level of financial assets assessed by the income method on 31 December 2018 and 31 December 2017 of the Bank is analyzed as follows:

	Recognised in profit or loss		Recognised in other comprehensive income	
	The discount rate goes down	The discount rate goes up	The discount rate goes down	The discount rate goes up
As at 31 December 2018				
Wealth management products	-	-	-	-
	-	-	-	-
As at 31 December 2017				
Wealth management products	-	-	1,876	(1,871)
	-	-	1,876	(1,871)

Notes to the Financial Statements

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the Banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy ratio and the use of regulatory capital are monitored quarterly by the Bank's management with employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Bank calculated the capital adequacy ratio based on the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) issued by CBIRC in June 2012. According to the approach, the Bank calculated the credit risk-weighted assets measurement by the weighted method, market risk-weighted assets measurement by the standard method, and operation risk-weighted assets measurement by the basic indicator method.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial). For systematically important banks, CBIRC requires minimum core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50% respectively. For non-systematically important banks, CBIRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. At present, the Bank is fully compliant with these legal and regulatory requirements.

The capital adequacy ratio of 2018 and 2017 half year under the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) is as follows:

	As at 31 December	
	2018	2017
Core capital:	7,904,483	5,710,525
Core Tier 1 Capital total	6,366,786	4,335,716
Tier 2 Capital total	1,537,697	1,374,809
Net capital	7,867,832	5,710,525
Total Net Core Tier 1 Capital	6,330,135	4,335,716
Net Tier 1 Capital	6,330,135	4,335,716
Total risk-weighted assets after applying capital base	59,214,150	41,704,197
Core Tier 1 Capital adequacy ratio	10.69%	10.40%
Tier 1 Capital adequacy ratio	10.69%	10.40%
Capital adequacy ratio	13.29%	13.69%

Notes to the Financial Statements

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3 FINANCIAL RISK MANAGEMENT (continued)

3.6 Fiduciary activities

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

	As at 31 December	
	2018	2017
Entrusted loans	5,047,273	7,332,402

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) ECL allowance of financial assets

The Bank has adopted IFRS 9 on 1 January 2018 to measure and account for financial instruments. For customer loans, credit related financial assets and financial investments measured at amortised cost, 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).

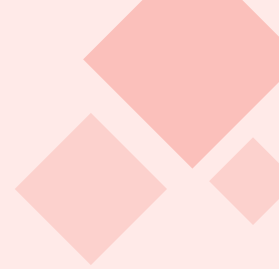
According to the requirements of accounting standards, the measurement of expected credit losses involves many critical judgements. For example:

Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

For measurement of the expected credit loss of financial assets, please refer to Note 3.1.4.



Notes to the Financial Statements

For the year ended December 31, 2018
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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation models (e.g. discounted cash flow model). To the extent practical, only observable data is used in the discounted cash flow model. However, areas such as credit risks (from both parties of transactions), market volatilities and correlations require the management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice. Where the final tax outcomes of these matters are different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made (Note 13).

d) Consolidation of structured entity

Structured entity, refers that when judging the control side of the entity, the key elements to consider are the contracts which the entities' main activities are based on or the corresponding arrangements rather than the voting rights or similar rights (for example: the voting rights are just associated with administrative matters only).

When the Bank acts as asset manager in structured entity, the Bank needs to identify whether it control the entity. There are 3 considerations. (i) Power to the invested entity; (ii) Exposure to variable remuneration of the invested entity; (iii) The ability to use the power to influence the amount of remuneration of the invested entity. If there is any indication that the control elements of the above have changed, the Bank will reassess its control over the invested entity. During the evaluation, the Bank considers many factors, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the amount of remuneration.

Notes to the Financial Statements

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

5 NET INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income		
Balances with central bank	114,787	85,939
Financial assets held under resale agreements, due from other banks and financial institutions	344,017	401,372
Customer loans	1,731,365	1,045,916
Financial investments – credit related financial assets	557,356	671,720
Financial investments	1,251,189	1,123,527
Total	3,998,714	3,328,474
Inside: interest income generated from impaired financial assets.	5,568	3,995
Interest expense		
Due to central bank	10,219	19,700
Financial assets sold under repurchase agreements, due to other banks and financial institutions	355,477	413,121
Customer deposits	1,280,020	915,406
Debt securities issued	580,600	405,912
Total	2,226,316	1,754,139
Net interest income	1,772,398	1,574,335

6 NET FEE AND COMMISSION INCOME/(EXPENSE)

	Year ended 31 December	
	2018	2017
Fee and commission income/(expense)		
Commission income from settlement and agency services	1,703	2,328
Commission income from bank card services	2,270	2,385
Commission income from custodian service	2,036	1,175
Commission income from credit commitments	2,513	1,320
Commission income from wealth management agency service	120	888
Commission income from investment banking	514	–
Other commission income	89	14
	9,245	8,110
Fee and commission expense	(7,377)	(10,000)
Net fee and commission income/(expense)	1,868	(1,890)

Notes to the Financial Statements

For the year ended December 31, 2018
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7 NET GAINS ON TRADING ACTIVITIES

	Year ended 31 December	
	2018	2017
Monetary fund	53,111	–
Foreign currency deposit	(19,289)	–
Debt securities	2,858	–
Equity investment	(12,569)	–
Total	24,111	–

8 NET GAINS ARISING FROM FINANCIAL INVESTMENTS

	Year ended 31 December	
	2018	2017
Net gains/(losses) arising from de-recognition of available-for-sale financial assets	N/A	97,784
Net gains/(losses) arising from de-recognition of FVOCI	60,333	N/A
Net gains/(losses) arising from de-recognition of financial investments – fair value through profit or loss	74,442	N/A
Total	134,775	97,784

9 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Net (loss)/gain on disposal of foreclosed assets	(8,999)	130
Net (loss)/gain on disposal of fixed assets	111	(296)
Incentive and subsidy funds	3,298	2,510
Penalty of early loan repayment	2,422	302
Rental income from investment properties	3,876	3,653
Other miscellaneous income	228	3,428
Total	936	9,727

Notes to the Financial Statements

For the year ended December 31, 2018
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10 OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs (i)	399,518	307,902
Business and administrative expenses	162,158	136,971
Professional fees	12,522	11,229
Auditor's remuneration	2,700	875
Rental fees	21,080	18,312
Depreciation and amortization	58,274	41,707
Tax and surcharges	18,947	7,794
Expenditures on public welfare donations	3,862	9,544
Other non-operating expenses	1,448	2,717
Other business expenses	6,419	6,117
Total	686,928	543,168

(i) STAFF COSTS

	Year ended 31 December	
	2018	2017
Salaries and bonuses	293,398	225,707
Pension cost – defined contribution plan	21,724	16,192
Other social security and benefit costs	25,841	19,215
Housing benefits and subsidies	15,702	11,426
Corporate annuity	14,918	14,053
Staff benefits	19,594	15,198
Staff education expenses	8,341	6,111
Total	399,518	307,902

Notes to the Financial Statements

For the year ended December 31, 2018
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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS

Top five highest paid individuals' remunerations are shown as below:

	Year ended 31 December	
	2018	2017
Salaries	3,196	2,687
Discretionary bonuses	8,077	7,090
Contribution to pension schemes	86	77
	11,359	9,854

The range of senior managements' remuneration is shown as below:

	Number of individuals Year ended 31 December	
	2018	2017
HK\$0- HK\$ 999,999	-	-
HK\$1,000,000- HK\$ 1,499,999	-	-
HK\$1,500,000- HK\$ 1,999,999	1	3
HK\$2,000,000- HK\$ 2,499,999	1	-
HK\$2,500,000- HK\$ 2,999,999	1	-
HK\$3,000,000- HK\$ 3,499,999	2	2
	5	5

Five highest paid individuals

For the year ended 31 December 2018, five highest paid individuals in the Bank are all marketing management, none of them are directors or supervisors (2017: Same).

