

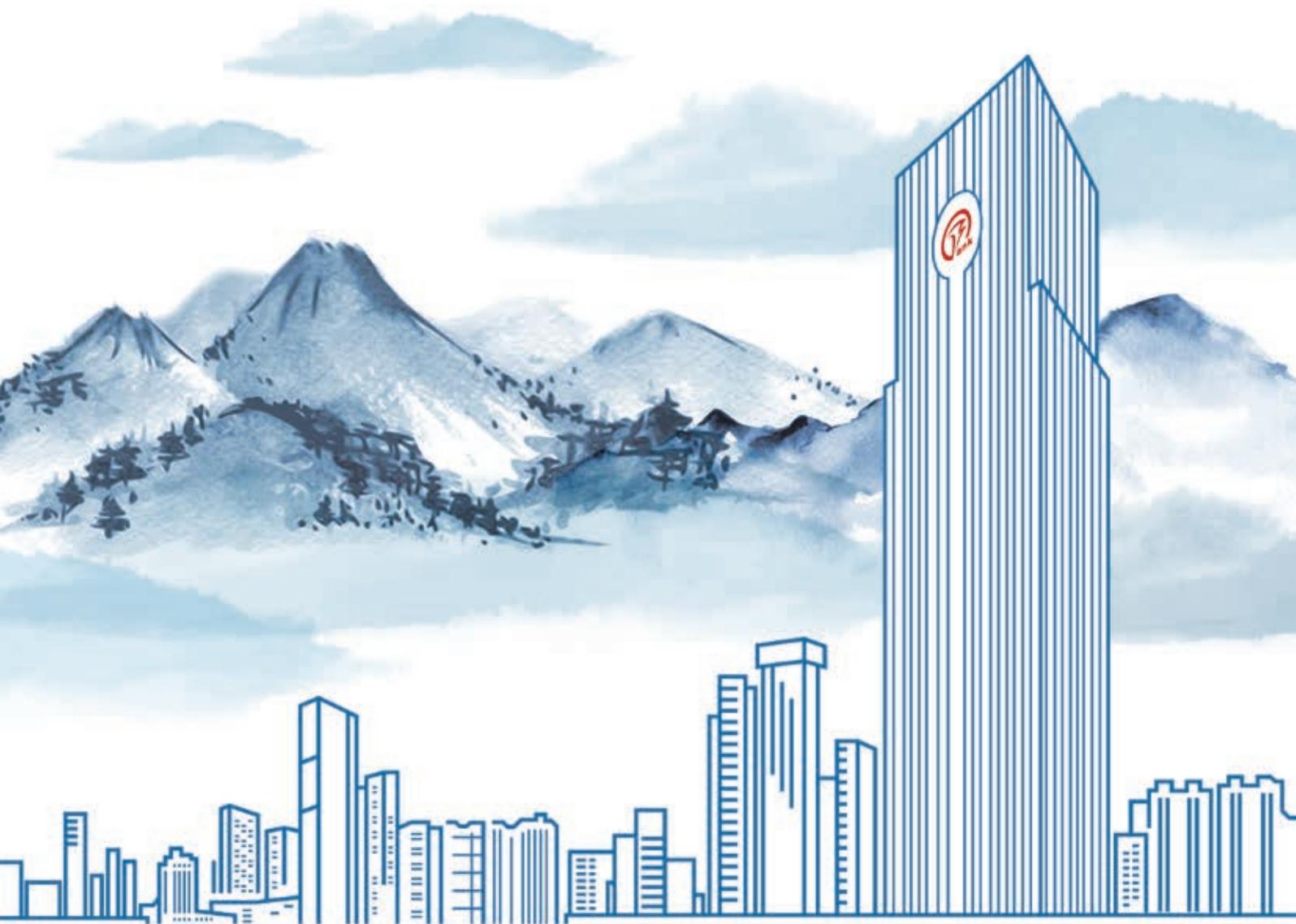


徽商銀行股份有限公司

Huishang Bank Corporation Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
STOCK CODE: 3698

2018 Annual Report



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Definitions

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

“Bank” or “Huishang Bank”	Huishang Bank Corporation Limited, including its subsidiaries and branches
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBRC”	The former China Banking Regulatory Commission (原中國銀行業監督管理委員會)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“CBIRC Anhui Office”	the China Banking and Insurance Regulatory Commission Anhui Office (中國銀保監會安徽監管局)
“CBRC Anhui Office”	The former China Banking Regulatory Commission Anhui Office (原中國銀監會安徽監管局)
“Domestic Shares”	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
“H Shares”	the ordinary shares issued by the Bank to overseas investors, which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
“Overseas Preference Shares”	44,400,000 non-cumulative perpetual overseas preference shares issued by the Bank and listed on the Hong Kong Stock Exchange with a nominal value of RMB100 per share
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“H Share Listing”	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
“H Share Listing Date”	the date on which dealings in the H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Latest Practicable Date”	the latest practicable date for the purpose of ascertaining certain information contained in this annual report, i.e. 27 March 2019
“Non-green Industries”	the heavily-polluting, highly energy-consuming and over-capacity industries
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“PBOC”	the People’s Bank of China
“China” or “PRC”	the People’s Republic of China
“Reporting Period”	the year of 2018 (1 January 2018 to 31 December 2018)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Yuan” or “RMB”	Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this annual report shall be Renminbi
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$” or “U.S. Dollars”	U.S. dollars, the lawful currency of the United States

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Registered Chinese name: 徽商银行股份有限公司¹
Registered English name: Huishang Bank Corporation Limited
- 1.1.2 Legal representative: Wu Xuemin
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Secretary to the Board of Directors: Lian Baohua
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-551-62667729
Fax: +86-551-62667787
Postal code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 40/F, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP (Special General Partnership)
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dong Cheng District, Beijing, the PRC
International auditor: Ernst & Young
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Latham & Watkins LLP
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H share registrar: Computershare Hong Kong Investor Services Limited

Note: 1 Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, H shares of the Bank were listed on the main board of the Hong Kong Stock Exchange (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 from the CBRC Anhui Office and the unified social credit code numbered 913400001489746613 from the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As at the end of 2018, the registered capital of the Bank was approximately RMB12,154,801,211. The Bank successfully issued Overseas Preference Shares with an amount of USD888 million in November 2016 and such shares were listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompass money market activities, investment and trading activities and transactions on behalf of customers. As of 31 December 2018, Huishang Bank had 9,515 on-the-job employees. Apart from its headquarters, the Bank has 17 branches, 424 front offices (including 2 business department branches and 422 sub-branches) and 661 self-service areas (points). The Bank also has three subsidiaries, namely Huiyin Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interest in Chery Huiyin Motor Finance Service Co., Ltd..

By maintaining its market position as a bank "serving the local economy, serving small and medium enterprises ("SME(s)") and serving the general public", the Bank has continuously experienced a relatively fast growth in its business development, has gradually strengthened its comprehensive strength, has steadily improved its operational management standards, and has achieved a synergic development of scale, quality and efficiency, thus building up a good social image of the "local bank", the "people's bank" and the "SME bank", and becoming a regional commercial bank that is more well-known and has considerable influence in Anhui Province and even in the banking industry across China. With the full recognition and widespread praise from all sectors of society, the Bank was named one of the top 200 in the "Top 1000 World Banks" by The Banker, a UK magazine, with the ranking at No. 162, 6 places up from that in the last year.

Chapter I Corporate Information

1.3 AWARDS FOR 2018

In 2018, the Bank won numerous accolades and rewards in contests organized by domestic authorities and organizations:

Time	Reward	Awarding Agencies
January	Direct banking brand "Hui Chang You Cai (徽常有财)" was awarded as one of the "2018 Hurun Top 50 New Financial Companies" and the "2018 Best User Experience Platform for Hurun New Finance"	Hurun Report, Xiao Tongren
January	"Outstanding Core Dealer in the Interbank Local Currency Market for 2017"	China Foreign Exchange Trading System, the National Interbank Lending Center
January	"Outstanding Bank Award in Social Responsibility for 2017"	China Times
January	Best Model Award of "2017 China Banking Association Good News Award"	China Banking Association
January	"Outstanding Contribution Award of 'Healthy Anhui' 2017 Riding Competition between Yangtze River and Huaihe River"	Anhui Province Sports Bureau, Anhui Provincial Tourism Administration, Anhui New Media Group
January	The First, Second and Third Prizes of Anhui Provincial Internal Audit Theory Seminar in 2017	Anhui Internal Audit Association
February	The Bank was awarded the first prize of "2017 Provincial Government Non-tax Revenue Agency Bank" for 12 consecutive years	Anhui Provincial Department of Finance, PBOC Hefei Central Sub-branch
February	"Provincial Outstanding Unit in Petition Work Responsibility Assessment for 2017"	Anhui Provincial Party Committee and Provincial Government
February	"Pilot Prize for Linkage of Investment and Loan in Technology Finance for 2017"	Gaoxin District, Hefei
February	The Wechat official account of the credit card service of the Bank was awarded the "New Media for Most Influential Enterprises in Anhui in 2017"	Hefei Radio and Television Center
March	"Smart Investment Platform" was awarded the "Direct Selling Banking Product Award for 2017"	the CIWEEK magazine of the Chinese Academy of Sciences and the Information Research Center of the Chinese Academy of Social Sciences
March	The Bank was selected as one the Top 100 Banks in RMB and Foreign Exchange Market for seven consecutive years	China Foreign Exchange Trading System, the National Interbank Lending Center
March	2017 Outstanding Credit Card Centre in Anhui	Sina Anhui
April	2017 Excellent Promotion of UnionPay Risk Control Award	Anhui UnionPay
April	"2017 Excellent Business Award in OTC Market" of Shanghai Gold Exchange	Shanghai Gold Exchange
April	No.1 in Assessment of Payment and Liquidation Work for 2017 of Anhui Province	PBOC Hefei Central Sub-branch
April	2017 Excellent Promotion of UnionPay High-end Card Award	Anhui UnionPay

Chapter I Corporate Information

Time	Reward	Awarding Agencies
April	2017 Outstanding banking Dealer, Outstanding Note Transaction Supervisor and Outstanding Note Trader	Shanghai Commercial Paper Exchange
April	Grade A Taxpayer in Anhui Province for 2017	Anhui Provincial Tax Service, State Taxation Administration
April	2017 Excellent Market Maker in inter-bank bond market and Excellent Attempting Market Maker in interest rate bonds market	National Association of Financial Market Institutional Investors
April	One of the PRC Top 100 "Advanced Unit for Safety Management"	China Banking Association
April	The first prize of Research Subject of Anhui Financial Society in 2017	Anhui Financial Society
May	The Bank was awarded as one of the "2017 Outstanding Enterprises for Financial Contribution in Luyang District, Hefei City" for three consecutive years	Luyang District Committee of Hefei City of the Communist Party of China, Luyang District, Hefei government of Anhui province
May	the Bank was awarded one of the "Class A Institutions in Implementing the Relevant Provisions of the People's Bank of China in 2017"	PBOC Hefei Central Sub-branch
June	"2018 Junding Award for Classic Cases of Targeted Poverty Alleviation by Financial Institutions"	Securities Times
June	Credit card of VISA World Cup was awarded the "VISA Promotion Award"	China Head Office of VISA
June	Best Mobile Bank of User Experience of China Internet for 20 Years	the CIWEEK magazine of the Chinese Academy of Sciences and the Information Research Center of the Chinese Academy of Social Sciences
June	"Best Trading Partner Bank"	China Banking Association
June	The Bank was awarded the "Class A in the Lead Underwriting Business of Bonds" by Financial Institutions for two consecutive years	PBOC Hefei Central Sub-branch
July	"Active Dealer in the Money Market" and "Active Dealer in the Bond Market"	National Interbank Lending Center
July	The Bank was within the top 20 on "Income Capability Ranking", "Innovation Capability Ranking" and "Integrated Wealth Management Capability Ranking of City Commercial Banks" in PRC Banking Wealth Management Business Development Report for 2017	China Banking Association
July	"Excellent Organization Award" of the Ninth National Competition of Outstanding Wealth Managers	China Banking Association, the Hong Kong Institute of Bankers and Financial Times
August	The 10th Anniversary Brand Marketing Promotion Case of Huangshan Credit Card won the "2018 Great Wall Award of China Advertising – Copper Award of Content Marketing"	China Advertising Association

Chapter I Corporate Information

Time	Reward	Awarding Agencies
September	The first prize of the first session of "Excellent Financial Statistics Papers and Research Report"	Anhui Provincial Association of Financial Statistics
September	"Excellent Information and Communication Units of Anhui Banking Industry in 2017"	Association of Anhui Bank
September	No.1 in Assessment of the Savings and Treasury Bond Underwriters in the Second Quarter of 2018	Hefei Central Sub-branch of the People's Bank of China
October	"Advanced Demonstration Unit" and "Outstanding Innovation Unit" in 2018 Banking Customer Service Center	China Banking Association
November	2018 TOP City Commercial Bank in Finance	The Paper
November	2018 Employers with the Most Potential in China	Institute of Social Science Survey, Peking University, Zhaopin
November	Hefei Huayuan Street Sub-branch, Wuhu Wuwei Sub-branch and Anqing Renmin Road Sub-branch were awarded with "Youth Civilization in 2017" and Personal Mobile Financial Department Customer Service Center in Head office was awarded with "Model of Youth Civilization in 2017"	Youth Civilization Building Group of Anhui
November	Construction Safety and Production Standardization Site of Construction and Engineering Projects	Construction Safety Branch of China Construction Industry Association
November	Excellent Research Paper on Subject of Financial Support for Rural Revitalization	Anhui Financial Society
December	2018 Top 10 City Commercial Bank Golden Dragon Award	Financial Times
December	Banks with Outstanding Contributions to Targeted Poverty Alleviation in Anhui in 2018	Xin'an Evening News
December	Ranking first in the banking sector in the activity of "Resident Satisfaction Research of Top 10 Service Industries in Anhui" in 2018, and was awarded the title of "Resident's Most Satisfactory Bank in Anhui"	Anhui Center for Provincial Survey
December	Hefei Huayuan Street Sub-branch, Wuhu Huangshan Road Sub-branch, Huainan Square Road Sub-branch, Ma'anshan Hunan Road Sub-branch, Fuyang Taihe Sub-branch were honored with "Thousand Banks with Civilized and Standardized Services in 2018"	China Banking Association
December	Award for Outstanding Contributions to Financial Technology Innovation in 2018	Financial Computerizing Magazine
December	Award for Contributions to Poverty Alleviation	China Economic Net
December	Innovative Application Award for Direct Bank in 2018	China Financial Certification Authority (CFCA)
December	The Most Influential Direct Bank in 2018	China Internet Weekly of Chinese Academy of Sciences, Information Research Center of Chinese Academy of Social Sciences
December	Banks with Inclusive Finance Business in 2018	21st Century Media
December	Nomination Award in the Internal Audit Theory Seminar in 2018	China Institute of Internal Audit
December	"Jin Li Cai" Outstanding Award for Wealth Management of City Commercial Bank	Shanghai Securities News

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

			Changes over the corresponding period of the last year
Operational results	2018	2017	+/(-)%
Net operating income ⁽¹⁾	26,951	22,508	19.74%
Profit before tax	10,821	9,613	12.57%
Net profit attributable to shareholders of the Bank	8,747	7,615	14.87%

Unit: RMB, except for percentages

			Changes over the corresponding period of the last year
Per ordinary share	2018	2017	+/(-)%
Basic earnings attributable to shareholders of the Bank	0.69	0.60	15.00%
Diluted earnings attributable to shareholders of the Bank	0.69	0.60	15.00%
Closing net assets attributable to shareholders of the Bank	5.12	4.68	9.40%

Unit: RMB million, except for percentages

			Changes over the end of the last year
Scale indicators	31 December 2018	31 December 2017	+/(-)%
Total assets	1,050,506	908,100	15.68%
Including: Total loans and advances ⁽²⁾	381,766	314,694	21.31%
Total liabilities	980,229	848,888	15.47%
Including: Total customer deposits	573,798	512,808	11.89%
Equity attributable to shareholders of the Bank	68,213	57,703	18.21%

Notes: (1) Net operating income comprises net interest income, net fee and commission income, net trading income/(loss), net income/(loss) on financial investments, dividend income and other operating income, net.

(2) Accrued interest and provision for impairment are not included in total loans and advances.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

Profitability indicators ⁽¹⁾	2018	2017	Unit: %
			Changes over the corresponding period of the last year + / (-) %
Return on average total assets	0.90	0.94	(0.04)
Return on average net assets	15.08	15.56	(0.48)
Net interest spread	2.21	2.18	0.03
Net interest margin	2.37	2.31	0.06

Proportion of net operating income	2018	2017	Unit: %
			Changes over the corresponding period of the last year + / (-) %
Net interest income ⁽²⁾	66.67	89.73	(23.06)
Net non-interest income ⁽³⁾	33.33	10.27	23.06
Cost-to-income ratio (including tax and surcharges) ⁽⁴⁾	23.02	25.90	(2.88)

Asset quality indicators	31 December 2018	31 December 2017	Unit: %
			Changes over the end of the last year + / (-) %
Non-performing loan ratio	1.04	1.05	(0.01)
Allowance to non-performing loan ratio	302.22	287.45	14.77
Allowance to loans ratio	3.15	3.01	0.14

Capital adequacy indicators	31 December 2018	31 December 2017	Unit: %
			Changes over the end of the last year + / (-) %
Core tier I capital adequacy ratio	8.37	8.48	(0.11)
Capital adequacy ratio	11.65	12.19	(0.54)
Equity to total assets ⁽⁵⁾	6.69	6.52	0.17

Notes: (1) The ratios are annualized.

(2) In 2018, the net interest income from financial instruments at fair value through profit or loss was charged to net trading income/(loss), while the data in 2017 was not adjusted retrospectively.

(3) Net non-interest income in this indicator comprises of net fees and commission income, net trading income/(loss), net income/(loss) on financial investments, dividend income and other operating income, net, but excludes net income from investment in associates.

(4) Cost-to-income ratio = Operating expenses/Operating income.

(5) Equity includes minority interests.

Chapter II Summary of Accounting Data and Business Data

2.3 FIVE-YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015	2014
Results for the year (RMB thousand)					
Net operating income	26,950,609	22,508,325	20,918,409	16,977,100	12,748,053
Operating expenses	(6,204,914)	(5,830,139)	(5,763,036)	(5,435,251)	(4,216,671)
Asset impairment loss	(10,064,367)	(7,202,558)	(6,486,913)	(3,656,836)	(1,197,245)
Profit before tax	10,820,905	9,612,764	8,812,525	7,972,989	7,410,514
Net profit attributable to shareholders of the Bank	8,747,031	7,614,884	6,870,472	6,160,661	5,672,735
Per ordinary share (RMB)					
Dividends	0.056	0.125 ⁽¹⁾	0.061	0.159	0.159
Basic earnings	0.69	0.60	0.62	0.56	0.51
Diluted earnings	0.69	0.60	0.62	0.56	0.51
Closing net assets attributable to shareholders of the Bank	5.12	4.68	4.15	3.72	3.29
At year end (RMB thousand)					
Paid-in capital stock (share capital)	12,154,801	11,049,819	11,049,819	11,049,819	11,049,819
Total equity attributable to shareholders of the Bank	68,212,525	57,703,305	51,871,401	41,159,144	36,374,220
Total liabilities	980,228,850	848,887,611	701,590,676	593,785,360	446,211,390
Customer deposits	573,798,311	512,808,182	462,014,409	359,224,554	317,870,043
Total assets	1,050,506,309	908,099,697	754,773,994	636,130,621	482,764,314
Net loans and advances ⁽²⁾	370,661,381	305,208,545	269,336,141	237,428,103	214,734,236
Key financial ratios					
Return on average total assets	0.90%	0.94%	1.01%	1.11%	1.31%
Return on average net assets	15.08%	15.56%	15.63%	15.75%	16.64%
Cost-to-income ratio ⁽³⁾	23.02%	25.90%	27.55%	32.02%	33.08%
Non-performing loan ratio	1.04%	1.05%	1.07%	0.98%	0.83%
Core tier 1 capital adequacy ratio	8.37%	8.48%	8.79%	9.80%	11.50%
Capital adequacy ratio	11.65%	12.19%	12.99%	13.25%	13.41%

Notes: (1) According to the 2017 profit distribution plan, the Bank recommends the distribution of cash dividends of RMB0.25 and 1 bonus share per 10 shares to all shareholders. The bonus share is issued at RMB1.00 each.

(2) Net loans and advances data in 2018 included interests accrued on loans while data before 2018 was not adjusted retrospectively.

(3) Cost-to-income ratio = Operating expenses/Operating income.

Chapter III Chairman's Statement



Wu Xuemin

Chairman

Chapter III Chairman's Statement

2018 marked the first year of Huishang Bank to promote high-quality development. Although, on one hand, the macro economy operated stably with slight changes and was faced with increasing downward pressure, and on the other hand, the regional economy had greater resilience of growth in spite of the intensified throes of structural adjustments, Huishang Bank adhered to "returning to the fundamental purposes" and serving the real economy, actively built the overall development framework of "One Body, Two Wings (一體兩翼)", vigorously developed six financial service strategies, namely "people's livelihood finance, industrial finance, green finance, technology finance, inclusive finance and poverty alleviation finance", and pushed forward the building of comprehensive business product system and scientific and efficient management system to promote transformation through innovation and improve quality and efficiency through management, achieving the development goals of making progress while maintaining stability and presenting favorable development momentum.

As at the end of 2018, the Bank recorded total assets of RMB1,050.506 billion (in domestic and foreign currencies), representing an increase of 15.68% as compared with the beginning of the year, with the asset size steadily increasing to over RMB1 trillion; balance of customer deposits of RMB573.798 billion, representing a year-on-year increase of 11.89%, achieving a steady growth in the percentage of savings deposit and a continuous improvement in the liability structure; net profit of RMB8.86 billion, representing a year-on-year increase of 13.42%; non-performing loan ratio of 1.04%, representing a year-on-year decrease of 0.01 percentage point and provision ratio for loans of 302.22%. In light of the foregoing, the Bank's major operating indicators were better than expected and ranked among the top in the industry. Huishang Bank has become a new platform with over ten thousand employees, serving over ten million of customers and maintaining a steady asset size of over RMB1 trillion. It ranked first in Anhui Province in terms of the increment of credit availability, and led the province for 11 consecutive years in terms of corporate deposits, further strengthening its status as the regional mainstream bank. In addition, its rank climbed to the 162nd place among the Top 1000 World Banks by *The Banker*, a UK magazine. Our excellent operating results can be attributed to the guidance and care from governmental departments at all levels and regulatory authorities, the support and help from investors and friends from all walks of life, the hard work and efforts of all the employees, as well as the trust and recognition of our customers. I would like to extend our sincere gratitude to all parties on behalf of the board of Huishang Bank.

In 2018, the Bank completed the re-election of the Board of Directors. Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Au Ngai, Daniel, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai and Mr. Zhu Hongjun stepped down from their positions as directors. Since the term of office of the third session of the Board of Directors, retired directors have made unremitting efforts, contributed their wisdom and strength for the development of Huishang Bank, leading Huishang Bank to a new stage, achieving new results and presenting new appearance. I hereby sincerely extend my gratitude to those resigned directors for their outstanding contributions and dedications on behalf of the board of directors.

2019 is a crucial year of Huishang Bank to promote high-quality development. Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Bank will adhere to the overall tone of "making progress while maintaining stability", closely follow the overall development framework of "One Body, Two Wings (一體兩翼)", strictly implement "three fundamental tasks" in management and "four fundamental tasks" in business, orderly promote the "stabilization of growth, customer, liability, quality and foundation" and comprehensively build a modern bank with high-quality development, greeting to the 70th anniversary of the founding of New China with outstanding achievements.

Wu Xuemin
Chairman

Chapter IV *President's Statement*



Zhang Renfu

*Executive Director
President*

Chapter IV *President's Statement*

The year 2018 was a year we started to fully implement the guidelines of the 19th National Congress of the Communist Party of China. It was also an extraordinary year in the development history of Huishang Bank. Over the past year, the senior management had adhered to the guidance of Xi Jinping Thought of Socialism with Chinese Characteristics in a New Era and, under the unified leadership of the Party committee of the bank, closely revolved around the development strategy, goals and tasks put forward by the board of directors, responded positively to all kinds of risks challenges, worked with one heart, forged ahead, and completed the annual business plan and various tasks in an all-round way. It had made solid progress in high-quality development.

We stuck to our core business in financing industry and continued to improve our service quality and efficiency to the real economy entity customers. During the year, we lent out new loans of RMB67.072 billion and made new investment of RMB85.868 billion. We achieved practical results in the supply-side structural reform of the service, successfully landed the first market-oriented debt-to-equity swap and pre-debt-to-equity swap project in Anhui province. We increased efforts to support the construction of major infrastructure projects, investing RMB46.48 billion for the debt financing plan, RMB17.53 billion for rebuilding the shanty areas, and over RMB11.18 billion on PPP projects in 2018. We accelerated the development of inclusive financing. The balance of loans for small and microenterprises stood at RMB165.4 billion, ranking the first in Anhui province. We accomplished "Two Increases and Two Controls", and realized the goal of "general benefit reduction of reserve ratio". Over years, we have made remarkable achievements in the battles of serving precision poverty alleviation and pollution prevention and control, granting a total of RMB947 million in micro-loans for precision poverty alleviation, to the benefit of 24,000 filed poor households.

We adhered to making steady progress, and reached a new level in comprehensive strength. Our assets steadily reached the trillion yuan level, marking the Bank's stand on a new and higher starting point of development. The Bank's deposit and loan balance reached RMB573.798 billion and RMB381.766 billion, respectively, resulting in a net profit of RMB8.860 billion. It led the market in corporate banking business, topping Anhui province in corporate deposit market share, with the cash management transaction volume hitting RMB1.6 trillion. The retail business developed rapidly. Personal financial assets exceeded RMB250 billion. Consumer rights and interests protection obtained the "first-level" evaluation in the supervision assessment for three years in a row. With the implementation of the inter-bank franchise system, we achieved results in the high-quality transformation and development of inter-bank business.

We attached importance to innovation-led development, and constantly increased the momentum of transformation and development. We creatively launched such new products as bid-winning loan, livelihood loan, and environmental protection loan, successfully underwrote to issue the first enhanced credit foreign debt in city commercial banks of the country, successfully landed the first foreign financing guarantee business of NRA account in the country, the first cross-border RMB inter-bank loan business in Anhui province, and the first private enterprise bond financing instrument. We successfully registered the first "mass entrepreneurship and innovation debt financing instrument" in Anhui province. We actively promoted the pilot project of investment and loan linkage, and took up the largest market share of loans for scientific and technological enterprises in Anhui province. We successfully launched the personal mobile financial portal 4.0, with more than 15 million direct bank accounts, and cumulative transaction volume of RMB191.76 billion. We successfully launched a new generation core system, which is "advanced in the country and leading in city commercial banks". We set up the inclusive finance department, direct banking division, transaction banking department, personal mobile finance department, and big data department, continually optimizing the organizational structure.

Chapter IV President's Statement

We paid close attention to the basic management, and kept overall risks under control. We always adhered to giving priority to the internal control, took the system as the criterion, relied on the process, solidly carried out the Internal Control Promotion Year and Quality Improvement Year, deepened the rectification of the chaos in the banking market, and implemented the "Three Basics and Four In-place" activities. We strengthened the management of strategic planning, assets and liabilities, human resources, financial accounting, information technology, credit review, and subsidiary bodies. We gradually improved the operation and management system of the bank, continuously strengthened the management ability, and made new progress in the construction of the corporate culture. We adhered to the classification strategy, addressed both the symptoms and root causes, comprehensively strengthened the management of credit risk, liquidity risk, market risk, operation risk and reputation risk, ensured that all risks were generally controllable and maintained a good situation of safe and stable operation. The non-performing loan ratio of the bank was 1.04%, down 0.01 percentage points from the previous year. The provision coverage was 302.22%, higher than the industry average.

The year 2019 marks the 70th anniversary of the founding of New China and the key year of building a well-off society in an all-round way. There are opportunities as well as challenges in promoting high-quality development of Huishang Bank. We will revolve around the overall development framework of "One Body and Two Wings," never forget our original ideals and aspirations, strive for progress in a stable manner, overcome all difficulties, forge ahead resolutely, manage to complete the annual business plan and various tasks, build a modern banks with high-quality development in all respects, fulfill our duties, serve the customers, and reward the shareholders and the society.

Zhang Renfu

Executive director, President

Chapter V Management Discussion and Analysis

5.1 OVERALL BUSINESS REVIEW

In the face of a complex business environment in 2018, the Bank implemented a macro adjustment and control mechanism as well as a monetary credit policy, and also put regulatory requirements into practice and focus on overall development framework of "One Body, Two Wings (一體兩翼)" in the constant belief that innovation spurs transformation while management enhances quality and efficiency. All these facilitated a steady expansion of our business scale and improved profitability, realizing steady growth in various business segments and continuous improvement in operating and management level, which were mainly reflected as follows:

The scale of assets and liabilities increased steadily. As at the end of 2018, the total assets of the Bank were RMB1,050,506 million, representing an increase of RMB142,407 million or 15.68% as compared with the end of last year. Total loans and advances were RMB381,766 million, representing an increase of RMB67,072 million or 21.31% as compared with the end of last year. Total customer deposits were RMB573,798 million, representing an increase of RMB60,990 million or 11.89% as compared with the end of last year.

Non-performing assets increased and provision coverage maintained at a stable level. As at the end of 2018, the Bank's non-performing loan balance was RMB3,980 million, representing an increase of RMB680 million as compared with the end of last year. Non-performing loan ratio was 1.04%, representing a decrease of 0.01 percentage point as compared with the end of last year. Non-performing loan provision coverage ratio was 302.22%, representing an increase of 14.77 percentage points as compared with the end of last year.

5.2 ANALYSIS OF INCOME STATEMENT

5.2.1 Particulars of financial performance

	<i>Unit: RMB million</i>	
	2018	2017
Net interest income	17,967	20,197
Net fee and commission income	3,706	2,844
Other net income	5,277	(532)
Operating expenses	6,205	5,830
Net income from investment in associates	140	137
Impairment losses on assets	10,064	7,203
Profit before income tax	10,821	9,613
Income tax	1,961	1,801
Net profit	8,860	7,812
Net profit attributable to shareholders of the Bank	8,747	7,615

In 2018, the Bank recorded a net profit of RMB8,860 million, representing an increase of 13.42% as compared with last year. The effective income tax rate was 18.12%, representing a decrease of 0.62 percentage point as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.2 Net operating income

In 2018, the Bank had a net operating income of RMB27,090 million (including net income from investment in associates), representing an increase of 19.63% as compared with last year, among which, net interest income accounted for 66.32%, representing a decrease of 22.87 percentage points as compared with last year; net non-interest income accounted for 33.68%, representing an increase of 22.87 percentage points as compared with last year.