The Bank does not pay any remuneration to any director, supervisor or five persons with the highest remuneration to compensate them for bonuses or resignations or as compensation for loss of office when they joined or joined the Bank.

Notes to the Financial Statements

For the year ended December 31, 2018
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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (continued)

Five highest paid individuals (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2018 are as follows:

Name	Salaries and allowances	Attendance allowance	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	352	–	738	17	1,107
Xu Xianzhong	352	7	738	17	1,114
Liu Shirong	315	–	665	17	997
Non-executive directors					
Xu Yan	–	5	–	–	5
Xiong Guoming	20	7	–	–	27
Liu Qi	–	7	–	–	7
Dai Zhiwei	–	5	–	–	5
Liu Xiaoyu	163	7	–	–	170
Gu Ming'an	163	7	–	–	170
Huang Yongqing	163	7	–	–	170
Tang Baoqi	25	–	–	–	25
Ye Changqing	25	–	–	–	25
Supervisors					
Yuan Shihong	315	–	665	17	997
Huang Ping	80	–	–	–	80
Duan Xuebin	80	–	–	–	80
Liu Yongli	252	–	413	17	628
Chen Yong	191	–	332	17	540
	2,496	52	3,551	102	6,201

- (1) At the 2017 annual general meeting of shareholders held on 30 May 2018, Ye Changqing and Tang Baoqi were elected as independent directors of the Bank. The two directors have been performing their duties since 17 December 2018, when the Bank went public.

Notes to the Financial Statements

For the year ended December 31, 2018
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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (continued)

Five highest paid individuals (continued)

Details of the directors' and supervisors' emoluments for the year ended 31 December 2017 are as follows:

Name	Salaries and allowances	Attendance allowance	Discretionary bonuses	Contribution to pension schemes	Total
Executive directors					
You Jiang	369	–	771	16	1,156
Xu Xianzhong	369	7	771	16	1,163
Liu Shirong	311	–	655	16	982
Non-executive directors					
Xu Yan	–	7	–	–	7
Xiong Guoming	20	5	–	–	25
Lian Jin	–	1	–	–	1
Liu Qi	–	2	–	–	2
Dai Zhiwei	–	7	–	–	7
Zhao Li	20	–	–	–	20
Liu Xiaoyu	150	6	–	–	156
Gu Ming'an	150	7	–	–	157
Huang Yongqing	75	3	–	–	78
Supervisors					
Yuan Shihong	331	–	693	16	1,040
Huang Ping	80	–	–	–	80
Duan Xuebin	80	–	–	–	80
Liu Yongli	221	–	471	16	708
Chen Yong	215	–	404	16	635
	2,391	45	3,765	96	6,297

- (1) In January 2017, Lian Jin resigned as director. In December 2017, Zhao Li resigned as director.
- (2) In the twenty-first shareholders' meeting in 2017, Liu Qi was elected as director; Huang Yongqing was elected as independent director.

Notes to the Financial Statements

For the year ended December 31, 2018
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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (continued)

Five highest paid individuals (continued)

The remuneration shown above represents remuneration received from the Bank by these directors in their capacity as employees of the Bank.

Emolument waived by directors during each of the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
Xu yan	20	20
Liu Qi	20	10
Dai Zhiwei	20	20
Total	60	50

No emoluments were paid by the Bank to the directors, supervisors as an inducement to join the Bank, or as compensation for loss of office during each of the years ended 31 December 2017 and 31 December 2018.

(a) Directors' retirement benefits

There is no retirement benefits paid to the directors during the year ended 31 December 2018 by defined benefit pension plans operated by the Bank. No other retirement benefits were paid to the directors in respect of their other services in connection with the management of the Bank other than those disclosed above. (2017: same)

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during each of the years ended 31 December 2018 and 31 December 2017.

Notes to the Financial Statements

For the year ended December 31, 2018
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11 DIRECTORS AND SUPERVISORS' EMOLUMENTS (continued)

(c) Consideration provided to third parties for making available directors' services

During each of years ended 31 December 2018 and 31 December 2017, the Bank did not pay any consideration to any third parties for making available the services of themselves as directors of the Bank.

(d) Directors' material interests in transactions, arrangements or contracts

In addition to the transactions disclosed in other parts of the notes to past financial information, the directors of the Bank did not directly or indirectly have significant interests in any other major transactions, arrangements and contracts made by the Bank during the end of the performance record period or at any time during the period.

12 IMPAIRMENT LOSSES/EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2018	2017
Customer loans impairment losses (Note 17(c))		
– Collectively assessed	N/A	134,605
– Individually assessed	N/A	81,923
ECL for customer loans at amortized cost	331,720	N/A
ECL for customer loans – FVOCI	(31,549)	N/A
ECL for financial investments – credit related financial assets/Impairment losses	(38,741)	29,839
ECL for other financial investment/impairment losses	101,389	76,599
ECL for guarantee commitment	12,200	N/A
Other impairment losses	21,791	1,880
Total	396,810	324,846

Notes to the Financial Statements

For the year ended December 31, 2018
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13 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current income tax	247,061	262,591
Deferred income tax (Note 30)	(51,378)	(66,808)
Total	195,683	195,783

Current income tax is calculated the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective year as stipulated in PRC tax laws.

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (2017: 25%) to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2018	2017
Profit before income tax	853,990	814,486
Tax calculated at a tax rate of 25%	213,497	203,621
Tax effect arising from non-taxable income (a)	(24,045)	(16,902)
Tax effect of expenses that are not deductible for tax purposes(b)	6,231	9,064
Income tax expense	195,683	195,783

- (a) The Bank's non-taxable income mainly represents interest income arising from treasury bonds, which is non-taxable in accordance with PRC tax laws.
- (b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to PRC Laws.

Notes to the Financial Statements

For the year ended December 31, 2018
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14 BASIC AND DILUTED EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Bank (RMB'000)	658,307	618,703
Weighted average number of ordinary shares issued ('000)	1,659,621	1,637,193
Basic earnings per share (in RMB)	0.40	0.38

According to the resolutions determined in annual meeting of the Shareholders on 21 July 2017, the Bank distributed 1.3 shares per 10 shares as share dividends for the profit distribution of 2016. The total share dividends amounted to RMB188,349,545 and the ordinary shares of the Company reached 1,637,193,385 shares after the distribution.

Please refer to Note 33 about the changes in share capital.

- (b) Diluted earnings per share

For the years ended 31 December 2017 and 2018, there was no potential diluted ordinary share, so the diluted earnings per share was the same as the basic earnings per share.

15 CASH AND BALANCES WITH CENTRAL BANK

	As at 31 December	
	2018	2017
Cash	99,912	69,232
Mandatory reserve deposits with central bank	6,287,703	6,014,326
Surplus reserve deposits with central bank	1,897,586	2,054,445
Fiscal deposits with central bank	84,316	7,700
Accrued interest	3,521	N/A
Total	8,373,038	8,145,703

The Bank is required to place mandatory deposits with central bank. The deposits are calculated based on the amount of deposits placed with the Bank by its customers.

	As at 31 December	
	2018	2017
	%	%
Mandatory reserve rate for deposits denominated in RMB	12.50	13.50

Mandatory reserve deposits with central bank are not available for use by the Bank in its day to day operations.

Surplus reserve deposits are maintained with central bank mainly for liquidity purpose.

Notes to the Financial Statements

For the year ended December 31, 2018
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16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS, DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Securities assets purchased under resale agreements	3,763,430	9,975,858
Notes purchased under resale agreements	–	1,866,006
Placements with other banks and financial institutions	1,713,442	14,611
Deposits with other banks and financial institutions	2,136,296	1,488,282
Minus:ECL allowance	(13,555)	–
Accrued interest	33,768	N/A
Total	7,633,381	13,344,757

17 CUSTOMER LOANS

(a) Customer loans

	As at 31 December	
	2018	2017
Customer loans at amortized cost		
Corporate loans	24,784,475	11,951,162
Personal loans	5,736,144	4,969,041
Discounted bills	N/A	2,481,153
Interest receivable	113,660	N/A
Total customer loans at amortized cost	30,634,279	19,401,356
Less: Allowance for impairment losses	N/A	(567,523)
– Collectively assessed	N/A	(481,015)
– Individual assessed	N/A	(86,508)
Less: ECL allowance	(792,833)	N/A
Net customer loans at amortized cost	29,841,446	18,833,833
Customer loans – FVOCI		
Discounted bills	644,908	N/A
Net customer loans – FVOCI	644,908	N/A
Net customer loans	30,486,354	18,833,833

Notes to the Financial Statements

For the year ended December 31, 2018
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17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	230,905	90,564	86,508	407,977
Provision for impairment/(reversal) (Note 1)	293,693	41,324	(12,600)	322,417
Written-off	-	-	(8,295)	(8,295)
Transfers:	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	(6,745)	6,745	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(710)	-	710	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(16,411)	16,411	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	1,059	1,059
Unwinding of discount	-	-	4,031	4,031
Loss allowance as at 31 December 2018	517,143	122,222	87,824	727,189

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	13,439	17,108	28,557	59,104
Provision for impairment/(reversal) (Note 1)	4,102	1,706	3,496	9,304
Written-off	-	-	(4,849)	(4,849)
Transfers:	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	(88)	88	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(147)	-	147	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(1,360)	1,360	-
<i>Transfer from Stage 3 to Stage 2</i>	-	147	(147)	-
<i>Transfer from Stage 2 to Stage 1</i>	776	(776)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	802	802
Unwinding of discount	-	-	1,283	1,283
Loss allowance as at 31 December 2018	18,082	16,913	30,649	65,644

Note 1: changes in the current year is due to purchase, production, or termination other than write-off.

Notes to the Financial Statements

For the year ended December 31, 2018
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17 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

The following table further illustrates the changes in the total book value of the corporate and personal loan portfolio to explain the impact of these changes on the portfolio's ECL.

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	11,363,056	464,183	123,923	11,951,162
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(321,950)	321,950	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(41,950)	-	41,950	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(77,270)	77,270	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(5,086,631)	(273,775)	(60,160)	(5,420,566)
New financial assets occurred or purchased	18,262,174	-	-	18,262,174
Written-off	-	-	(8,295)	(8,295)
Loss allowance as at 31 December 2018	24,174,699	435,088	174,688	24,784,475

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	4,810,168	90,082	68,791	4,969,041
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(38,809)	38,809	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(39,633)	-	39,633	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(7,538)	7,538	-
<i>Transfer from Stage 3 to Stage 2</i>	-	2,027	(2,027)	-
<i>Transfer from Stage 2 to Stage 1</i>	9,294	(9,294)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(1,769,108)	(23,875)	(35,520)	(1,828,503)
New financial assets occurred or purchased	2,600,455	-	-	2,600,455
Written-off	-	-	(4,849)	(4,849)
Loss allowance as at 31 December 2018	5,572,367	90,211	73,566	5,736,144

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17 CUSTOMER LOANS (continued)

(c) Movements on allowance for losses on customer loans:

	2017		Total
	Individual impairment	Collective impairment	
Balance at the beginning of the year	24,120	351,265	375,385
Impairment allowances/(reversal) for customer loans charged to profit or loss	81,923	134,605	216,528
Customer loans written off during the year as uncollectible	(26,034)	(4,120)	(30,154)
Recoveries of customer loans written off in prior years	8,859	900	9,759
Reversal of discounting	(2,360)	(1,635)	(3,995)
Balance at the end of the year	86,508	481,015	567,523

(d) Individually identified loans with impairment allowance:

	2017		Total
	Corporate loans and discounted bills	Personal loans	
Balance at the beginning of the year	319,133	56,252	375,385
Impairment allowances for customer loans charged to profit or loss/(reversal)	196,875	19,653	216,528
Customer loans written off during the year as uncollectible	(26,034)	(4,120)	(30,154)
Recoveries of customer loans written off in prior years	8,859	900	9,759
Reversal of discounting	(2,360)	(1,635)	(3,995)
Balance at the end of the year	496,473	71,050	567,523

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17 CUSTOMER LOANS (continued)

(e) Loans listed by assessment method for allowance

As at 31 December 2018	ECL allowance			Total
	Stage 1	Stage 2	Stage 3	
Total customer loans	30,391,974	525,299	248,254	31,165,527
– Corporate loans	24,819,607	435,088	174,688	25,429,383
– Personal loans	5,572,367	90,211	73,566	5,736,144
Less: ECL allowance	(535,225)	(139,135)	(118,473)	(792,833)
Accrued interest	101,475	1,214	10,971	113,660
Net customer loans	29,958,224	387,378	140,752	30,486,354

As at 31 December 2017	Impaired customer loans recognized (ii)				Total
	Customer loans collectively assessed for impairment provision (i)	Collective impairment	Individual impairment	Subtotal	
Corporate loans	11,827,239	–	123,923	123,923	11,951,162
Personal loans	4,900,250	68,791	–	68,791	4,969,041
Discounted Bills	2,481,153	–	–	–	2,481,153
Impairment provision	(452,458)	(28,557)	(86,508)	(115,065)	(567,523)
Net amounts of customer loans	18,756,184	40,234	37,415	77,649	18,833,833

- (I) Refers to customer loans that have not been identified as impaired, whose impairment allowance is assessed collectively.
- (II) Impaired customer loans recognized include loans identified as impaired with indicated objective evidence, and their impairment allowances are assessed either individually or collectively.

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18 FINANCIAL INVESTMENTS- CREDIT RELATED FINANCIAL ASSETS

The Bank's credit related financial assets are corporate loans issued through consolidated structured entities (trust and asset management plans).