The following table sets forth the year-on-year comparison of the net operating income for the recent three years.

	2018 (%)	2017 (%)	2016 (%)
Net interest income	66.32	89.19	87.08
Net fee and commission income	13.68	12.56	11.83
Other net income	19.48	(2.35)	0.41
Net income from investment in associates	0.52	0.60	0.68
Total	100.00	100.00	100.00

Note: Such analysis of net operating income in the table comprises income from investment in associates.

5.2.3 Net interest income

In 2018, the Bank's net interest income and net interest income from financial instruments at fair value through profit or loss were RMB17.967 billion and RMB4.416 billion, respectively, totaling RMB22.383 billion, representing an increase of 10.82%. Such increase was primarily due to the expansion of the scale of interest earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/cost ratio of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB million, except for percentages

	2018			2017		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Interest-earning assets						
Loans and advances	339,614	17,464	5.14	293,570	14,672	5.00
Securities investments	456,457	23,198	5.08	438,767	21,180	4.83
Balances with central bank	74,748	1,158	1.55	80,601	1,232	1.53
Deposits and placements with banks and other financial institutions	44,051	1,265	2.87	37,738	1,012	2.68
Financial leasing	31,508	1,844	5.85	22,577	1,320	5.85
Total interest-earning assets and interest income (including interest income from FVTPL assets)	946,378	44,929	4.75	873,253	39,416	4.51

Note: FVTPL refers to financial instruments at fair value through profit or loss.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

Items	2018			2017		
	Average Balance	Interest Expenses	Average Cost Ratio (%)	Average Balance	Interest Expenses	Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from central bank	25,695	814	3.17	18,666	487	2.61
Customer deposits	539,796	8,440	1.56	510,849	7,802	1.53
Deposits and placements from banks and other financial institutions	194,390	7,726	3.97	180,038	6,228	3.46
Debt securities issued	129,222	5,567	4.31	115,426	4,702	4.07
Total interest-bearing liabilities and interest expenses (including interest expenses from FVTPL liabilities)	889,103	22,547	2.54	824,979	19,219	2.33
Net interest income and net interest income from FVTPL financial instruments	–	22,383	–	–	20,197	–
Net interest spread	–	–	2.21	–	–	2.18
Net interest margin	–	–	2.37	–	–	2.31

In 2018, the net interest spread of the Bank was 2.21%, while the net interest margin was 2.37%. The annualized average yield of interest-earning assets was 4.75%, while the annualized average cost ratio of interest-bearing liabilities was 2.54%.

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which were included in the impact of interest rate changes on changes in the amount of interest income and expenses.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million

	2018 vs. 2017		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) factors Scale ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Loans and advances	2,301	491	2,792
Securities investments	854	1,164	2,018
Balances with central bank	(89)	15	(74)
Deposits and placements with banks and other financial institutions	169	84	253
Finance lease receivables	522	2	524
Changes in interest income	3,301	2,212	5,513
Liabilities			
Borrowings from central bank	183	144	327
Customer deposits	442	196	638
Deposits and placements from banks and other financial institutions	496	1,002	1,498
Debt securities issued	562	303	865
Changes in interest expenses	1,494	1,834	3,328
Changes in net interest income	1,807	378	2,185

Notes:

- (1) Represents average balance for the year minus average balance for the prior year, and then multiply by average return rate/cost for the prior year.
- (2) Represents average return rate/cost for the year minus average return rate/cost for the prior year, and then multiply by average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the prior year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.4 Interest income

In 2018, the Bank's interest income and interest income from financial assets at fair value through profit or loss recognized in net trading income amounted to RMB44,929 million, representing an increase of 13.99% from last year. Such increase was mainly due to the expansion of the scale of interest-earning assets.

Interest income from loans

In 2018, the Bank's interest income from loans and advances amounted to RMB17,464 million, representing an increase of RMB2,792 million or 19.03% as compared with last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the periods indicated.

Unit: RMB million, except for percentages

	2018			2017		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Corporate loans	208,543	10,772	5.17	183,984	9,343	5.08
Retail loans ⁽¹⁾	116,343	6,046	5.20	89,384	4,505	5.04
Discounted bills	14,728	645	4.38	20,202	824	4.08
Loans and advances	339,614	17,464	5.14	293,570	14,672	5.00

Note:

- (1) Retail loans comprised personal business loans and personal consumption loans (included residential mortgage loans).

Other interest income

In 2018, the Bank's interest income from securities investments (including interest income from FVTPL assets) amounted to RMB23.198 billion, representing a year-on-year increase of RMB2.018 billion or 9.53%. Interest income from balances with central bank amounted to RMB1,158 million, representing a decrease of RMB74 million or 6.01% as compared with last year. Interest income from deposits and placements with banks and other financial institutions amounted to RMB1,265 million, representing an increase of RMB253 million or 25.00% as compared with last year. Interest income from financial leasing amounted to RMB1,844 million, representing an increase of RMB524 million or 39.70% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.5 Interest expenses

In 2018, the Bank's interest expenses and interest expenses from financial liabilities at fair value through profit or loss recognized in net trading income/(loss) amounted to RMB22,547 million, representing an increase of RMB3,327 million or 17.31% as compared with last year. Such increase was primarily due to the structural change and an expansion of the scale of interest-bearing liabilities.

Interest expense on customer deposits

In 2018, the Bank's interest expense on customer deposits recorded RMB8,440 million, representing an increase of RMB638 million or 8.18% as compared with last year. Such increase was mainly due to the year-on-year increase of 5.67% in the average balance on customer deposits.

The following table sets forth the average balance, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail deposits for the periods indicated.

Unit: RMB million, except for percentages

	2018			2017		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	235,484	1,881	0.80	227,156	1,552	0.68
Time deposits	139,815	3,908	2.80	140,980	4,001	2.84
Sub-total	375,299	5,789	1.54	368,136	5,553	1.51
Retail deposits						
Demand deposits	55,298	294	0.53	49,277	224	0.45
Time deposits	86,443	2,117	2.45	72,539	1,826	2.52
Sub-total	141,741	2,411	1.70	121,816	2,049	1.68
Others ⁽¹⁾	22,755	240	1.06	20,897	200	0.96
Total customer deposits	539,796	8,440	1.56	510,849	7,802	1.53

Note:

(1) Other deposits include margin deposits and credit card deposits, etc.

Other interest expenses

In 2018, interest expense on deposits from banks and other financial institutions amounted to RMB7,726 million, representing an increase of RMB1,498 million or 24.05% as compared with last year. Interest expenses on issuance of bonds (including interest expenses on interbank certificates of deposit at fair value through profit or loss) amounted to RMB5,567 million, representing an increase of RMB865 million or 18.40% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.6 Net non-interest income

In 2018, the Bank realized a net non-interest income of RMB9.123 billion, representing an increase of 6.674 billion or 272.52%. Such significant increase was primarily due to the fact that the net interest income from financial instruments at fair value through profit or loss was presented in net trading income/(loss) from 2018.

The following table sets forth the principal components of the Bank's net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2018	2017
Fee and commission income	3,841	3,044
Less: Fee and commission expenses	(135)	(200)
Net fee and commission income	3,706	2,844
Other net non-interest income⁽¹⁾	5,417	(395)
Total net non-interest income	9,123	2,449

Note: (1) Comprises net trading income/(loss), net income/(loss) on financial investments, other operating income, net, dividend income and net income from investment in associates.

5.2.7 Net fee and commission income

In 2018, the Bank's net fee and commission income was RMB3.706 billion, representing an increase of RMB862 million or 30.31% as compared with last year. Such increase was primarily due to the increase in investment banking fee income, bank card fee income, custody fee income, and guarantee and commitment fee income.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated.

	<i>Unit: RMB million</i>	
	2018	2017
Fee and commission income	3,841	3,044
Settlement and clearing fees	54	46
Guarantee and commitment fees	211	147
Investment banking fees	914	544
Custody fees	467	374
Bank card fees	629	502
Acquiring business fees	26	8
Agency commissions	1,081	1,140
Others	459	283
Fee and commission expense	(135)	(200)
Net fee and commission income	3,706	2,844

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.8 Other net non-interest income

In 2018, the Bank's net non-interest income was RMB5.417 billion, representing an increase of RMB5.813 billion as compared with last year. Such increase was primarily due to the fact that the net interest income from financial instruments at fair value through profit or loss was presented in net trading income/(loss) from 2018.

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2018	2017
Net income/(loss) on financial investment	106	(76)
Net trading income/(loss)	4,973	(440)
Net income from investment in associates	140	137
Dividend income	0.88	0.64
Other operating income, net	197	(17)
Total other net income	5,417	(395)

5.2.9 Operating expenses

In 2018, the Bank's operating expenses were RMB6,205 million, representing an increase of 6.43% as compared with last year. Such increase was primarily attributable to an increase in staff costs, tax and surcharges and lease expenses to different extents because of the factors such as business expansion and staff increase.

The following table sets forth the principal components of the Bank's operating expenses for the periods indicated.

	<i>Unit: RMB million</i>	
	2018	2017
Staff costs	3,557	3,233
Tax and surcharges	218	156
Depreciation and amortization	435	440
Lease expenses	460	351
Other general and administrative expenses	1,535	1,650
Total operating expenses	6,205	5,830

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.10 Asset impairment losses

In 2018, the Bank's allowance to asset impairment losses recorded RMB10,064 million, representing an increase of 39.72% as compared with last year.

Items	Unit: RMB million	
	2018	2017
Loans and advances to customers	(4,697)	(4,264)
Financial investments	(4,908)	–
Deposits with banks and other financial institutions	(7)	–
Placements with banks and other financial institutions	(17)	–
Financial assets held under resale agreements	28	–
Credit commitments	(151)	–
Finance lease receivables	(299)	(234)
Foreclosed assets	(27)	(150)
Other assets	14	(29)
Debt instruments classified as receivables	–	(2,670)
Available-for-sale financial assets	–	159
Other receivables	–	(15)
Total	(10,064)	(7,203)

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS

5.3.1 Assets

As of 31 December 2018, the Bank's total assets amounted to RMB1,050,506 million, representing an increase of RMB142,407 million or 15.68% as compared with the end of last year. The increase in total assets was primarily due to an increase in loans and advances as well as investments.

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Total loans and advances	381,766	36.34%	314,694	34.68%
Accrued interest of loans and advances	803	0.08%	–	–
Provision for loan impairment	11,907	1.13%	9,485	1.06%
Net loans and advances	370,661	35.28%	305,209	33.62%
Investments	504,645	48.04%	418,777	46.12%
Cash and balances with the central bank	88,144	8.39%	92,358	10.17%
Deposits with banks and other financial institutions	7,964	0.76%	9,700	1.07%
Placements with banks and other financial institutions	5,022	0.48%	3,553	0.39%
Derivative financial assets	209	0.02%	67	0.01%
Financial assets held under resale agreements	26,287	2.50%	36,028	3.96%
Investments in associates	1,100	0.10%	971	0.11%
Fixed assets	2,232	0.21%	1,943	0.21%
Deferred income tax assets	5,749	0.56%	4,724	0.52%
Finance lease receivables	35,624	3.39%	26,270	2.88%
Other assets	2,867	0.27%	8,500	0.94%
Total assets	1,050,506	100.00%	908,100	100.00%

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances

As of 31 December 2018, the Bank's total loans and advances amounted to RMB381,766 million, representing an increase of 21.31% as compared with the end of last year, and the total loans and advances accounted for 36.34% of the Bank's total assets, increase of 1.66 percentage points from the end of last year.

Distribution of loans by product type

The following table sets forth information on the Bank's loans and advances by product type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Corporate loans	223,163	58.46%	187,111	59.46%
Discounted bills	13,357	3.50%	15,210	4.83%
Retail loans	145,246	38.04%	112,373	35.71%
Total loans and advances	381,766	100.00%	314,694	100.00%

Corporate loans

As of 31 December 2018, the Bank's total corporate loans recorded RMB223,163 million, representing an increase of 19.27% as compared with the end of last year, and accounted for 58.46% of the total loans and advances of the Bank, decreasing by 1 percentage point from the end of last year. In 2018, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted and controlled its total loan amount, adjusted its loan structure deeply, and systemically prevented various risks, which achieved simultaneous optimization of loan structure and risk return.

Discounted bills

As of 31 December 2018, the Bank's total discounted bills amounted to RMB13,357 million, representing a decrease of 12.18% as compared with the end of last year. In 2018, according to regulatory requirements and changes in bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after thoughtfully considering credit size, market yield, liquidity management and various risks.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances (Continued)

Retail loans

As of 31 December 2018, the Bank's total retail loans amounted to RMB145,246 million, representing an increase of 29.25% as compared with the end of last year, and accounted for 38.04% of the total loans and advances, representing an increase of 2.33 percentage points from the end of last year.

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	84,977	58.51%	84,738	75.41%
Personal business revolving loans	6,364	4.38%	6,483	5.77%
Others	53,905	37.11%	21,152	18.82%
Total retail loans	145,246	100.00%	112,373	100.00%

5.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both Renminbi and foreign currencies, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification:

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	106,480	21.10%	2,695	0.64%
Financial assets at fair value through other comprehensive income	105,806	20.97%	–	–
Financial assets at amortised cost	292,360	57.93%	–	–
Available-for-sale financial assets			143,306	34.22%
Held-to-maturity financial assets			61,129	14.60%
Financial assets classified as receivables			211,647	50.54%
Investments	504,646	100.00%	418,777	100.00%

Note: As the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank.

	31 December	<i>Unit: RMB million</i> 31 December
	2018	2017
Government bonds	868	174
Other bonds	500	1,588
Interbank certificates of deposit	159	933
Beneficial rights in asset management and trust plans	74,698	–
Non-guaranteed wealth management products managed	28,910	–
Interest received	1,345	
Total financial assets at fair value through profit or loss	106,480	2,695

Note: As the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As of 31 December 2018, the Bank's financial assets at fair value through profit or loss amounted to RMB106,480 million, of which debt securities and interbank certificates of deposit accounted for 1.43%. The Bank mainly took the opportunity to allocate assets to the treasury bonds and local government bonds with lower exposure and proactively timed the market to participate in trading of government and agency bonds.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through other comprehensive income

The following table sets forth the components of financial assets at fair value through other comprehensive income of the Bank:

	<i>Unit: RMB million</i>	
	31 December	31 December
	2018	2017
Debt securities	85,907	–
Inter-bank certificates of deposits	18,415	–
Equity securities	143	–
Interest receivable	1,341	–
Total financial assets at fair value through other comprehensive income	105,806	–

Note: As the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As of 31 December 2018, financial assets at fair value through other comprehensive income of the Bank amounted to RMB105,806 million. In 2018, the return of the interest rate debts market fluctuated with an overall decrease. In response to the market situation, the Bank seized the opportunity to increase its investments in interest rate debts and local government debts and enhanced the investment portfolio structure.