	As at 31 December	
	2018	2017
Financial investments – credit related financial assets		
– Trust plans(1)	3,620,100	5,371,050
– Asset management plans (2)	2,275,900	3,033,000
Less: Impairment allowances	N/A	(124,671)
Less: ECL allowance	(88,410)	N/A
Accrued interest	14,012	N/A
Total	5,821,602	8,279,379

(1) Trust plans

	As at 31 December	
	2018	2017
Pledged	807,250	1,021,000
Collateralised	200,000	1,167,000
Guaranteed	1,449,850	1,740,050
Unsecured	1,163,000	1,443,000
Total	3,620,100	5,371,050

(2) Asset management plans

	As at 31 December	
	2018	2017
Pledged	1,710,900	1,663,000
Collateralised	475,000	1,200,000
Guaranteed	–	80,000
Unsecured	90,000	90,000
Total	2,275,900	3,033,000

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18 FINANCIAL INVESTMENTS- CREDIT RELATED FINANCIAL ASSETS (continued)

(2) Asset management plans (continued)

The movement of ECL of financial investments- credit related financial assets is as follows:

	Year ended 31 December 2018 Financial investments-credit related financial assets 12-month ECL for stage 1
As at 1 January 2018	127,150
Provision for ECL	–
Reversal of ECL allowances	(38,740)
As at 31 December 2018	88,410

	Year ended 31 December 2017 Financial investments-credit related financial assets
As at 1 January 2017	94,832
Provision for ECL	29,839
Reversal of ECL allowances	–
As at 31 December 2017	124,671

19 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2018	2017
Financial assets – fair value through profit or loss		
– Equity securities	45,352	N/A
– Funds	1,693,111	N/A
– Debt securities	102,859	N/A
Total	1,841,322	N/A

	As at 31 December	
	2018	2017
Financial investments – fair value through profit or loss		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	117,214	N/A
– Unlisted	1,724,108	N/A
Total	1,841,322	N/A

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20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2018	2017
Financial investments – FVOCI		
– Debt securities	5,747,169	N/A
Interest receivable	120,173	N/A
Total	5,867,342	N/A

	As at 31 December	
	2018	2017
Financial investments – FVOCI		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	2,383,025	N/A
– Unlisted	3,484,317	N/A
Total	5,867,342	N/A

Debt securities are analysed by issuer as follows:

	As at 31 December	
	2018	2017
Government	263,903	N/A
Policy banks	3,157,177	N/A
Commercial banks	–	N/A
Corporate entities	2,326,089	N/A
Total	5,747,169	N/A

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20 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The movement of ECL allowance of financial investments-FVOCI is as follows:

	As at 31 December 2018 Financial investments-FVOCI 12-month ECL for stage 1
As at 1 January 2018	1,110
Provision for ECL	4,825
Reversal of ECL allowances	–
As at 31 December 2018	5,935

21 FINANCIAL INVESTMENTS – AVAILABLE – FOR – SALE

	As at 31 December	
	2018	2017
AFS-equity securities		
– Listed in Hongkong	N/A	–
– Listed outside Hongkong	N/A	–
– Unlisted equity investments	N/A	996
– Wealth management products	N/A	2,310,840
AFS-debt securities		
– Listed outside Hongkong	N/A	9,064,775
Total	N/A	11,376,611

Investment securities are analysed by issuer as follows:

	As at 31 December	
	2018	2017
Policy banks	N/A	4,803,865
Commercial banks	N/A	3,931,056
Government	N/A	2,473,090
Corporate entities	N/A	167,604
Equity investment at cost	N/A	996
Total	N/A	11,376,611

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22 FINANCIAL INVESTMENTS – AMORTIZED COST

	As at 31 December	
	2018	2017
Financial investments		
– amortized cost		
– Industry funds(Senior tranche)	5,222,000	N/A
– Unlisted corporate bonds	5,925,080	N/A
– Trust plans ⁽¹⁾	2,086,000	N/A
– Debt securities ⁽³⁾	7,970,752	N/A
Subtotal	21,203,832	N/A
Less:ECL allowance	(213,163)	N/A
Interest receivable	405,093	N/A
Total	21,395,762	N/A

(1) Debt securities

	As at 31 December	
	2018	2017
Government	2,266,244	N/A
Policy banks	3,441,909	N/A
Commercial banks	246,393	N/A
Corporate entities	2,016,206	N/A
Total	7,970,752	N/A

	As at 31 December	
	2018	2017
Financial investments – amortized cost		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	995,696	N/A
– Unlisted	20,400,066	N/A
Total	21,395,762	N/A

The movement of ECL allowance of financial investments-amortized cost is as follows:

	12 months ended 31 December 2018	
	Financial investments-amortized cost	
	12-month ECL for stage 1	
As at 1 January 2018		128,532
Provision for ECL		84,631
As at 31 December 2018		213,163

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23 FINANCIAL INVESTMENTS – INVESTMENTS CLASSIFIED AS RECEIVABLES

	As at 31 December	
	2018	2017
Investment securities – investments classified as receivables		
Debt securities – at amortized cost		
Unlisted		
– Trust schemes ⁽¹⁾	N/A	4,478,520
– Asset management plan ⁽²⁾	N/A	2,100,750
– Wealth management products purchased from financial institutions ⁽³⁾	N/A	2,885,000
Impairment	N/A	(124,096)
Total	N/A	9,340,174

The movement of impairment of financial investments-investments classified as receivables is as follows:

	Year ended 31 December 2017 Financial investments-investments classified as receivables	
As at 1 January 2017		47,475
Provision for impairment		76,621
Reversal of impairment allowances		–
As at 31 December 2017		124,096

24 INVESTMENT IN AN ASSOCIATE

	As at 31 December	
	2018	2017
Balance at the beginning of the year	33,011	30,467
Share of profit after tax	3,640	2,544
Balance at the end of the year	36,651	33,011

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

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24 INVESTMENT IN AN ASSOCIATE (continued)

Investment in associates of the Bank are unlisted corporation's ordinary shares. assets, liabilities, revenue and profit of associates are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
31 December 2018						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	874,169	751,998	29,294	12,232	30%
31 December 2017						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	705,085	595,049	24,922	9,165	30%

25 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2018	70,706	8,001	85,419	10,650	524,101	698,877
Additions	3,942	-	14,698	10,858	104,055	133,553
Construction in progress transfer in/(out)	537,764	-	324	4,065	(542,153)	-
Disposals	(63)	(1,016)	(12)	-	-	(1,091)
Transfer to amortisation of long-term prepaid expenses	-	-	(4,278)	(363)	(37,643)	(42,284)
As at 31 December 2018	612,349	6,985	96,151	25,210	48,360	789,055
Accumulated depreciation						
As at 1 January 2018	(33,131)	(4,023)	(40,412)	(6,538)	-	(84,104)
Charge for the year	(10,880)	(858)	(17,230)	(1,662)	-	(30,630)
Disposals	60	965	12	-	-	1,037
As at 31 December 2018	(43,951)	(3,916)	(57,630)	(8,200)	-	(113,697)
Net book value						
As at 31 December 2018	568,398	3,069	38,521	17,010	48,360	675,358

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25 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2017	70,706	6,453	63,871	14,689	498,771	654,490
Additions	-	2,291	7,920	1,541	79,480	91,232
Construction in progress transfer in/(out)	-	-	16,568	-	(16,568)	-
Transfer to amortisation of long-term prepaid expenses	-	-	-	-	(37,582)	(37,582)
Disposals	-	(743)	(2,940)	(5,580)	-	(9,263)
As at 31 December 2017	70,706	8,001	85,419	10,650	524,101	698,877
Accumulated depreciation						
As at 1 January 2017	(29,793)	(4,059)	(26,308)	(10,323)	-	(70,483)
Charge for the year	(3,338)	(671)	(16,897)	(1,516)	-	(22,422)
Disposals	-	706	2,793	5,301	-	8,800
As at 31 December 2017	(33,131)	(4,024)	(40,412)	(6,538)	-	(84,105)
Net book value						
As at 31 December 2017	37,575	3,977	45,007	4,112	524,101	614,772

As at 31 December 2017 and 31 December 2018, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, were RMB13,082 thousand and RMB2,309 thousand respectively. However, directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

None of the land or property the Bank owned is located in Hong Kong.

(a) Significant construction in progress:

	As at 31 December	
	2018	2017
Headquarter building	-	442,200
Others	48,360	81,901
Total	48,360	524,101

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26 OTHER ASSETS

	As at 31 December	
	2018	2017
Interest receivable ^(a)	408	483,617
Prepaid expenses	10,268	6,529
Other receivables	21,741	24,535
Foreclosed assets ^(c)	152,877	116,753
Less: Impairment/ECL allowance ^(d)	(23,446)	(1,655)
Investment properties ^(b)	1,614	1,911
Amortisation of long-term prepaid expenses	68,518	35,200
Others	154	–
Total	232,134	666,890

(a) Interest receivable:

	As at 31 December	
	2018	2017
Due from banks, other financial institutions and central bank	N/A	35,578
Placements with banks, other financial institutions and central bank	N/A	–
Purchase with re-sale agreements investment securities	N/A	30,356
Investment securities	N/A	341,528
Customer loans	408	76,155
Total	408	483,617

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26 OTHER ASSETS (continued)

(b) Investment properties

	As at 31 December	
	2018	2017
Cost		
Balance at the beginning and the end of the year	11,724	11,724
Disposals	(271)	
Balance at the end of the year	11,453	11,724
Accumulated depreciation		
Balance at the beginning of the year	(9,813)	(9,529)
addition	(284)	(284)
Disposals	258	-
Balance at the end of the year	(9,839)	(9,813)
Net book value		
Balance at the end of the year	1,614	1,911

The analysis of the value of investment properties by remaining leasehold period are as follows:

	As at 31 December	
	2018	2017
Located in PRC		
Short-term lease (Within 10 years)	1,614	1,911

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26 OTHER ASSETS (continued)

(c) Foreclosed assets

	Properties & Plants	Others	Total
As at 1 January 2018	111,574	5,179	116,753
Additions	65,263	–	65,263
Disposals	(23,960)	(5,179)	(29,139)
As at 31 December 2018	152,877	–	152,877
As at 1 January 2017	15,500	–	15,500
Additions	96,074	5,179	101,253
Disposals	–	–	–
As at 31 December 2017	111,574	5,179	116,753

(d) Impairment for foreclosed assets

	Properties & Plants	Others	Total
As at 1 January 2018	(101)	(1,554)	(1,655)
Impairment	(23,345)	–	(23,345)
Written off	–	1,554	1,554
As at 31 December 2018	(23,446)	–	(23,446)
As at 1 January 2017	–	–	–
Impairment	(101)	(1,554)	(1,655)
Written off	–	–	–
As at 31 December 2017	(101)	(1,554)	(1,655)

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27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS, DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Deposits from other banks	5,173,559	4,787,989
Securities sold under repurchase agreements	1,680,500	6,405,920
Loans from other banks and financial institutions	1,720,000	870,000
Notes sold under repurchase agreements	–	–
Accrued interest	101,580	N/A
Total	8,675,639	12,063,909

28 CUSTOMER DEPOSITS

	As at 31 December	
	2018	2017
Corporate demand deposits	20,024,338	20,024,474
Including:		
Pledged deposits held as collateral	1,230,790	1,039,445
Corporate time deposits	9,654,967	6,090,369
Individual demand deposits	2,789,615	2,391,044
Individual time deposits	19,439,874	13,639,410
Accrued interest	476,810	N/A
Total	52,385,604	42,145,297

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29 DEBT SECURITIES ISSUED

	As at 31 December	
	2018	2017
Certificate of deposit	12,752,124	9,775,243
Fixed rate tier-2-capital debt –2027	1,000,000	1,000,000
Accrued interest	48,370	N/A
	13,800,494	10,775,243

The Bank issued RMB1 billion Tier II securities in February 2017. The term of these securities lasts for 10 years, and the fixed interest rate is 5.50%. The Bank, as an issuer, can choose to redeem the bond in part or for all on 14 February 2022 at the face value. If the capital level of the Bank still meet the requirement of CBIRC regulatory after executing the right of redemption, the Bank can choose to redeem the bond of this term for part or all on the last day of the interest rate year that is set to redeem in advance in this period.

By the end of 31 December 2018, the Bank did not have overdue in bond issued or certificate of deposit, or other default.

30 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2017 and 31 December 2018 for transactions in the PRC.

Movements in the deferred income tax account are as follows:

	As at 31 December	
	2018	2017
Balance at the end of last year	244,306	98,829
Impact of the criterion conversion	(75,095)	–
Balance at the beginning of the year	169,211	98,829
Charge to profit or loss (Note 13)	51,378	66,808
Fair value changes of available-for-sale securities	N/A	78,669
Fair value changes of financial investments – FVOCI	(33,718)	N/A
	186,871	244,306

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30 DEFERRED INCOME TAXES (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December			
	2018		2017	
	Temporary differences	Deferred income tax assets/ (liabilities)	Temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Fair value changes of available-for-sale securities	N/A	N/A	–	–
Fair value changes of FVPL	(43,401)	(10,850)	N/A	N/A
Fair value changes of FVOCI	(69,911)	(17,477)	N/A	N/A
Impairment for FVOCI	(13,647)	(3,411)	N/A	N/A
Subtotal	(126,959)	(31,738)	–	–
Deferred income tax assets				
Allowance for impairment losses of loans and provisions for guarantee commitment	453,161	113,290	373,510	93,377
Allowance for impairment losses of financial investment	301,582	75,395	248,776	62,194
Allowance for Interbank assets	13,555	3,389	–	–
Provisions	19,931	4,983	–	–
Impairment for FVOCI	13,647	3,411	N/A	N/A
Payroll payable	48,770	12,192	55,140	13,785
Fair value changes of available-for-sale securities	N/A	N/A	298,143	74,536
Others	23,793	5,949	1,655	414
Subtotal	874,439	218,609	977,224	244,306
Net deferred income tax assets	747,480	186,871	977,224	244,306

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31 RETIREMENT BENEFIT OBLIGATIONS

Employees who retire after 8 November 2016 can voluntarily participate in an annuity plan set up by the Bank pursuant to related state corporate annuity regulations. The Bank contributes to the annuity plan based on certain percentage of the employees' gross salary of previous year and the contribution is recognised in other comprehensive income as incurred.

	As at 31 December	
	2018	2017
Expenses incurred for corporate annuity plan	14,918	14,053

	As at 31 December	
	2018	2017
Statements of financial position obligations for:		
– corporate annuity	–	–

32 OTHER LIABILITIES

	As at 31 December	
	2018	2017
Interest payable ^(a)	N/A	547,097
Employee benefits payable	132,989	102,488
Dividends payable	42,102	39,115
Loan commission be liquidated	–	165,188
Deposit of financial guarantee	15,828	20,949
Deposit received	164	266
Liquidation of funds ^(a)	13,014	37,640
Interest receivable of entrusted loans	–	–
Provisions	19,931	–
Others	96,807	27,761
Total	320,835	940,504

Note(a): The liquidation funds contains large payment system cash flow and UnionPay liquidated funds

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32 OTHER LIABILITIES (continued)

(a) Interest payable

	As at 31 December	
	2018	2017
Deposits from banks and other financial institutions	N/A	103,880
Funds from other banks and financial institutions	N/A	24,727
Securities sold under repurchase agreements	N/A	14,850
Customer deposits	N/A	355,270
Debt securities issued	N/A	48,370
Total	N/A	547,097

33 SHARE CAPITAL AND SHARE PREMIUM

All shares of the Bank issued are fully paid ordinary shares. The par value per share is RMB1.00. The Bank's number of shares is as follows:

	As at 31 December	
	2018	2017
Number of shares	2,182,933	1,637,193

The movement of share capital is as follows:

	Year ended 31 December	
	2018	2017
Balance at the beginning of the year	1,637,193	1,448,844
Issue of shares	545,740	–
Share dividends	–	188,349
Balance at the end of the year	2,182,933	1,637,193

Generally, transactions of the following nature are recorded in the share premium:

- Share premium arising from the issue of shares at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations to be so treated.