Financial assets at amortised cost

The following table sets forth the components of financial assets at amortised cost of the Bank:

	<i>Unit: RMB million</i>	
	31 December	31 December
	2018	2017
Debt securities	63,077	–
Beneficial rights in asset management and trust plans and others	233,068	–
Interest receivable	4,092	–
Less: provision for impairment	(7,878)	–
Net financial assets at amortised cost	292,359	–

Note: As the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at amortised cost (Continued)

As of 31 December 2018, net financial assets at amortised cost of the Bank amounted to RMB292,359 million, of which debt securities assets accounted for RMB63,077 million while beneficial rights in asset management and trust plans and others accounted for RMB233,068 million.

Carrying value and market value

All assets classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the financial assets at amortised cost, held-to-maturity investments and loans and investments classified as receivables in the Bank's portfolio as of the dates indicated:

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost	292,360	292,951	–	–
Held-to-maturity investments	–	–	61,129	59,264
Investments classified as receivables	–	–	211,647	211,539

Unit: RMB million

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial investment amount (RMB'000)	Percentage of shareholdings (%)	Number of	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
			shares held at the end of the period (in thousands of shares)			
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huishang Bank Financial Leasing Co., Ltd.	1,020,000	54	1,620,000	1,706,820	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	1,100,008	Promotion	Company in which the Bank has shareholdings

Notes:

- (1) Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. in 2017, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Huai'an (holding 10% equity interests in Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting for material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd..
- (2) In 2010, the Bank invested in and established Wuwei Huiyin Rural Bank Co., Ltd.. Its registered capital was RMB100 million, of which the Bank contributed RMB40 million, accounting for 40% shareholding. Upon the approval from the CBRC, Wuwei Huiyin Rural Bank Co., Ltd. officially opened for business on 8 August 2010. Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 5.9.7 of this annual report.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities

As of 31 December 2018, total liabilities of the Bank amounted to RMB980,229 million, representing an increase of 15.47% as compared with the end of last year. Such increase was mainly due to the growth of customer deposits, placements from banks and other financial institutions, and issuance of bonds.

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Borrowings from central bank	40,721	4.15%	1,500	0.18%
Deposits from banks and other financial institutions	117,696	12.01%	95,815	11.28%
Placements from banks and other financial institutions	28,779	2.94%	25,428	3.00%
Financial liabilities at fair value through profit or loss	87,599	8.94%	–	–
Derivative financial liabilities	138	0.01%	747	0.09%
Financial assets sold under repurchase agreements	27,845	2.84%	74,931	8.83%
Customer deposits	573,798	58.54%	512,808	60.40%
Taxes payable	3,243	0.33%	2,823	0.33%
Issuance of bonds	91,444	9.33%	115,180	13.57%
Other liabilities	8,967	0.91%	19,656	2.32%
Total liabilities	980,229	100.00%	848,888	100.00%

Customer deposits

The Bank has been focusing on and actively expanding its deposit business. In 2018, despite an increasingly intense competition among the peers, the Bank managed to maintain a steady growth of customer deposits through various effective measures. As of 31 December 2018, total customer deposits of the Bank amounted to RMB573,798 million, representing an increase of RMB60,990 million from the end of 2017, and accounted for 58.54% of the total liabilities of the Bank.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities (Continued)

Customer deposits (Continued)

The following table sets forth the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Corporate deposits				
Demand deposits	256,454	44.69%	224,344	43.75%
Time deposits	133,976	23.35%	144,566	28.19%
Subtotal	390,430	68.04%	368,910	71.94%
Retail deposits				
Demand deposits	57,701	10.06%	48,939	9.54%
Time deposits	90,361	15.75%	74,353	14.50%
Subtotal	148,062	25.81%	123,292	24.04%
Other deposits	27,469	4.78%	20,606	4.02%
Include: Pledged deposits	27,073	4.71%	20,025	3.90%
Interest payable	7,837	1.37%	–	–
Total customer deposits⁽¹⁾	573,798	100.00%	512,808	100.00%

As of 31 December 2018, retail deposits of the Bank accounted for 25.81% of total customer deposits, representing an increase of 1.77 percentage points from the end of 2017.

Time deposits from customers of the Bank have decreased by 3.59 percentage points from the end of last year since 2018. As of 31 December 2018, the Bank's demand deposits to total customer deposits ratio was 54.75%, showing an increase of 1.46 percentage points from the end of 2017. Among them, the proportion of demand deposits in corporate deposits was 44.69%, showing an increase of 0.94 percentage point over the end of 2017; while the proportion of demand deposits in retail deposits was 10.06%, showing an increase of 0.52 percentage point over the end of 2017.

Note: (1) According to the Notice on Revising the Format of Financial Statements of Financial Enterprises in 2018 issued by the Ministry of Finance, total customer deposits in 2018 in the above table include interest payable, while data before 2018 was not adjusted retrospectively.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.3 Equity

Items	Unit: RMB million	
	31 December 2018	31 December 2017
Share capital	12,155	11,050
Other equity instruments	5,990	5,990
Capital reserve	6,760	6,751
Surplus reserve	9,553	7,953
Statutory general reserve	9,118	7,723
Other comprehensive income	1,587	(870)
Retained earnings	23,049	19,106
Total equity attributable to shareholders of the Bank	68,212	57,703
Non-controlling interest	2,065	1,509
Total equity	70,277	59,212

5.4 LOAN QUALITY ANALYSIS

5.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

	31 December 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
<i>(in RMB100 million, except for percentages)</i>				
Pass	3,719.59	97.43	3,068.95	97.52
Special mention	58.27	1.53	44.99	1.43
Substandard	15.85	0.42	13.69	0.44
Doubtful	15.05	0.39	10.17	0.32
Loss	8.90	0.23	9.14	0.29
Gross loans and advances to customers	3,817.66	100.00	3,146.94	100.00
Total non-performing loans	39.80	1.04	33.00	1.05

Under the five-category classification system of the loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. Affected by changes of the external business environment, the Bank's asset quality faced serious challenges in 2018. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained stable quality of assets. As at the end of the Reporting Period, the NPL ratio of the Bank was 1.04%, representing a decrease of 0.01 percentage point as compared with the end of last year.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

	31 December 2018				31 December 2017			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Corporate loans	2,231.63	58.46	32.44	1.45	1,871.11	59.46	26.81	1.43
Discounted bills ⁽¹⁾	133.57	3.50	-	-	152.10	4.83	-	-
Retail loans	1,452.46	38.04	7.36	0.51	1,123.73	35.71	6.19	0.55
Total loans and advances to customers	3,817.66	100.00	39.80	1.04	3,146.94	100.00	33.00	1.05

Note: (1) Overdue discounted bills are transferred to corporate loans.

5.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

	31 December 2018				31 December 2017			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Commerce and services	520.20	13.63	6.88	1.32	487.82	15.51	9.14	1.87
Manufacturing	448.86	11.76	15.70	3.50	431.28	13.70	11.91	2.76
Public utilities	672.23	17.61	0.15	0.02	487.58	15.49	0.05	0.01
Real estate	164.28	4.30	0.76	0.46	118.95	3.78	1.71	1.44
Construction	193.07	5.06	2.73	1.41	147.23	4.68	1.34	0.91
Transportation	64.34	1.69	0.49	0.76	59.24	1.88	0.30	0.51
Energy and chemical	100.76	2.64	4.00	3.97	58.89	1.87	-	-
Catering and travelling	12.92	0.34	1.59	12.31	15.36	0.49	2.05	13.35
Education and media	8.04	0.21	-	-	10.72	0.34	-	-
Financial services	37.73	0.99	-	-	41.15	1.31	-	-
Others ⁽¹⁾	9.20	0.24	0.14	1.52	12.89	0.41	0.31	2.40
Discounted bills	133.57	3.50	-	-	152.10	4.83	-	-
Retail loans	1,452.46	38.03	7.36	0.51	1,123.73	35.71	6.19	0.55
Total loans and advances to customers	3,817.66	100.00	39.80	1.04	3,146.94	100.00	33.00	1.05

Note: (1) Others mainly include the planting, forestry, and livestock industry and the fishery industry.

In 2018, the Bank overall credit strategy was to “practice green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls of key areas and key industries, and adhere to the bottom risk line”. The Bank guided credit resources to better serve the real economy and actively allocated credit resources to “small and micro” enterprises as well as developed green credit. The Bank also implemented credit limit management over local government financing platforms, real estate and overcapacity industries, and implemented industry risk prevention and control on the “Non-green Industries” such as steel, coal and shipbuilding and relevant steel and coal trading industries. During the Reporting Period, the increments of non-performing corporate loans of the Bank were mainly from manufacturing, and energy and chemical sectors.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated.

	31 December 2018				31 December 2017			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Anhui	3,414.30	89.43	38.50	1.13	2,911.83	92.53	30.52	1.05
Jiangsu	403.36	10.57	1.30	0.32	235.11	7.47	2.48	1.01
Total loans and advances to customers	3,817.66	100.00	39.80	1.04	3,146.94	100.00	33.00	1.05

The Bank has expanded its business into Nanjing, Jiangsu Province since the beginning of 2009. As at the end of 2018, total loans of Jiangsu Province accounted for 10.57% of the total loans and advances to customers, while NPLs of Jiangsu Province accounted for 3.27% of the Bank's total NPLs.

5.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as of the dates indicated.

	31 December 2018				31 December 2017			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Collateralized loans	1,628.19	42.65	24.00	1.47	1,334.30	42.40	17.04	1.28
Pledged loans	804.41	21.07	0.05	0.01	663.64	21.09	0.35	0.05
Guaranteed loans	602.24	15.78	13.33	2.21	592.24	18.82	13.66	2.31
Unsecured loans	649.25	17.01	2.42	0.37	404.66	12.86	1.95	0.48
Discounted bills	133.57	3.49	-	-	152.10	4.83	-	-
Total loans and advances to customers	3,817.66	100.00	39.80	1.04	3,146.94	100.00	33.00	1.05

During the economic downturn period, the Bank focused on the implementation of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the Reporting Period, both NPL and NPL ratio of loans secured by collateral and guaranteed loans recorded increases compared with the end of last year due to the effect of an overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.6 Loans of the top 10 single borrowers

The following table sets forth the Bank's loans of the top 10 single borrowers as of the date indicated.

Top 10 borrowers	Industry borrower belongs to	Amount of loans as of 31 December 2018 (RMB million)	% of net capital
A	Energy and chemical	1,590	1.80%
B	Energy and chemical	1,472	1.67%
C	Construction	1,469	1.67%
D	Public utilities	1,319	1.50%
E	Public utilities	1,269	1.44%
F	Commerce and services	1,224	1.39%
G	Financial services	1,200	1.36%
H	Real estate	1,200	1.36%
I	Public utilities	1,123	1.27%
J	Construction	1,100	1.25%
Total		12,966	14.71%

5.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as of the dates indicated.

	31 December 2018 (RMB million)	31 December 2017 (RMB million)
Total overdue customer loans and advances listed by duration		
Within 3 months	2,170	2,637
3 to 6 months	1,945	1,249
6 to 12 months	969	975
Over 12 months	745	1,932
Total	5,829	6,793
Percentage		
Within 3 months	37.23%	38.82%
3 to 6 months	33.37%	18.39%
6 to 12 months	16.62%	14.35%
Over 12 months	12.78%	28.44%
Total	100.00%	100.00%

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.8 Restructuring loans

During the Reporting Period, the Bank's restructuring NPLs amounted to RMB292.4139 million, which included 9 corporate loans amounting to RMB205.9412 million and 12 small enterprise loans amounting to RMB83.1027 million and 2 retail loans amounting to RMB3.37 million. In 2018, the restructuring NPLs of the Bank amounted to RMB292.4139 million, representing an increase of RMB246.7406 million from last year.

5.4.9 Transfer of credit assets

The Bank disposes of its non-performing credit assets by transferring such assets to third parties in its ordinary course of business. In 2018, the Bank did not transfer non-performing loans as above stated.

5.4.10 Change of allowances for loan impairment

The Bank adopts the Expected Credit Loss Model to assess impairment provision and loss on loans on a regular basis in accordance with the requirements of IFRS 9. In measuring the expected loss, the Bank uses a complex model comprising the future macroeconomic situation and the credit history of borrowers and makes relevant assumptions. After carrying out a forward-looking assessment of the expected credit loss on each loan, the Bank classifies the loans into stage one, two and three accordingly and determines the degree of impairment loss based on the degree of default. The Bank will regularly review the methodology and assumptions such as the criteria for significant increase in credit risk, the definition of credit-impaired assets, the parameters for expected credit loss measurement and forward-looking information to reduce the difference between the estimated impairment loss and the actual impairment loss on loans.

The following table sets forth the changes of allowances for impairment on loans to customers.

Items	Unit: RMB million	
	2018	2017
Balance at the beginning of the period	9,486	8,035
Effect of adopting IFRS 9	(464)	
Opening balance after adopting IFRS 9	9,022	
Allowances for the period	4,603	4,263
reversal/unwinding of discount on allowance caused by the write-down of interest on impaired loans and advances	(49)	(57)
Write-offs for the period	(2,173)	(2,971)
Reversal caused by the recovery of the original write-off loans and advances	504	216
Balance at the end of the period	11,907	9,486

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBRC within the Reporting Period.

The Bank calculated the capital adequacy ratio in accordance with the relevant requirements contained in the “Administrative Measures for the Capital Management of Commercial Banks (Trial)” issued by the CBRC. As of 31 December 2018, the Bank’s capital adequacy ratio was 11.65%, core Tier 1 capital adequacy ratio was 8.37%, and Tier 1 capital adequacy ratio was 9.18%.

The table below shows information relating to capital adequacy ratios of the Bank as at 31 December 2018:

Unit: RMB million, except for percentages

	31 December 2018
Core Tier 1 capital	63,528.66
Including: Paid-in capital	12,154.80
Capital reserve	8,347.52
Surplus reserve and statutory general reserve	18,671.17
Retained earnings	23,048.94
Non-controlling interests	1,306.23
Regulatory deductions for core Tier 1 Capital	(181.09)
Core Tier 1 capital, net of deductions	63,347.58
Other Tier 1 capital, net of deductions	6,164.25
Tier 1 capital, net of deductions	69,511.83
Tier 2 capital	18,683.14
Including: Tier 2 capital instruments and premium	9,600.00
Surplus loan loss provisions	8,737.38
Non-controlling interests	345.75
Total capital, net of deductions	88,194.97
Credit risk-weighted assets	712,223.94
Market risk-weighted assets	645.08
Operational risk-weighted assets	44,081.95
Risk-weighted assets	756,950.97
Capital adequacy ratio	11.65%
Tier 1 capital adequacy ratio	9.18%
Core Tier 1 capital adequacy ratio	8.37%

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS (Continued)

Pursuant to regulatory requirements, the capital adequacy ratio of the Bank above is calculated after consolidating relevant data of Jinzhai Huiyin Rural Bank Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd. and Huiyin Financial Leasing Co., Ltd.

Leverage ratio

Item	31 December 2018	31 December 2017
Leverage ratio	6.25 %	5.94%
Tier 1 capital, net of deductions	69,512	58,766
Adjusted balance of assets on and off the balance sheet	1,111,338	988,386

Note: Indicators related to leverage ratio are calculated pursuant to the "Administrative Measures for Leverage Ratio of Commercial Banks (Revised)" (No. 1 Order of CBRC in 2015) effective from 1 April 2015.

5.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below sets forth the performance of operating segments of the Bank as at the periods indicated.