Share premium can be utilised for the issuance of bonus shares or for increasing paid-in capital as approved by the shareholders.

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33 SHARE CAPITAL AND SHARE PREMIUM (continued)

As at 31 December 2017 and 2018, the Bank's share premium is shown as follow:

	As at 31 December 2017	Increase in the current year	As at 31 December 2018
Share premium	1,174,606	919,838	2,094,444

On 17 December 2018, the Bank has completed its initial offering of 545,740,000 H shares (including 16,566,000 shares sold in Hong Kong and 529,174,000 shares sold internationally) to domestic and overseas investors. After this issue, the share capital of the Bank is RMB2,182,933,385, divided into 2,182,933,385 shares of RMB1 each.

34 OTHER RESERVES

	Surplus reserve (a)	General reserve (b)	Revaluation reserve	Total
Balance at 31 December 2017	270,509	691,787	(223,607)	738,689
Changes arising from first implementation of IFRS9	-	-	185,117	185,117
Balance at 1 January 2018 (restated)	270,509	691,787	(38,490)	923,806
Other comprehensive income	-	-	101,159	101,159
Addition	65,831	155,762	-	221,593
Balance at 31 December 2018	336,340	847,549	62,669	1,246,558
Balance at 1 January 2017	208,639	409,303	12,399	630,341
Other comprehensive loss	-	-	(236,006)	(236,006)
Addition	61,870	282,484	-	344,354
Balance at 31 December 2017	270,509	691,787	(223,607)	738,689

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34 OTHER RESERVES (continued)

(a) Surplus reserve

In accordance with the Company Law of the People's Republic of China and the Bank's Articles of Association, 10% of the net distributable profit of the Bank, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. With approval, statutory surplus reserve can be used for making up losses, or increasing the share capital.

(b) General reserve

According to the "the notice of the issuance of 'the management methods for the extraction of non-performing loans of financial corporations'" (CAI No. [2005]49) and "the notice for the questions on bad debt reserve issues" (CAI [2005]90) that took effect on 17 May 2015 and 5 September 2005, banks are required to set aside general risk reserve from the net profits through profit appropriations. The accrue proportion of the general risk reserve is determined by the Bank considering the factor of its risk exposure, usually no less than the 1% of final balance of risk assets.

The Bank follows the "the management methods of financial corporation reserve" (CAI [2012]20) issued by the Ministry of Finance. According to its requirements, the general reserve should not be lower than the 1.5% of the final risk assets. Besides, since proportion of the general reserves to final risk asset of a financial corporation can hardly reach 1.5% at once, the corporation can take years to meet this requirement, but principally it should not exceed 5 years.

On 26 March 2019, the board of the Bank proposed that 1.5% of the risk asset at the end of 2018 should be accrued for general risk reserve amounted to RMB129,893 thousand (2017: RMB155,762 thousand). This proposal has yet to be approved at the annual general meeting.

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35 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividend declared during the year	418,906	54,396
Dividend per share (in RMB) (Based on prior year shares)	0.12	0.04

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

According to the "Plan for profit distribution of Luzhou City Commercial Bank Co. Ltd in 2017" approved in the annual general meeting for year 2017 on 30 May 2018, the Bank had distributed cash dividends RMB196,464 thousand (including tax) by 31 December 2017 to its shareholders, which is calculated at RMB0.12 dividend per share.

Besides, the Bank distributed additional cash dividends in total amount of RMB222,442 thousand from the retained earnings brought forward from 2015 and 2016 to its registered shareholders on 31 December 2016, according to the resolution approved in the 2017 annual general meeting on 30 May 2018 (The new shareholders registered in 2016 are entitled to this distribution on a pro rata basis according to the days of share holding in 2016).

On 26 March 2019, the board of the Bank proposed the distribution of cash dividends of RMB339,719 thousand (including tax) to its shareholders, which is calculated at RMB0.15 dividend per share based on the total 2,264,793,385 share issued. The 2018 annual dividend distribution plan has yet to be approved by the shareholders at the annual general meeting.

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36 STRUCTURED ENTITY

(a) Unconsolidated structured entity

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as an agent. Based on the analysis and research on the potential targeted clients, the Bank designs and sells capital investment and management plan to specific targeted clients, and the raised funds are then put into related financial market or invested in related wealth management products according to the product contracts. Gains would be allocated to investors after the Bank gained from investment. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank has recognised net commission income from unsecured wealth management products with the amount of RMB888 thousand and RMB120 thousand for the years ended 31 December 2017 and 2018 through provision of asset management service respectively. The Bank has not provided any liquidity support to the wealth management products during the period.

The Bank issues and manages unsecured wealth management products to individual investors. The funds raised from the individual investors are mainly invested in the open market bonds and money market instruments.

The Bank assesses its control on the unsecured wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of trust plans and the performance of targeted asset management plans. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

On 31 December 2018, the balance of unconsolidated wealth management products managed and consolidated by the Bank was RMB1,009,907 thousand (31 December 2017: RMB277,277 thousand).

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36 STRUCTURED ENTITY (continued)

(a) Unconsolidated structured entity (continued)

(ii) Unconsolidated structured entities invested by the Bank

The structured entities that the Bank did not consolidate in 2018 and 2017 mainly included monetary fund, capital trust schemes, directional asset management plans and financial products issued and managed by independent third parties. The Bank classified the unconsolidated structured entities as financial instruments-amortized cost and financial instruments-fair value through profit or loss.

The table below lists the book value and maximum loss risk exposure of the assets due to the holdings of profits from unconsolidated structured entities (including interest receivable).

As at 31 December 2018	Book value	Maximum risk exposure
Financial instruments-amortized cost	301,049	(301,049)
Financial instruments-fair value through profit or loss	1,723,111	(1,723,111)
Total	2,024,160	(2,024,160)

As at 31 December 2017	Book value	Maximum risk exposure
Financial instruments-Investments classified as receivables	1,099,000	(1,099,000)
Financial instruments-available-for-sale	2,310,864	(2,310,864)
Total	3,409,864	(3,409,864)

For the years ended 31 December 2017 and 2018, the Bank had not provided any financial or other support to unconsolidated structured entities.

The interest income and fee and commission income from the above unconsolidated structured entities were:

	Year ended 31 December	
	2018	2017
Interest income	14,333	116,860
Fee and commission income	120	888

Notes to the Financial Statements

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

36 STRUCTURED ENTITY (continued)

(b) Consolidated structured entity

As at 31 December 2018	Book value	Maximum loss exposure
Financial investments – credit related financial assets	5,821,602	(5,821,602)
Financial investments – measured at amortized cost	12,728,949	(12,728,949)
Total	18,550,551	(18,550,551)

As at 31 December 2017	Book value	Maximum loss exposure
Financial investments – credit related financial assets	8,279,379	(8,279,379)
Financial investments – measured at amortized cost	9,340,174	(9,340,174)
Total	17,619,553	(17,619,553)

The Bank's interest income and commission fee income obtained from the above-mentioned incorporated structured entities are as follows:

	As at 31 December	
	2018	2017
Interest income	1,327,528	1,355,430

Notes to the Financial Statements

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

37 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	As at 31 December	
	2018	2017
Bank acceptance Guarantees	1,585,988	1,238,938
	1,176,130	573,240
Total	2,762,118	1,812,178

The credit risk weighted amount refers to the amount calculated in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit commitments.

Capital expenditure commitments

	As at 31 December	
	2018	2017
Contracted but not provided for:		
– Capital expenditure commitments for buildings	3,371	3,833
– Acquisition of IT system	83,725	38,697
Total	87,096	42,530

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under irrevocable operating leases in respect of buildings are as follows:

	As at 31 December	
	2018	2017
Within 1 year	11,824	10,994
Between 1 to 5 years	24,917	30,510
Later than 5 years	2,800	3,490
Total	39,541	44,994

Notes to the Financial Statements

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

37 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Legal proceedings

Legal proceedings are initiated by third parties against the Bank as defendant. The Bank had no significant outstanding legal claims at 31 December 2017 and 31 December 2018.

38 COLLATERALS

(a) Assets pledged

As at 31 December 2017 and 2018, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2018	2017
Debt securities	1,810,000	6,405,920
Bills	-	-
Total	1,810,000	6,405,920

(b) Collateral accepted

The Bank received debt securities and bills as collateral in connection with the purchase of assets under resale agreements. As at 31 December 2017 and 2018, the Bank has not accepted collateral that can be resold or repledged. Such trade has been following the regular and general articles of the business. The Bank has the obligations to return the collateral at the agreed return date. As at 31 December 2017 and 2018, the Bank did not resale or repledge such collateral. The fair values of the collateral are as follows:

	As at 31 December	
	2018	2017
Debt securities	4,097,100	9,975,858
Bills	-	1,866,006
Total	4,097,100	11,841,864

Notes to the Financial Statements

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

39 OTHER COMPREHENSIVE INCOME

	Before tax amount	Tax (expense) benefit	Net of tax amount
Year ended 31 December 2017			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Financial investments – fair value through other comprehensive income	121,230	(30,307)	90,923
Changes in fair value taken to other comprehensive income	13,647	(3,411)	10,236
Other comprehensive income/(losses) for the year	134,877	(33,718)	101,159

	Before tax amount	Tax (expense) benefit	Net of tax amount
Year ended 31 December 2017			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Available-for-sale securities			
Changes in fair value taken to other comprehensive income	(314,675)	78,669	(236,006)
Other comprehensive income/(losses) for the year	(314,675)	78,669	(236,006)

40 NOTES TO STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	Year ended 31 December	
	2018	2017
Cash and balances with central bank	2,085,335	2,131,378
Financial assets held under resale agreements, due from other banks and financial institutions	2,839,410	1,028,282
	4,924,745	3,159,660

Notes to the Financial Statements

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

41 RELATED PARTY TRANSACTIONS

41.1 Related party relationships

The related parties of the Bank mainly include: the major shareholders as well as the entities controlled by them, the key management personnel (including the Bank's directors and senior management) and their family members who have close relationships with them as well as the entities which are controlled, joint controlled or can be significantly influenced by the Bank's key management personnel or their family members.

As at 31 December 2018, the major shareholders of the Bank is as follows:

Name of shareholders	Amount (thousand shares)	ratio(%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.91%
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	12.42%
Luzhou Xinfu Mining Group Co., Ltd.	271,200	12.42%
Total	867,840	39.75%

As at 31 December 2017, the major shareholders of the Bank is as follows:

Name of shareholders	Amount (thousand shares)	ratio(%)
Luzhou Laojiao Group Co., Ltd.	325,440	19.88%
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	16.56%
Luzhou Xinfu Mining Group Co., Ltd.	271,200	16.56%
Total	867,840	53.00%

Notes to the Financial Statements

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

41 RELATED PARTY TRANSACTIONS (continued)

41.2 Related party transactions

Transactions between the Bank and related parties are conducted in accordance with general commercial terms and normal business procedures. The pricing principle is consistent with that of an independent third party transaction. The related party transactions of the Bank are as follows:

(1) Related party customer loans

	As at 31 December	
	2018	2017
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	-	-
Sichuan Jiale Enterprise Group Co., Ltd.	-	-
Luzhou Xinfu Mining Group Co., Ltd.	-	-
Other legal person related parties	1,708,764	1,434,000
The key management personnel or their family members	23,623	46,922
Total	1,732,387	1,480,922

(2) Related party loan interest income

	Year ended 31 December	
	2018	2017
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	-	-
Sichuan Jiale Enterprise Group Co., Ltd.	-	-
Luzhou Xinfu Mining Group Co., Ltd.	-	-
Other legal person related parties	114,302	11,060
The key management personnel or their family members	1,458	2,227
Total	115,760	13,287

Notes to the Financial Statements

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

41 RELATED PARTY TRANSACTIONS (continued)

41.2 Related party transactions (continued)

(3) Related party deposits

	As at 31 December	
	2018	2017
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	–	3,050
Sichuan Jiale Enterprise Group Co., Ltd.	–	635
Luzhou Xinfu Mining Group Co., Ltd.	–	2
Other legal person related parties	1,069,847	373,205
The key management personnel or their family members	116,568	34,332
Total	1,186,415	411,224

(4) Related party deposit interest expense

	Year ended 31 December	
	2018	2017
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	–	156
Sichuan Jiale Enterprise Group Co., Ltd.	–	117
Luzhou Xinfu Mining Group Co., Ltd.	–	–
Other legal person related parties	10,852	928
The key management personnel or their family members	209	1,263
Total	11,061	2,464

Notes to the Financial Statements

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

41 RELATED PARTY TRANSACTIONS (continued)

41.2 Related party transactions (continued)

(5) Related party financial investments-credit related financial assets

	As at 31 December	
	2018	2017
Other legal person related parties	-	150,000
Total	-	150,000

(6) Related party fees commission and income

	Year ended 31 December	
	2018	2017
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	-	1
Sichuan Jiale Enterprise Group Co., Ltd.	-	-
Luzhou Xinfu Mining Group Co., Ltd.	-	1
Other legal person related parties	39	3
The key management personnel or their family members	3	-
Total	42	5

	As at 31 December	
	2018	2017
Customer loans	3.43%-8.5%	3.43%-9.84%
Customer deposits	0.385%-5.50%	0.385%-5.50%
Investment securities-investments classified as receivables	/	7.825%

Notes to the Financial Statements

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

41 RELATED PARTY TRANSACTIONS (continued)

41.2 Related party transactions (continued)

(7) Key management compensation

Key management personnel refer to those who are entitled to plan, direct and control the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of directors and other key management personnel during the years are as follows:

	Year ended 31 December	
	2018	2017
Remuneration, salary, allowances and benefits	3,921	4,351
Discretionary bonuses	10,211	11,830
Contribution to pension schemes	155	221
Total	14,287	16,402

(8) Property leasing agreement

Luzhou Laojiao Real Estate Development Co., Ltd., a subsidiary of Luzhou Laojiao Group Co., Ltd., an related party of the Bank, leased two properties located in Chengdu, Sichuan Province to the Bank. The lease term starts from 1 May 2018 until 31 December 2018. The total rent is RMB795,312.

Yijia Real Estate Development Co., Ltd., an related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 August 2016 until 31 July 2019, for a period of three years. The annual rent in the first two years is calculated at RMB34 per square meter per month, which is RMB69,768. The rent rises by 5% and increased to RMB73,256 for the third year.

These related party transactions are conducted in accordance with general commercial terms and normal business procedures, and their pricing principles are consistent with those of independent third party transactions.

(9) Government related entities

The transactions between the Bank and the government authorities proceed under normal commercial terms and conditions. These transactions mainly include provision of deposits and agency service. The Bank considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities.