	January to December 2018		January to December 2017	
	Total segment profits	Percentage (%)	Total segment profits	Percentage (%)
	<i>(RMB million, except for percentages)</i>			
Corporate banking	5,539	51.19%	5,087	52.92%
Retail banking	1,155	10.67%	974	10.13%
Treasury	3,523	32.56%	3,135	32.61%
Others	604	5.58%	417	4.34%
Total	10,821	100.00%	9,613	100.00%

During the Reporting Period, the total profits of corporate banking business of the Bank amounted to RMB5,539 million, representing 51.19% of total profits. Total profits of retail banking business amounted to RMB1,155 million, representing 10.67% of total profits. Total profits of treasury business amounted to RMB3,523 million, representing 32.56% of total profits.

Chapter V Management Discussion and Analysis

5.6 SEGMENT PERFORMANCES (Continued)

Geographical segments

Geographically, the Bank's business is mainly in Mainland China. It has set up branches in Anhui Province and Pan-Yangtze River Delta area. The table below lists the Bank's geographical segments performance as at the periods indicated.

	31 December 2018				Total
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	
Segment assets	607,004	40,746	438,832	(41,825)	1,044,757
Include: investments in associates			1,100		1,100
Deferred income tax assets	–	–	–		5,749
Total assets					1,050,506
Segment liabilities	(572,096)	(38,229)	(411,729)	41,825	(980,229)
Total profits	7,239	691	2,891		10,821

	31 December 2017				Total
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	
Segment assets	570,819	59,808	491,834	(219,086)	903,375
Include: investments in associates			971		971
Deferred income tax assets	–	–	–		4,725
Total assets					908,100
Segment liabilities	(324,100)	(55,449)	(688,425)	219,086	(848,888)
Total profits	6,210	546	2,857		9,613

5.7 OTHERS

5.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letter of guarantee, letter of credit, bank acceptance and bank commitment letters. Commitment letters include loans commitment, operating leases commitment, capital commitment and certificate bond honor commitments. Contingencies and commitments can be found in Note 43 to the financial statements.

5.7.2 Overdue outstanding debt

At the end of 2018, the Bank had no overdue outstanding debt.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION

2018 was the starting year for full implementation of the spirit of the 19th National Congress of the Communist Party of China. Facing the complicated macro environment, China's economic growth was generally stable with growing momentum, but there have been some new changes, new problems and new challenges in the economic operation.

1. Obviously rising pressure and uncertainties on a global scale

Against the weakened growth momentum of global economy and the overall rise in inflation in 2018, the relatively strong growth of the US economy slowed down and the European economy remained weak. In addition, emerging market economies were struggling amid the tightening monetary policy of the U.S. Federal Reserve, rising inflation and weakening home currencies. The significant fluctuation in stock markets of developed economies, the substantial devaluation of home currencies of some emerging market countries and the ongoing profound changes in US-China relations have brought enormous challenges and uncertainties on the external development environment of China. According to the "Global Economic Outlook" issued by IMF on 21 January 2019, it has cut its forecast for the global economic growth for this year and the next, and the downward risk for the global economic growth has increased. As a result, with the continuously growing uncertainties in the banking industry and the rise of the probability of extreme market conditions in the financial market in the future, adverse impacts caused by superpower games, monetary trend reversal and volatility in emerging markets should be given high concerns.

2. Downward pressure on the domestic economy increased

In 2018, the domestic economy remained generally stable. The annual GDP amounted to RMB90.03 trillion, an increase of 6.6% over previous year, achieving the expected development target. Investment growth rate continued to decline; from January to December, the national fixed assets investment (excluding rural household) increased by 5.9% year on year, 1.3 percentage points lower than the same period last year. Manufacturing industry investment rallied slightly, the growth rate of which increased by 4.7 percentage points. Infrastructure investment continued to fall back, with the growth rate declined by 15.2 percentage points. The actual growth rate of per capital disposable income of urban residents dropped from 7.3% last year to 6.5%. The leverage ratio remained at a high level, which limited consumption. Annual import and export scale increased by 9.7% and amounted to RMB30.51 trillion, reaching a record high. In 2018, CPI increased by 2.1%, an increase of 0.5 percentage point over last year. It was the first time that the CPI growth rate exceeded 2%. Currently, the real economy, particularly the private economy, is facing more difficulties. Corporates are experiencing a slowdown in profit growth with a continuous depression in prosperity and a weak trend in production. Under the combined influence of deleveraging and regulatory policies, the leverage ratio of the corporate sector continued to decline from the peak of 160.9% of the first quarter of 2017, and fell to 154.5% at the end of the third quarter of 2018. In addition, during the current debt cycle, the deleveraging of the corporate sector is still the main downturn force and the negative impact of the slowdown growth of social financing on the economy will be gradually reflected. The pressure on economic growth has increased.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3. Increasing risk exposures in financial field

Affected by the increasing uncertainties in global economy, the escalation of Sino-US trade war and financial turmoil in emerging economies, capital market experienced significantly change and the risk exposures increased obviously since the third quarter of this year. Government initiative will be taken to strike a balance among supporting entities, preventing risks and stabilizing market. For capital market, the stock market suffered quantity and price decline, and the high percentage of pledge risks of listed companies became apparent; the number of defaults in bond markets further increased. In 2018, there were violations of 123 bonds, involving RMB119.85 billion. Private enterprises accounted for more than 90% of the number of defaulters. The number of defaults of listed companies soared. In foreign exchange market, affected by the strengthened US dollar index, the depreciation of RMB exchange rate expanded to nearly 7.0, but in view of the advance stage of US interest rate hike, it fell back to around 6.8 after December. In general, the current financial risks are mainly caused by internal and external factors, and the risks and contradictions accumulated historically begin to be exposed.

4. Positive role of fiscal policy initially appeared

In the face of downward pressure on the economy, the Central Economic Work Conference proposed that proactive fiscal policy should be active. Large-scale taxes and fees reduction can alleviate social burden. In 2018, the scale of taxes and fees reduction was about 1.3 trillion. In 2019, a combination of inclusive tax reduction and structural tax reduction will be implemented to focus on reducing the tax burden on manufacturing industry and small and micro sized enterprises, and supporting the development of real economy. Inclusive tax reduction will be introduced to small and micro sized enterprises and technology-based start-ups. Key financial expenditures will continue to increase, contributing to high quality development. Emphasis is given to the areas in need of strengthening to innovate financial support methods and promote high quality development of manufacturing industry. Investment in research and development will be increased to improve innovation capability and efficiency. Small and medium-sized enterprises will be better served to improve the viability of market players, accelerate the development of new driving force and enhance economic innovation and competitiveness. Since 2018, a series of measures have been implemented to continuously facilitate the reform of local debts issuance. The central government will continue to increase significantly local government special bonds in 2019, to provide financial guarantees for key project construction, and create better conditions for preventing and resolving local government debt risks.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

5. Transmission channels of monetary policy yet to be cleared

As at the end of December 2018, the balance of broad money (M2) was RMB182.67 trillion, representing a year-on-year increase of 8.1%, unchanged from the same period of the previous year. After being included in the local government special debt, in 2018, the cumulative increase in social financing scale was RMB19.26 trillion, a decrease of RMB3.14 trillion over the previous year. Among the social financing, RMB loans increased by RMB16.17 trillion, a year-on-year increase of RMB2.64 trillion, while entrusted loans, trust loans, undiscounted bank acceptance bills, local government special bonds and stock financing decreased year-on-year. As the mechanism directing the monetary policy to the real economy has not been implemented effectively, the market risk aversion awareness is high, it is difficult for funds to flow smoothly to the real economy. For price-based monetary policy, although the interest rate center of various currency markets generally decline, the credit interest rates that are more closely linked to real economy has increased. Unblocking the channel of money and credit transmission is the focus of efforts in the future. The policy will be more focused on targeted regulation to channel the fund to real economy, and guide reasonable growth of money and credit and social finance.

5.9 BUSINESS OPERATION

5.9.1 Wholesale banking

Business overview

The Bank provides a full range of wholesale financial products and services to corporations, financial institutions and governmental and institutional customers. During 2018, based on its characteristics as a city commercial bank, the Bank continued to develop its local market in Anhui Province while exploring Nanjing and markets in other provinces, and provided customers with comprehensive financial services and fully supported the development of the real economy by leveraging various products, means and tools. The Bank continued to strengthen its advantage in the traditional wholesale business with municipal, governmental and institutional customers. It has further accelerated the innovation of its business modes and products, continued to foster new business growth point, adjusted its business structure, enhanced risk control, fully increased its asset profitability, facilitated the steady increase of interest income and rapid growth of the proportion of non-interest income in total income, and promoted the fast and healthy development of the wholesale business. As of 31 December 2018, the Bank's market share of domestic and foreign currency corporate deposit continued to rank the first in Anhui Province for eleven consecutive years. Transformative businesses including investment banking and transaction banking all achieved rapid growth and innovative businesses including loans dedicated to people's livelihood and rural revitalization were widely recognized by the market.

In 2019, in the constant aim of comprehensive development, the Bank will positively respond to market changes, continue to expand quality clients, strive to strengthen product innovation and services optimization, accelerate structural adjustment and business transformation, enhance professional service ability, so as to provide professional and comprehensive financial services to clients, striving to realize sustainable development of wholesale banking business as well as fully supporting the development of the real economy.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate loans

The Bank's corporate loans mainly include working capital loans, fixed asset loans, PPP project loans, supply chain financing and other loans. During 2018, the Bank, while operating its business in compliance with laws and regulations, adhering to the principle of "taking protective or suppressive measures" and with reference to macro-economic policies of China, further optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries and introduced innovative businesses including loans dedicated to people's livelihood and rural revitalization. The Bank made great efforts to develop green loans such as new energy, energy conservation and environmental protection loans, and effectively controlled the growth of government financing platforms and loans to the "Non-green Industries". As of 31 December 2018, the Bank's balance of corporate loans (including discounted bills) was RMB236,520 million, representing an increase of RMB34,199 million from the last year.

Discounted bills

In 2018, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically followed the pace of bills business development, enhanced the profitability of the bills business, and promoted the healthy and compliant development of bills business. As of 31 December 2018, the Bank's balance of discounted bills amounted to RMB10,110 million, representing an increase of RMB406 million from the end of the last year.

Corporate deposits

While continuing its efforts to maintain current customers, the Bank focused on application and innovation of its deposit product portfolios, enhanced coordinated marketing of corporate banking business and personal banking business, so as to provide integrated services solutions to customers and improve comprehensive income of its various businesses. Through developing businesses such as investment banking, supply chain finance, cash management, bill business and custody business, the Bank has taken in a substantial amount of low-cost corporate deposits by continuously improving the quality of customer services and broadening the sources of deposits. During 2018, the scale of the Bank's corporate deposits grew steadily. As of 31 December 2018, the Bank's balance of corporate deposits amounted to RMB390,430 million (excluding margin deposits), representing an increase of RMB21,520 million from the last year.

People's Livelihood loan business

In order to implement the relevant policy requiring the financial support for people's livelihood and to broaden the financial services pipeline for bidding and tendering projects, the Bank launched the "livelihood loan" series of products. The launch of the "livelihood loan" products effectively alleviated the problem of financing difficulties for the bid-winning enterprises in the livelihood projects, and has greatly promoted the development of the real economy. As at the end of 2018, the cumulative approval amount of the livelihood loan business was RMB9.427 billion.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Transaction banking

Cash management business is a strategic transaction banking business of the Bank in response to the challenge brought by interest rate liberalization. Through the establishment of a transaction banking business model to provide various businesses including account management, receipt and payment management, liquidity management, investment and financing management, risk management and information services, the Bank was committed to building a domestic and foreign currency integrated transaction banking services platform, taking advantage of the strength of professional services of transaction banks, met cash management demands of customers during the entire transaction process, fully promoted the fast development of online corporate banking business. The Bank also vigorously promoted product innovation, increasingly expanded customer base and services scope, obviously enhanced cash management comprehensive services ability and market influence. Particularly, the Bank's advantageous asset and cash management scheme for government and industries is taking a leading position. During 2018, the transaction amount of cash management business of the Bank exceeded RMB1,600 billion, representing an increase of 33% from the last year.

To adapt to the new economy, ride on new situation, and give full play to the important role of supply chain financial business in the transformation of corporate banking business, the Bank fully exploited the potential of quality customer resources, focused on key industries such as medical, energy, trade logistics and white goods, strengthened the efforts to innovate finance for various scenarios and industries, and provided open and shared platform services to customers through business model grafting and industry platform interconnection. The Bank's influence in the trade finance sector continued to increase. As the director unit of the Trading and Finance Committee under the City Commercial Bank Committee of the China Banking Association, the Bank successively hosted the Trading and Finance Seminar of the City Commercial Bank of the China Banking Association, and won the Best City Commercial Bank of Trading and Finance and the Best Trading Partner Bank awards at the 3rd and 5th of Annual China Trading and Finance Conference.

Investment banking business

The Bank focused on carrying out the lead underwriting business of debt financing instruments, asset securitization, merger and acquisition financing, structure financing, investment and financing consultancy and other investment banking businesses, and promoted its business transformation. The Bank further enriched products in investment banking business, and promoted asset securitization, direct wealth management financing instruments, debt financing plans, credit risk mitigating instruments and other innovative products.

In 2018, the Bank registered 12 debt financing instruments with a total registered quota of RMB29,650 million; and issued 28 debt financing instruments with a total underwriting size of RMB12,180 million. Since its successful granting of Type A lead underwriting qualification by the National Association of Financial Market Institutional Investors in November 2017, the Bank has vigorously promoted the bond underwriting business and successfully achieved breakthroughs in the bond underwriting business in Jiangsu market in 2018.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Investment banking business (Continued)

At the beginning of 2018, the Bank conducted a thorough investigation against private enterprises within the province, and comprehensively used various “carefully selected, thoughtfully arranged and precisely allocated products”, such as short-term financing bonds, medium-term notes, ultra short-term financing bonds, targeted debt financing instruments and debt financing plans, to provide direct financing services for private enterprises under the conditions with risk controllable. In 2018, the Bank issued a total of 7 inter-bank market debt financing instruments for private enterprises in Anhui, with a total amount of RMB3,080 million, accounted for 70% of the scale of bond issuances of private enterprises in Anhui in the inter-bank market, which optimized the financing structure of private enterprises, reduced the financing cost of private enterprises and effectively mitigated the problem of difficulty and high costs of financing for private enterprises.

In 2018, with joint efforts of its head office and branches, the Bank made breakthroughs in asset securitization business, and completed lead underwriting in a number of asset securitization deals. The Bank achieved a rapid growth in debt financing plan business in 2018, further meeting the diversified corporate financing needs.

International Business

In 2018, the Bank regarded international business as one of the important areas of business innovation and strategic transformation. It kept adhering to customer-centric service philosophy, constantly sought breakthroughs in product innovation of international business, improved its international market share and gave full play to the advantages of professional services, comprehensively enhancing the ability of comprehensive financial services. As at the end of 2018, the Bank handled a total of USD9,289 million in international settlement for its customers, representing a year-on-year increase of 7.74%; 1,951 active customers in trade finance, representing a year-on-year increase of 19.91%, having the Bank’s customer base continuously consolidated; the accumulatively granted on-sheet international trade financing amounted to RMB4,836 million; domestic letters of credit and financing business thereunder amounted to RMB30,000 million; and financing external guarantee amounted to USD2,165 million. Volume of each business hit a new record high.

The volume of foreign exchange transactions reached USD24,328 million, while derivative products business (including forward foreign exchange settlement and sales, forward foreign exchange transactions, foreign exchange swap and RMB foreign exchange swaps) increased by 167% year-on-year to USD19,037 million, among which RMB foreign exchange swaps increased by 164% year-on-year to USD18,520 million.

In distributors channel construction, the Bank implemented its new layout and new strategies of agency banking in line with “One Belt, One Road” initiative and further improved its overseas agency networks according to customer and business development demands. As at the end of 2018, the number of agency banking of the Bank was 687, and the total number of overseas clearing accounts for the main settlement currencies amounted to fourteen. It also further improved the anti-money laundering compliance risk management system for overseas agency business. The Bank constantly optimized agency banking structure and improved clearing channels, in order to fully meet customer demands for clearing and settlement services.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business

Business overview

In 2018, through enhancing market expansion, providing innovative financial products and services, accelerating business channel and team building, the Bank continually developed wealth management systems, conducted the construction of inclusive finance systems, and vigorously promoted outlet capacity improvement. These efforts have helped lay a solid foundation for retail business development of the Bank and improve the performance indicators and regional competitiveness of its retail business.

In 2018, the Bank's active customer base maintained a steady growth, among which the number of medium-to-high-value customers grew faster than others. Customer structure was further optimized. As at the end of 2018, the number of customers with assets of RMB500,000 or above amounted to 94,410, representing an increase of 35.8% as compared with the beginning of the year. The number of customers with assets over RMB2 million increased by 27.4% from the beginning of the year. Wealth management business maintained a rapid growth rate, with the Bank's personal financial assets under management (AUM) reach to RMB250 billion, sales and number of wealth management products (WMPs) growing continually, and sales of PRC treasury bonds maintaining a leading position in the province.

The scale of deposits and loans of retail customers expanded continuously. Indexes of new retail deposit growth reached the highest level in the history. Market share of retail deposits in Anhui Province has kept rising since the listing of H Shares. Moreover, the growth rate of retail deposits has exceeded the average growth rate of Anhui Province for consecutive years since the listing. The scale of retail deposits at county level recorded significant growth. The business scale of retail loans continued to grow, with the scale of retail loans hitting RMB140 billion and retail loan pricing level increasing continuously.

In 2018, the bank card business maintained good momentum of development, new breakthroughs were made in product design and channel building, the scale of card issuance grew steadily, the number of card issuance accelerated growth, the number of active cards and average balance per card continued to increase. As at the end of 2018, the debit card business continued to develop, total transaction volume via debit cards was 252 million, and transaction amount via debit cards was RMB2.5 trillion. Throughout the year, the Bank has realized a debit cards trading volume of 6.4309 million transactions, representing a decrease of 15% as compared with the corresponding period of the last year, and the transaction amount amounted to RMB80.522 billion, representing an increase of 3.76% as compared with the corresponding period of last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Business overview (Continued)

In 2019, with the strong impacts of interest rate liberalization and technology finance, and the increasingly stringent regulatory environment, the retail business will be under the operating pressure to a considerable extent. Nevertheless, the Bank will actively grasp the development opportunities, stick with the basic role of financial services and improve comprehensive ability of its personal banking services. Through improving its retail business philosophy, management standard, innovation capability and technology level, the Bank will strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product lines, improve service quality and strengthen data analysis ability. At the same time, the Bank will accelerate the building of wealth centers, and advance a series of fundamental work including construction of inclusive finance, mobile finance, capacity enhancement, so as to further optimize the structure of the retail business, maintain a rapid and healthy growth in each of the retail business, and comprehensively improve the overall competitiveness of the retail business and its contribution to the entire business.

Wealth management business

The Bank's personal wealth management business mainly includes personal wealth management services, agency service for sales of funds, agency service for sales of insurance products, agency service for sales of treasury bonds and agency service for sales of precious metal. In 2018, the personal wealth management business income (excluding direct banking business) amounted to RMB102,554 million, representing an increase of RMB24,603 million or 31.56% from the beginning of the year. Among them, personal wealth management business raised funds of RMB204,943 million, representing an increase of 27.14% as compared with the same period of the last year. The total number of personal wealth management products amounted to RMB96,967 million, representing an increase of 33.57% as compared with the same period of the last year. In 2018, wealth management business of the Bank achieved an intermediary business income of RMB193 million.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Bank card business

One card

In 2018, the Bank further deepened the expansion and operation of the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through upgrade of product mix, technical innovation and system optimization, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities for bank cards, constantly cultivated the card-using habits of customers and constantly enhanced its customer loyalty, so as to further achieve a steady and continuous growth in Huangshan Debit Cards transactions. As at the end of 2018, the Bank issued a total of 17.04 million cards, including 13.15 million debit cards, and 1.92 million cards newly issued during the year, representing an increase of 12.07% as compared with the same period of the last year; total deposits of the cards amounted to RMB72,221 million, representing an increase of 49.97% as compared with the same period of the last year, and deposit per card amounted to RMB5,492, representing an increase of 33.82% as compared with the same period of the last year.

Credit card

In respect of credit card business, under the overall development framework of "One Body, Two Wings (一體兩翼)", with aim to build and improve the digital credit card service system, the Bank vigorously expanded its customer base and underlying assets, fully implemented Internet, digitization and intelligent service, and improved the market influence, revenue contribution, risk control capability and customer satisfaction of credit card business. The Bank strengthened the efforts to explore customers, promoted the construction and application of label system, deepened the business environment construction and customer service capacity, and continued to strengthen the digital risk management capabilities.

As at the end of the Reporting Period, the Bank issued a total of 1,273,414 credit cards, of which 1,273,414 were valid. The number of credit cards issued during the Reporting Period was 320,007. Throughout 2018, the transaction amount of credit cards was RMB35.48 billion in aggregate. The credit card overdraft amount was RMB11.24 billion, representing an increase of RMB3.567 billion as compared with the end of the last year. Credit card income amounted to RMB758 million, representing an increase of 31.43% as compared with the same period of the last year. As of 31 December 2018, credit cards NPL ratio was 1.95%, representing a decrease of 0.17 percentage point from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Retail loans

In 2018, the Bank increased its effort to develop the personal home loan business market, steadily promoted the development of personal home loan business and continued to expand the operating scale. The Bank also constantly raised the personal home loan pricing level to increase the profitability of personal consumption loans. The overall asset quality of personal home loans of the Bank was relatively good and the level of NPL ratio was relatively low, allowing the Bank to take an advanced position among peers. Meanwhile, given that the vast majority of new NPLs were fully secured by risk mitigation measures, such as collaterals, the possibility of sustaining eventual losses on such loans is slim. As at the end of 2018, the balance of personal home loans of the Bank under the headquarters amounted to RMB84.831 billion, representing an increase of RMB13.306 billion or 18.60% as compared with the beginning of the year; NPL ratio of personal home loan of the Bank under the headquarters was 0.20%, representing an increase of 0.07 percentage point as compared with the beginning of the year.

In 2018, the Bank actively promoted the development of inclusive financial business, continuously strengthened the innovation of business loans and consumption loan products, accelerate the promotion of digital financial services, fully built a chain marketing system, optimized and solidified the microloan business model, solidly implemented poverty alleviation financial work, and comprehensively strengthened personal loan risk management, the scale of inclusive financial business has grown steadily.

As at the end of 2018, personal business loans and microloan of the Bank amounted to RMB29.638 billion, representing an increase of RMB3.569 billion or 13.69% as compared with the beginning of the year; NPL ratio of personal business loans and microloans of the Bank was 1.02%, representing a decrease of 0.11 percentage point as compared with the beginning of the year.

The balance of personal non-home consumption loans of the Bank amounted to RMB2.348 billion (excluding credit card installment), representing an increase of RMB711 million or 43.39% as compared with the beginning of the year; NPL ratio of personal non-home consumption loan of the Bank (excluding credit card installment) was 0.98%.

Retail customer deposits

In 2018, the Bank experienced complex external economic situation (including slowdown in growth of GDP and M2) and diversification of customer financial needs. The Bank, by adhering to customer-oriented business philosophy, focused on customer needs on wealth management, payment settlement and consumption loan, and through accelerating product innovation, innovating sales model, promoting rural inclusive financial system construction, connecting offline and online service channels, and, achieved rapid growth in retail customer deposits. As at the end of 2018, the Bank's retail customer deposits amounted to RMB148.062 billion, representing an increase of 20.1% as compared with the end of the last year. The Bank's county-level retail deposits under the headquarters amounted to RMB43.270 billion, representing an increase of RMB9.654 billion or 28.72% as compared with the beginning of the year. As at the end of 2018, the market share of the Bank's retail deposits in Anhui Province reached 6.30%, representing an increase of 0.45 percentage point from the beginning of the year. Retail deposits of the year were characterized with a fast and steady growth with optimized structure.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.3 Financial market business

Business strategy

In 2018, China's economy showed a general weakening of both supply and demand, both PMI and retail price index showed a downward trend, and the economy was facing downturn pressure to some extent. The problem of financing difficulties for the real economy, especially for the small and micro enterprises and private enterprises was more prominent. The PBOC kept liquidity at a reasonable and sufficient level, continued to implement a prudent monetary policy and changed the loose monetary policy to loose credit policy via MLF, a reserve requirement ratio cut, open market operation and other methods. For bond investment, the Bank adopted the approach of returning to the fundamental purposes of business and focusing on principal business in order to make rational investment plans. Firstly, the Bank increased the allocation of bonds (especially local government bonds), enhanced the ability to serve the real economy, and supported the regional economy. Secondly, the Bank strived to seize the market opportunities, optimized trading strategies and increased spread income. Thirdly, the Bank continued to improve intermediate business income through strengthened customer development, enhanced business innovation and collaboration.

As at the end of 2018, the average duration of RMB bond investment portfolios of the Bank was 2.99 years; return on investment portfolios was 4.23%; and the yield taking into account the tax rebate on the interest income of treasury bonds and local government bonds was 4.93%.

Business development

In 2018, the Bank closely followed regulatory guidelines, actively participated in innovative business, timely applied for and was officially granted the core dealer for credit risk mitigation tools, credit risk mitigation certificate creation and credit instrument creation and other qualifications on 21 December 2018. The acquisition of these qualifications further enhanced the Bank's ability to support the development of private enterprises. In addition, upon obtaining the qualification of international precious metal trading in 2018, the Bank can participate in London Gold and London Silver transactions, widen its scope of precious metal business activities and transactions, and access more hedging and arbitrage instruments. As at the end of December 2018, the Bank's investment scale amounted to RMB504.646 billion, representing an increase of 20.50% as compared with 2017.

5.9.4 Asset management business

In 2018, with the release of the Guiding Opinions on Regulating Asset Management Business of Financial Institutions and Administrative Measures on Wealth Management Business of Commercial Banks for Public Comments, the Bank's asset management business accelerated transformation and its business varieties further enriched. In respect of business scale, in 2018, the balance of the Bank's wealth management products at the end of the Reporting Period amounted to RMB114.162 billion, of which the proportion of balance of non-guaranteed wealth management products amounted to about 90%. The balance of net-worth products at the end of the Reporting Period amounted to RMB12.786 billion, and net-worth wealth management product transformation was carried out orderly. In terms of customer system, in 2018, the Bank further optimized the mix of wealth management customers. The balance of personal wealth management products reached RMB96.994 billion, representing an increase of 33.61% over the same period last year and accounting for approximately 85% of the total.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.5 Fund custody business

In 2018, the Bank achieved sustainable and steady growth in custody volume and intermediate business income through continuously strengthening business innovations and diversifying product variety in the custody business. In January 2014, under strong support of the Bank's top executives and with the approvals of the CSRC and the CBRC, the Bank obtained the securities investment fund custody qualification. Accordingly, the Bank commenced custody services for funds, trusts, securities, public offerings, private placements and bank wealth management products, marking a milestone in providing integrated banking services. In September 2016, the Bank was further granted the insurance asset custody qualification by the CIRC, another new height in broadening its asset custody product portfolio. In 2018, the Bank continued to step up interbank business development and introduce innovative custody products to boost the income from intermediary business.

As of 31 December 2018, the balance of assets under custody of the Bank amounted to RMB691.786 billion, representing an increase of RMB80.844 billion or 13.23% as compared with the corresponding period of the last year. The Bank's custody business generated a custody fee income of RMB308.1148 million, representing an increase of RMB62.2527 million or 25.32% as compared with the corresponding period of the last year.

5.9.6 Distribution channels

The Bank uses a variety of distribution channels to provide products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channels.

Physical distribution channels

As of 31 December 2018, the Bank had a total of 661 self-service banks (including single points), 2,074 cash self-service equipment (including 305 ATMs, 1,067 CRSs, 373 self-service terminals and 329 smart self-service terminals (including self-service card issuing machines)).

Electronic banking channels

The Bank put great emphasis on expanding, improving and coordinating with electronic banking channels, including online banking and mobile banking. In 2018, the Bank enhanced the management on the operation of electronic channels centered on mobile internet, which effectively relieved the pressure on outlets. In 2018, the trading account transactions via retail electronic channels accounted for 93.37%, representing a year-on-year increase of 4.98 percentage points; whereas trading account transactions via corporate electronic channels accounted for 85.13%, representing a year-on-year increase of 21.51 percentage points.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.6 Distribution channels (Continued)

Online banking

In 2018, the Bank's personal online banking business maintained a steady development with a steady growth in customer base and increasing trading activity of customers. As at the end of 2018, the total number of personal online banking customers amounted to 3.7747 million. The number of personal online banking transactions accumulated to 290.9439 million in 2018, representing a year-on-year increase of 32.66%. Among these transactions, the number of online payment transactions was 137.31 million, representing a year-on-year increase of 89.37%, and the transaction amount was RMB76.764 billion, representing a year-on-year increase of 91.15%. In recent years, the enterprise online banking business of the Bank experienced comprehensive and rapid development, with a constantly solidified customer base and increasingly efficient channels. As at the end of 2018, the Bank's total number of enterprise online banking customers amounted to 194,700 and the Bank recorded 52.5977 million enterprise online banking transactions in 2018, representing a year-on-year increase of 4.16%. The transaction amount of enterprise online banking accumulated to RMB2,020.041 billion, representing a year-on-year decrease of 2.66%.

Mobile banking

In 2018, the Bank's personal mobile banking continued to maintain a rapid growth with increasing customer activity. As at the end of 2018, the total number of contracted mobile banking customers reached 3.1957 million. In 2018, the number of mobile banking transactions reached 94.7241 million, representing a year-on-year increase of 28.22%, and the transaction amount accumulated to RMB381.9 billion, representing a year-on-year increase of 57.81%.

Direct banking business

In 2018, the Bank maintained a leading position in terms of the comprehensive strength of the Bank's direct banking brand "Hui Chang You Cai (徽常有财)". As at the end of December 2018, the number of direct bank accounts of the Bank exceeded 15 million, AUM exceeding RMB12.7 billion, the cumulative transaction volume of wealth products exceeding RMB190 billion, and the accumulated amounts of various loans exceeding RMB20 billion, with a loan balance of RMB16.1 billion. In the 2018, the Bank won the "2018 Direct Bank Innovation Application Award" of China E-banking Gold Awards selected by the China Financial Certification Center, and were awarded the title of "The Most Influential Direct Bank of 2018" jointly selected by the Internet Weekly of the Chinese Academy of Sciences and the Information Science Research Center of the Chinese Academy of Social Sciences.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings

Subsidiaries

Huiyin Financial Leasing Co., Ltd.