Notes to the Financial Statements

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

42 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retailing banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retailing banking mainly provides individual customers with financial products and services including deposits and loans.

Financial Markets mainly performs inter-bank lending and borrowing, bonds investment and re-purchasing activities.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

	Year ended 31 December 2018				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income from external customers	949,963	(498,618)	1,321,053	-	1,772,398
Inter-segment net interest income/(expense)	(47,740)	832,753	(785,013)	-	-
Net interest income	902,223	334,135	536,040	-	1,772,398
Net fee and commission income/(expense)	3,920	(2,066)	-	14	1,868
Net gains on trading activities	-	-	24,111	-	24,111
Net gains arising from financial investments	-	-	134,775	-	134,775
Other operating income	-	-	-	936	936
Operating income	906,143	332,069	694,926	950	1,934,088
Operating expense	(236,612)	(152,186)	(297,482)	(648)	(686,928)
- Depreciation and amortisation	(13,299)	(4,125)	(19,145)	-	(36,569)
- Others	(223,313)	(148,061)	(278,337)	(648)	(650,359)
Impairment losses	(303,066)	(9,304)	(62,649)	(21,791)	(396,810)
Share of profit of an associate	-	-	3,640	-	3,640
Profit before income tax	366,465	170,579	338,435	(21,489)	853,990
Capital expenditure	31,597	9,802	45,500	197	87,096
As at 31 December 2018					
Segment assets	29,947,897	9,290,161	43,124,680	187,077	82,549,815
Segment liabilities	(30,120,029)	(22,485,934)	(23,576,945)	(121)	(76,183,029)

Notes to the Financial Statements

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

42 SEGMENT ANALYSIS (continued)

	Year ended 31 December 2017				Total
	Corporate Banking	Retail Banking	Financial Markets	Others	
Net interest income from external customers	596,935	(386,425)	1,363,825	-	1,574,335
Inter-segment net interest income/(expense)	(68,513)	886,380	(817,867)	-	-
Net interest income	528,422	499,955	545,958	-	1,574,335
Net fee and commission income/(expense)	4,316	(6,219)	-	13	(1,890)
Net gains on trading activities	-	-	-	-	-
Net gains arising from financial investments	-	-	97,784	-	97,784
Other operating income	-	-	-	9,727	9,727
Operating income	532,738	493,736	643,742	9,740	1,679,956
Operating expense	(78,629)	(224,740)	(235,131)	(4,668)	(543,168)
- Depreciation and amortisation	(6,283)	(17,958)	(17,750)	-	(41,991)
- Others	(72,346)	(206,782)	(217,381)	(4,668)	(501,177)
Impairment losses	(196,527)	(20,001)	(108,318)	-	(324,846)
Share of profit of an associate	-	-	-	2,544	2,544
Profit before income tax	257,582	248,995	300,293	7,616	814,486
Capital expenditure	31,134	13,698	69,476	-	114,308
As at 31 December 2017					
Segment assets	19,250,712	8,469,969	42,939,259	219,496	70,879,436
Segment liabilities	(26,263,845)	(16,453,114)	(23,826,759)	(3)	(66,543,721)

There is no high reliance of the Bank to any of the major external customers.

43 SUBSEQUENT EVENTS

On 14 January 2019, the Bank exercised the overallotment rights, and completed the issuance of 81,860,000 shares of overseas shares of H shares (only including overallotment). Among them, together with the original issued capital stock of 2,182,933,385 shares, the Bank's share capital after the H Shares listing is RMB2,264,793,385, representing 2,264,793,385 shares of RMB1 per share, including 627,600,000 shares of overseas listed foreign shares (H shares).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The information set out below does not form part of the audited financial statements, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY RATIOS AND LEVERAGE RATIO

(1) Liquidity ratios

	As of December 31, 2015
RMB current assets to RMB current liabilities	57.72%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of December 31, 2016
RMB current assets to RMB current liabilities	44.99%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of December 31, 2017
RMB current assets to RMB current liabilities	48.42%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of December 31, 2018
RMB current assets to RMB current liabilities	73.40%
Foreign currency current assets to foreign currency current liabilities	N/A

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(2) Leverage ratio

	As of December 31,			
	2015	2016	2017	2018
Leverage ratio	8.48%	6.38%	5.69%	6.88%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the China Banking Regulatory Commission (the “CBRC”) and was effective since April 1, 2015, a minimum leverage ratio of 4% is required.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial information prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance in the People’s Republic of China.

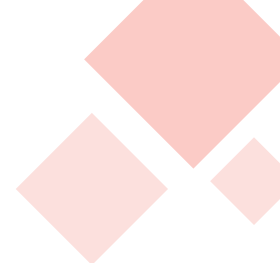
As of December 31, 2017

	Gross customer loans by securities which have been overdue with respect to either principal or interest for periods of									
	up to 90 days		90 days – 1 year		1 – 3 years		over 3 years		Total	
	(inclusive) ('000)		(inclusive) ('000)		(inclusive) ('000)		('000)		('000)	
	Amount	% of total gross customer loans	Amount	% of total gross customer loans	Amount	% of total gross customer loans	Amount	% of total gross customer loans	Amount	% of total gross customer loans
Pledged loans	290	0.12%	340	0.14%	-	0.00%	-	0.00%	630	0.27%
Collateralised loans	48,081	20.35%	20,697	8.67%	87,913	37.22%	1,430	0.61%	158,121	66.94%
Guaranteed loans	40,420	17.11%	3,734	1.58%	2,850	1.21%	312	0.13%	47,316	20.03%
Unsecured loans	27,310	11.56%	2,158	0.91%	129	0.05%	564	0.24%	30,161	12.77%
Total	116,101	49.15%	26,929	11.40%	90,892	38.48%	2,306	0.98%	236,228	100.00%

December 31, 2018

	1 – 90 days		90 days – 1 year		1 – 3 years		over 3 years		Total	
	% of total customer loans		% of total customer loans		% of total customer loans		% of total customer loans		% of total customer loans	
	Amount	loans	Amount	loans	Amount	loans	Amount	loans	Amount	loans
Pledged loans	980	0.35%	820	0.30%	-	-	-	-	1,800	0.65%
Collateralised loans	48,460	17.47%	88,878	32.04%	55,273	19.93%	22,208	8.01%	214,819	77.45%
Guaranteed loans	30,707	11.07%	26,025	9.38%	-	-	1,500	0.54%	58,232	20.99%
Unsecured loans	137	0.05%	120	0.04%	2,207	0.80%	67	0.02%	2,531	0.91%
Total	80,284	28.94%	115,843	41.76%	57,480	20.73%	23,775	8.57%	277,382	100.00%

Definitions



“Articles of Association” or “Articles”	the articles of association of the Bank, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of our Bank
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Bank”, “our Bank”, “we”, “us” or “Luzhou City Commercial Bank”	Luzhou City Commercial Bank Co., Ltd. (泸州市商业银行股份有限公司)
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in our share capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Global Offering”	the Hong Kong Public Offering and the International Offering, details are set out in the Prospectus
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange
“IAS”	International Accounting Standards and its interpretations

Definitions

“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Latest Practicable Date”	April 18, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
“Listing”	the listing of the H Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Prospectus”	the prospectus of the Global Offering of the Bank
“Reporting Period”	the full year from January 1, 2018 to December 31, 2018
“RMB” or “Renminbi”	the lawful currency of the PRC
“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)”	the holder(s) of the Shares
“Shares”	the domestic shares and H shares of the Bank
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance
“Supervisor(s)”	the supervisor(s) of the Bank
“U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the U.S.