Registered in Hefei, Huiyin Financial Leasing Co., Ltd. (“Huiyin Financial Leasing”), a financial leasing company under the national banking system as approved by the CBRC, officially commenced its business on 30 April 2015 with a registered capital of RMB2,000 million. Huiyin Financial Leasing was jointly established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and Materials Industry & Trade Company of China Tiesiju Civil Engineering Group Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huiyin Financial Leasing, accounting for 51% of its shareholding. During the Reporting Period, the Bank successfully increased the registered capital of Huiyin Financial Leasing to RMB3 billion, 1.62 billion shares or 54% of which is held by the Bank.

The principal businesses of Huiyin Financial Leasing include: (1) financial leasing; (2) handling financial leasing assets as transferor or transferee; (3) fixed-income securities investment; (4) taking leasing deposits from lessees; (5) taking time deposits of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing loans from financial institutions; (8) off-shore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); and (11) other businesses approved by the CBRC.

Since its opening, Huiyin Financial Leasing, under the philosophy of “setting example, laying foundation, seizing customers and innovating model”, has set up a foothold in Anhui and is open to the national market. It has actively expanded its business scope and customer resources, providing customers with professional and integrated financial leasing services. Huiyin Financial Leasing adheres to the idea of stable business operation and sustainable development and strives to strike a balance among its business scale, speed, quality and efficiency. It promotes business scale expansion, strives to adjust the structure of its customers, products, businesses and income and persists in prudent risk management. In order to strengthen risk prevention and control across the board, it introduces comprehensive risk management and constantly raises the risk management level. Huiyin Financial Leasing constantly improves its own advantage and actively develops its core competitiveness, creating sustainable competitive advantage for its medium-term and long-term development.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd.

Registered in Jinzhai County of Lu'an City, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") officially commenced its businesses on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd. along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of its shareholding. The principal businesses of Jinzhai Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authority under the State Council.

Since its establishment, with the support from shareholders, Jinzhai Huiyin has upheld its original goal upon establishment. It set up a foothold in Jinzhai County and devoted itself to solving the "Three Dimensional Rural Issues" with a mission to promote comprehensive financial reform in the rural villages and accelerate the economic and social development in Jinzhai County. It has focused its business on agricultural credit, deposit growth, channel development, and risk prevention and control, which has produced good results of business development and received recognition from customers, local government and regulatory authorities. During the Reporting Period, Jinzhai Huiyin officially launched mobile banking and WeChat banking services, thus enriching its settlement channels and improving customer satisfaction.

Wuwei Huiyin Rural Bank Co., Ltd.

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. ("Wuwei Huiyin") commenced its businesses on 8 August 2010. Its registered capital was RMB100 million, to which the Bank contributed RMB40 million, accounting for 40% of the shareholding. Other major shareholders are local enterprises and individual shareholders in Wuwei. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authorities under the State Council.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.7 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Wuwei Huiyin Rural Bank Co., Ltd. (Continued)

Since its opening, Wuwei Huiyin has been adhering to Huishang Bank's operating philosophy. Unremittingly following the Scientific Outlook on Development, it supported the development of "Three Dimensional Rural Issues" economy, individual businesses and SMEs, with base in Wuwei and reliance on local villages and towns. Wuwei Huiyin transformed its advantages in strong brand influence into actions in accordance with the operating philosophy of "close to the towns, serving Three Dimensional Rural Issues". Wuwei Huiyin innovated the variety, forms and operation processes of loans. It provided flexible, high quality and efficient financial services tailored for the customers relevant to "Three Dimensional Rural Issues". It also supported economic development in county area, extended services to the wider rural areas and provided intangible financial support to farmers' production and development. During the Reporting Period, based on the county and rural revival strategies, Wuwei Huiyin further confirmed the development direction of supporting agriculture and small customers, strengthened institutional construction, and improved internal control management while cooperating with the relevant agencies to build up a person credit reporting system, thus improving the availability and convenience of rural basic financial services.

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), which was established on 13 April 2009, is China's first independent brand auto finance company, jointly set up by the Bank and Chery Automobile Co., Ltd. The company was registered in Wuhu City with a registered capital of RMB1,500 million, 300 million shares of which are held by the Bank, accounting for 20% of the shareholding, while Chery Automobile Co., Ltd. holds 735 million shares, accounting for 49% of its shareholding; and Chery Holding Co., Ltd. holds 465 million shares, accounting for 31% of its shareholding.

Approved by the CBRC, the company's principal businesses include: (1) accepting time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits for the purchase of vehicles from auto dealers and car rental deposits from lessees; (3) upon approval, issuing financial bonds; (4) engaging in inter-bank lending; (5) obtaining loans from financial institutions; (6) providing auto loans; (7) providing auto loans to auto dealers for the purchase of vehicles and loans for operating facilities, including showroom construction loans and spare parts and maintenance equipment loans; (8) providing auto financing and leasing businesses (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto financing lease receivables to financial institutions; (10) handling the sale and disposal of rental car for residual value; (11) engaging in consulting and agency businesses regarding auto financing; and (12) subject to approval, engaging in equity investment of financial institutions regarding auto finance.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT

In 2018, the banking industry was faced with more complicated risks and challenges under the complex and volatile domestic and international economic environments where various risks were intertwined. With a risk appetite featuring “prudence, rationality and soundness”, the Bank continued to improve its comprehensive risk management system and practice the prudent operation philosophy in the Year of Quality Improvement, in a drive to ensure the prudence of business development and the objectivity of asset classification and maintain sufficient risk provisions and capital adequacy. Subject to both external regulation and internal norms, the Bank upheld the philosophy of rational management and controlled major risks in a scientific and effective manner while insisting on “dual growth drivers”, i.e. business development and financial innovation. In the principle of stable operation, the Bank built a comprehensive, full-process risk management system covering all employees and strived to realize coordinated development that balances scale, quality and efficiency on the premise that risks are under control, so as to realize the value of comprehensive risk management and the strategic objective of transformation and upgrading of the Bank.

5.10.1 Credit risk management

Credit risk refers to the risk of loss due to the default of the debtors or counterparties or the reduction in their credit ratings and performance capabilities. Credit risk is the major risk currently faced by the Bank, mainly involving on- and off-balance credit risk exposures in relation to loans, interbank lending, funds, guarantees, commitments, etc.

In 2018, guided by comprehensive risk management, the Bank focused on effectiveness and improved credit risk management. The Bank refined the layered risk policy system and formulated risk preference, risk quota, loan credit policy systems on the basis of comprehensive risk management measures. Besides, the Bank also improved annual assets quality and impairment provision evaluation systems to form a transmission mechanism between policies evaluation. It strictly controlled customer access, enhanced rating management, standardized credit rating, drew up the annual centralized rating plan, clarified work progress and put more efforts on random inspection. The Bank strengthened its risk alert and exit mechanism, and conducted key risk examination on loans associated with high-risk industries. The Bank also strengthened its risk control over key fields, including the business of small sized enterprises, government financing vehicles, real estate, over-capacity, emerging businesses and guarantee companies; and strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on overcapacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. While focusing on maintaining asset quality, the Bank promoted the implementation of risk management and control policies through comprehensive risk examination and on-site inspection and supervision. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions including collection, write-off, restructuring of loans with risks on a “one-customer-one-policy” basis, with an aim to dispose of non-performing assets through different channels and ways and enhance the liquidity of inventory assets. During the Reporting Period, the Bank’s NPL balance increased. However, through implementing a number of measures while reducing old loans and controlling new loans, the structure of asset quality is effectively improved. Please refer to Section 5.4 “Loan Quality Analysis” in this annual report for the distribution structure.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.2 Market risk management

Market risk refers to the risk of on- or off-balance-sheet loss caused by changes in interest rates, foreign exchange rates and other market factors. The market risk management of the Bank covers exchange rate risk and interest risk of trading accounts

In 2018, in the face of complex and volatile external environment, the Bank focused on improving market risk management tools, optimizing market risk management processes, and promoting daily market risk management in an all-round manner. To improve the market risk monitoring mechanism, the Bank measured market risk using a full range of methods, including gap analysis, duration analysis, foreign exchange exposure analysis, sensitivity analysis, scenario analysis, risk value analysis, stress testing and back testing. The Bank effectively promoted the management of market risk limits, implemented a ten-day reporting system for the implementation of such limits, and conducted dynamic management and adjustment of some risk limit indicators. To improve its foresight and initiative in market risk management, the Bank carried out market risk stress tests to assess the potential losses or damage to the Bank under stress scenarios and took risk mitigation measures in advance accordingly. The Bank continued to optimize and perfect its market risk management tools and took the opportunity of transforming its capital management system to improve the yield curves and measurement models of relevant products. Adhering to process optimization and technological innovation and under the comprehensive risk management framework, the Bank fully identified, accurately measured and continuously monitored market risks in various business lines to control market risks within a tolerable range.

5.10.3 Operational risk management

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, information system failures and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine its operational risk management system and strengthen operational risk management. The Bank continued to promote the construction of an operational risk management system, strengthened the development of three major instruments for operational risk management, improved the key operational risk indicators, and set up the information system for operational risk management to improve the informatization of operational risk management. The Bank conducted multi-dimensional risk monitoring over institutions, business activities and customers for routine monitoring of operational risk in key areas such as credit business; made greater use of the external data such as the credit information of the PBOC, sorted out a list of customers with potential risks identified by other financial institutions, and carried out risk screening and subsequent countermeasures to prevent risk contagion; regularly collected major operational risk cases caused by presidents of sub-branches in and out of the Bank and gathered data on operational risk losses to develop key risk indicators and incorporate them into the monitoring system; strengthened IT risk management and focused on emergency drills for interruption of key information systems and business continuity management, with a view to playing the role of the second line of defense against information technology risk.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management assume joint responsibilities for formulating policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the Bank. The Risk Management Department, the Financial Market Department, the Financial Industry Department and the Transaction Banking Department, as the major supporting departments for the Bank for liquidity management, are responsible for overall implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank's liquidity risk management aims at ensuring that the Bank shall have sufficient funds to meet both expected and unexpected capital requirements (including loan growth, deposit withdrawal, debt maturity, and changes in off-balance sheet irrevocable commitments) in its normal operating environment or under pressure and to create a stable liquidity environment for ongoing operations, thus fostering positive interactions between liquidity management and business development. With adherence to the principles of stability, prudence and rationality for liquidity risk management, the Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and its needs for business development. On the premise of ensuring liquidity, the Bank strives to pursue profit growth and value growth to achieve unity in the "liquidity, safety and profitability" of bank funds.

In 2018, the Bank further enhanced the sophistication of liquidity management whilst closely monitoring pressures in liquidity management from changes in economic and financial situations. Firstly, it maintained coordinated development of asset and liability businesses, dynamically adjusted its liquidity management strategies and capital operation tempo; secondly, it strengthened liquidity indicator management, improved liquidity risk identification, monitoring and measurement, and improved liquidity risk management ability; thirdly, it strengthened liquidity emergency management, reasonably developed liquidity stress scenarios in response to the external environment to ensure that there would be no liquidity risk in any stress scenarios or within the prescribed shortest survival period, and conducted liquidity stress testing on a quarterly basis as well as prepared related reports. Meanwhile, the Bank also formulated contingency plans to prevent potential liquidity crisis and take effective contingency measures to control risk spreading in liquidity crisis scenarios. As at the end of the Reporting Period, the liquidity coverage ratio of the Bank was 132.75%, while the qualified liquidity assets and net cash outflow in the next 30 days were RMB67.384 billion and RMB50.762 billion, respectively.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity dates or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank's net interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the duration of our banking portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies promulgated by the PBOC when carrying out deposit taking and lending activities.

In 2018, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management with the aim of improving its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, optimized its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

5.10.6 Exchange rate risk management

Exchange rate risk is the risk of loss in the Bank's earnings arising from the duration mismatch of over-bought and over-sold current or forward positions in a particular foreign currency and non-RMB denominated asset and liability due to adverse changes in exchange rate. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are denominated in Euros, Hong Kong dollars, Japanese yen, Canadian dollar, Australian Dollar, Korean Won, pound and SGD.

The Bank measured its exchange rate risk through qualitative and quantitative analyses. The major methods included gap analysis, duration analysis, exposure analysis, etc. In order to maintain its exchange rate risk within an acceptable range, the Bank implemented stringent limit-based management measures, primarily including trading limits, risk limits, foreign exposure limits and stop loss limits.

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers. They are effected by way of "back-to-back" square trading that avoids exchange rate risk to a large extent. Under the new normal of bilateral exchange rate fluctuations of RMB, the Bank will maintain reasonable proprietary position exposures in line with the Bank's limit-based management within the limit of combined exposures approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilized derivatives to prevent exchange rate risk.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.7 Reputation risk management

In 2018, the Bank effectively managed its reputation risk. There is no reputation risk incident occurred throughout the year. The Bank maintained a good relationship with the media, and the media provided favorable overall feedback.

To control reputation risk, the Bank strengthened the guidance of positive reports externally, and strengthened its reputation risk management internally. To deal with misleading information, the Bank responded quickly, communicated proactively, and had a regard for facts and the freedom of the media. The Bank established positive interaction with the media, and effectively avoided reputational risk that may occur.

Going forward, the Bank will focus on enhancing the techniques of directing external public opinion, integrating the resources invested in the media and fostering the unified culture of reputation risk prevention. It will also strive to increase the brand fame and reputation of the Bank through high-level public relations planning.

5.10.8 Compliance risk management

Compliance risk refers to the risk that commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of their violation of laws and regulations, rules and criteria.

The Board of Directors of the Bank takes the ultimate responsibility for compliance of the Bank's operation activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance by the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk, conducting regular assessment on compliance risk and submitting compliance risk report to the Board. The Bank has established a robust compliance risk management system and organizational structure, forming three defense lines at front, middle and back offices interactive with each other, and the vertical double-line reporting system amongst the head office, branches and sub-branches. It was also able to constantly improve the compliance risk management system and mechanism as well as the risk management level and efficiency so as to ensure effective management and control of compliance risk.

During the Reporting Period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, and established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank launched in-depth special self-inspections such as the "Year of Quality Improvement", "Deepening the Rectification of Irregularities in the Banking Industry", "Implementing Three Fundamental Tasks and Putting in Place Four Elements (三基四到位)" and "Identification of Non-performing Loan Liability" to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.9 Anti-money laundering management

The Bank attached great importance to anti-money laundering and strictly implemented relevant laws and regulations aiming at preventing and controlling money laundering activities, with sound measures vigorously carried out across the Bank.

During the Reporting Period, the Bank put into practice the principle of “laying emphasis on risks, management, quality and effects” by applying it to anti-money laundering as well, enhanced the “three vertical and three horizontal” network of the anti-money laundering framework and promoted consolidation of resources and active participation by various business departments to effectively strengthen concerted efforts in anti-money laundering. Based on the thinking of establishing “systematic models for capturing indicators of the characteristics of cases”, the Bank collected typical cases of money laundering and their upstream criminal cases through multiple channels, and conducted analysis to sort out the characteristics and fund transaction patterns of money laundering activities for various types of crimes, so as to expand the indicators for self-monitoring of irregular transactions. Through designing, verifying, launching, evaluating and enhancing its models, the Bank adopted full life cycle management of models for monitoring. The Bank also developed sandbox modules of models for antimoney laundering personnel, so as to achieve “tailored” monitoring to strengthen the effectiveness of monitoring suspicious transactions. Based on the suspicious transactions reported by branch institutions, the Bank stepped up the collection, analysis and application of data and information to obtain timely warnings on risks.

Currently, under the increasingly complex international economic and financial conditions, the ways and means of money laundering are becoming more subtle and diverse as information technology, artificial intelligence and internet technology rapidly develop. Anti-money laundering is facing increasingly severe challenges. The Bank will proactively adopt its risk-based anti-money laundering methods to continue to strengthen the internal control mechanisms and to raise the level of money laundering risk prevention and control.

5.10.10 Implementation of the Basel Accord

The Bank is one of the earliest urban commercial banks in China committed to the implementation of the New Basel Capital Accord. Focusing on the measurement of the three major risks under the first pillar, the Bank gradually promoted the development and application of advanced methods for capital measurement in accordance with the requirements under the Measures for Capital Management of Commercial Banks (Trial) and other regulatory policies. The Bank has established and put into use an internal risk rating system for non-retail and retail credit risk of customers. This year, the Bank finished the verification and optimization of the risk rating models for manufacturing, wholesale and retail business. The internal risk rating system for non-retail credit risk of loans was also completed and being promoted throughout the Bank. The Bank has completed the business consultation on the standardized approach to measuring operational risk and the construction of an operational risk relationship system, and is now carrying out optimization and upgrading of the system. The establishment of the internal models approach for market risk is under discussion and preparation.

Chapter V Management Discussion and Analysis

5.11 INFORMATION TECHNOLOGY

In 2018, the Bank focused on its development strategy and adhered to the working ideas of “stabilizing operation, controlling risks, promoting development and improving capabilities” for carrying out information technology work, so as to constantly improve information technology governance, enhance technological work performance, serve various business lines, and ensure the safe, efficient and stable operation of the information system.

Firstly, the Bank consistently improved information technology governance structure. To adapt to the new social and economic development situation and meet inherent needs from the Bank’s transformation and upgrading, the Bank promoted the construction of digital banking system and established the Big Data Department with a view to coordinating the management of all the data assets of the Bank, planning big data application and data governance, driving business innovation, improving risk control and promoting the digital transformation development of the Bank.

Secondly, the new core project system was successfully put into operation. In order to achieve the goal of “all-rounded customer services, flexible product customization, multi-channel cooperation, efficient operation and real-time risk control”, the Bank successfully completed and put into operation the new core and counter information system to achieve the upgrading through replacing the “chip” during the information construction process, lay solid technology foundation for product innovation and business development and further enhance customer experience and its service supporting ability.

Thirdly, the Bank advanced the application and practice of big data. Starting with the implementing standard of stock system data, the Bank continuously promoted standardized data governance to improve data quality. The Bank actively carried out infrastructure construction for a big data platform to provide a secure, standardized, effective and stable data service fast track for the application and construction of big data. The Bank explored application related to big data and broke through traditional means for decision making to ensure that the management can monitor key indicators of corporate operations in real time.

Fourthly, the information technology security management standard was further improved. With reference to the standards of information security management, the Bank has improved the certification system of information technology security management, established a unified security baseline management and detection mechanism, carried out in-depth network system security testing and security reinforcement, and continuously improved the ability of information security management and control. The Bank applied intelligent technology, built and put into operation an automated monitoring platform for operation and maintenance to ensure the safe, efficient and stable operation of the information system.

Chapter V Management Discussion and Analysis

5.12 SOCIAL RESPONSIBILITY

In 2018, the Bank continued to honor the mission of “assuming civic responsibility” and serving the local economy by continuously promoting financial product innovation and improving customer service and customer experience to meet customers’ financial needs. The Bank sped up the modernization of its corporate governance system and capacity, in an effort to build a modern bank with high-quality development in an all-round manner by taking the overall development framework of “One Body, Two Wings (一體兩翼)” as the road map. During the Reporting Period, the Bank devoted itself to the development of people’s livelihood finance, industrial finance and green finance, and used urbanization funds, government procurement services, PPP and other products to develop comprehensive government finance, thereby effectively serving the construction of public infrastructure. The Bank innovated in investment banking, transaction banking and other business models to offer strong support for the transformation and upgrading of enterprises; strengthened the role of green credit in leverage adjustment by promoting green credit and issuing green bonds to support low-carbon economy; made targeted efforts in promoting inclusive finance, to support the development of small and micro enterprises, reduce enterprise financing costs and improve the availability of financial services; vigorously developed inclusive finance in rural areas and broadened the coverage of financial services to support the development of three dimensional rural issues; vigorously developed poverty alleviation finance and used such models as industrial poverty alleviation and targeted poverty alleviation to improve the precision of financial poverty alleviation. In an effort to provide more efficient and environment-friendly financial services, the Bank accelerated the development of technology finance and successfully launched a new generation of core systems by improving e-banking, online services and green services. In order to firmly guard against systemic risks and guarantee smooth transformation and upgrading, the Bank emphasized the philosophy of financial security and focused on building a comprehensive, full-process risk management system covering all employees to enhance its risk management capabilities. In addition, the Bank played an active role in the national energy-saving and emission-reduction campaign by promoting green operations. The Bank also promoted multi-level personnel training and carried out organizational optimization and construction of a performance appraisal mechanism to strengthen team building.

In 2018, the Bank was awarded the “Outstanding Contribution Bank for Excellence in Poverty Alleviation in Anhui Province in 2018”; the “Spreading Love over the Yangtze-Huaihe Area” charity project won the “2018 Junding Award for Classic Cases of Precision Poverty Alleviation by Financial Institutions”. As a listed company and a public bank, the Bank actively fulfilled its social responsibilities. It donated RMB3 million for the Anhui Province Heroic Act Foundation to further encourage the public to help others for a just cause, spread positive energy for the society and make contributions to the safety and legal construction of Anhui.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES

5.13.1 Trend of economic development

1. Global economy

Year of 2018 saw obvious divergence in global economic recovery. The growth rate of major economies nearly peaked and some emerging market countries suffered financial turmoils. Looking forward, given the increasing downturn risk in global economy, year of 2019 may be an important turning point for the recovery of the global real economy, it is expected that the global GDP growth will slow to 3.8% in 2019. On one hand, economy growth momentum still exists. JPMorgan's global composite PMI index remains above 53. Global employment situation continues to improve and the United States and Japan generally keep themselves fully employed. On the other hand, downturn risks are gradually highlighted. The global foreign direct investment flow has declined for three consecutive years, the drop of which has recorded a new high since the global financial crisis and the developed economies, as the global leading investment force, are also tightening their global investment. Under the impact of trade protectionism, the growth rate of global trade has declined significantly. Whether the global economy will continue to recover or turn down in the future depends on the competition between the above two forces. Currently, with the increasing downside risk to the global economy, the monetary policy of 2019 may not rule out the possibility of interest rate cut. Meanwhile, some potential risks, such as the peak of US economic growth, the escalation of Sino-US trade friction and the rise in global debt burden, also should be given high concerns. From a regional perspective, the US economic expansion has entered the middle and late stage, and the European economic recovery has slowed down. The economy of Asia-Pacific region maintains generally stable while financial systems of some countries become more vulnerable. In Latin America, the Middle East, and Africa, the economies are expected to gradually recover from fluctuations. At present, despite the international trade landscape to be reconstructed, multilateral trading system suffers being turned down, and the promotion of WTO reform in a difficult situation, regional trade agreements develop rapidly. Since global US dollar liquidity is shrinking, emerging markets are encountered with uncertain risks.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.1 Trend of economic development (Continued)

2. *Economic development trend in China*

2019 is the 70th anniversary of the founding of the PRC, and is a crucial year for building a moderately prosperous society in all respects, and thus economic development trend in China will become more complicated. Given that the development of Sino-US trade war involves variables, the follow-up effect of which will become more prominent, and monetary policies shift of the developed economies and the financial market turmoil in emerging economies will continue, the recovery of the global economy may come to an end. China's economy is still at a critical stage of "great adjustment", during which different industries, different regions, entities and finance, traditional economy and emerging finance are facing great divergence. The "great adjustment" process may continue. China's economy is expected to increase by 6% – 6.5% in 2019, a slight slowdown from the previous year. In the future, in response to new changes, new opportunities and new challenges in the economic operation, policies will focus on high-quality development, to achieve a balance among steady growth, deleveraging and risk prevention, so as to push forward the realization of stable employment, finance, foreign trade, foreign investment, domestic investment and expectations. Positive fiscal policy shall focus on cutting taxes and administrative fees to reduce enterprise cost and increase residents' income, thus better playing its role in boosting domestic demand, and appropriately increasing fiscal deficit rate in order to accelerate the pace of "opening the front door" and control the pace of "close the back door". Monetary policy shall facilitate the transformation of "loose monetary" to "loose credit", center on guiding the transmission mechanism of monetary credit policy and speeding up the construction of "triangle" support framework, and solve the financing difficulties faced by private and small and micro-sized enterprises. Regulatory policies shall control the rhythm to prevent the "risk of risk disposal" while adhering to the general direction. The targeting and flexibility of macroeconomic policies have been enhanced, and timely adjustments are made against the progress and effectiveness in relevant areas of the supply-side structural reform, to make timely adjustments, guide the market expectations and boost the confidence, innovation and vitality of the microeconomic entities.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank

1. *Stabilizing growth to promote high-quality development*

To cope with the changes of external environment, the Bank formulated a three-year action plan of “One Body, Two Wings (一體兩翼)” and promoted the organic integration and effective connection between “One Body, Two Wings (一體兩翼)” and the five-year plan. Firstly, the Bank will compete over quality credit assets by focusing on key areas, such as infrastructure, major projects, large innovation platform and new consumption, to maintain steady credit growth, exploring more quality assets according to the demand of provincial enterprises, platform companies and listed companies, and taking advantage of favorable policies and consumption upgrading to extend presence in education, healthcare, elderly services, and leisure. Secondly, the Bank will make great efforts to operate non-credit assets by conducting an integrated marketing of investment, loans, underwriting and trust for core customers and strategic customers, and taking the opportunity of positive fiscal policy to increase the proportion of local government bonds and specific bonds and selectively hold asset securitization products, such as bank credit products and quality enterprises products. Thirdly, the Bank will maintain the growth of operating income by boosting its asset pricing ability, exploring and creating assets with low risk weights and high returns, and increasing the proportion of trading bonds, as well as enhancing the expansion of traditional off-balance sheet business, increasing the transfer frequency of assets and optimizing asset structure.

2. *Stabilizing customer to serve the real economy*

In order to facilitate the supply-side structural reform and support the five major development action plans in Anhui Province, the Bank will adhere to serving the real economy to consolidate its customer base. In respect of people’s livelihood finance, the Bank will significantly increase financial services for its work plans in Anhui Province to stabilize investment with focuses on transportation, water conservation, energy, ecological environment protection, new urbanization, and modern logistics. In respect of industrial finance, the Bank will actively promote advanced manufacturing industry cluster in 24 new industrial bases in Anhui Province, support the intelligence, Internet, green, clean, low-carbon transformation of traditional industries, and improve the marketing with respect to technology service, modern logistics and e-commerce customers. In respect of technology finance, the Bank will actively participate in the building of provincial multi-level and market innovation system and promote technology enterprises. In respect of green finance, the Bank will deeply serve the green economic development of Anhui Province and Jiangsu Province. In respect of inclusive finance, the Bank will comprehensively implement those 30 opinions to vigorously promote the development of private enterprises in Anhui Province, support the integrated construction of urban and rural infrastructure, such as “road, water, electricity, gas and communication”, and the “three reforms” of rural rejuvenation. In respect of poverty alleviation finance, the Bank will take the industrial poverty alleviation mode of “led by industrial parks, leading enterprises, farmers’ cooperatives and family farms as well as self-adjustment of planting or breeding structure” (四帶一自) to support industrial poverty alleviation.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

3. *Stabilizing liabilities to achieve balanced development*

The Bank will adhere to the principle of “the essence of the bank”, and promote a balanced liability structure in accordance with the cost, stability and maturity, as well as the need for liquidity management. Firstly, the Bank will focus on expanding corporate deposits. The Bank will promote a cash management platform intertwined with the financial and government platforms to become a “wealth management bank” of the local government. The Bank will seize opportunities of the placement of government and industry-based assets to increase the retained project funds. The Bank will vigorously expand security deposits from enterprises by making comprehensive use of traditional off-balance sheet businesses, such as letters of credit, letters of guarantee, and banker’s acceptance bill. The Bank will intervene in customer payment and settlement, supply chain, treasury management and other links via trading banks to secure stable cash flow and form the precipitation of funds. Secondly, the Bank will compete over savings deposits. The Bank will focus on absorbing deposits via online channels, and improve the frequency of customers using mobile banking, direct banking and other products to accelerate the precipitation of funds. The Bank will also pay attention to absorb deposits through wealth management products, and serve medium-to-high end customers. Thirdly, the Bank will create liability products. The Bank will make good use of the qualifications of derivatives trading to strengthen the marketing of individual and corporate structured deposits, and be well prepared for issuing certificates of deposits to achieve a stable growth of deposits.

4. *Stabilizing quality to promote healthy and sound development*

With the increasing downward pressure on the economy and the accelerating exposure of default risks of the industry and enterprises stabilizing asset quality will be the top priority of the Bank. The first is to strengthen credit risk management. The Bank will pay close attention to the risk exposure of credits of large amount, and strengthen the implementation of risk mitigation plans on a “one-customer-one-policy” basis and on a “one-bank-one-policy” basis. The Bank will optimize the construction of risk warning and customer rating system. In addition, the Company will also strengthen non-credit asset risk management, verify underlying assets and the information of counterparties. The second is to strengthen employee conduct management. The Bank will establish and improve the daily management, risk spot checks, conduct monitoring, and accountability of employees. The Bank will enhance the employee management of key positions, and raise the awareness of internal control compliance of branch managers and employees of key positions. In addition, the Bank will also strictly implement the system of rotation for employees of key positions. The third is to strengthen risk management in key industries. In the real estate industry, the Bank will strengthen the valuation of real estate collaterals and carry out special inspections over collateral. In the automotive industry, the Bank will devote more efforts conduct spot checks against mid-and-low-end automobile dealers, strictly review the integrity and guarantee capabilities of automobile dealers to prevent guarantees beyond their ability to repay.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

5. *Stabilizing foundation to achieve sustainable development*

The Bank will focus on key issues, difficulties and key links, and address the weakness in basic business and basic management. In respect of business, the Bank will continuously focus on the following three aspects: addressing the weakness in traditional sectors to accelerate the development of trading banks and wealth management business; cultivating new growth drivers in emerging sectors to return to the fundamental purposes, expand the comprehensive finance strategy and broaden the scale of capital management through investment banks, interbanks, and asset management companies; and promoting the transformation of future sectors, such as the mobilization and digital transformation of customer marketing, scenario-based customer acquisition, online approval, risk management and control, and refined management, to enhance service capabilities and improve customer experience through technology. In respect of management, the Bank will adhere to implementing the following three measures: implementing the accountability system at all levels at the principle of “clear position responsibility, well defined responsibility and authority, fair rewards and punishments, and effective execution”, fostering a market-oriented and customer-centric awareness, and strengthening the collaboration and linkage between the headquarters and branches, as well as between departments; and strengthening the supervision and guidance of the branches by the headquarters with the implementation as the central task and implementing the policies of the headquarters with the spirit of the “nail”.

Chapter VI Report of the Board of Directors

The Bank presents the annual report and audited financial statements of the Bank and its subsidiaries for the year ended 31 December 2018.

6.1 PRINCIPAL BUSINESS

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which includes money market activities, investment and trading activities and transactions on behalf of customers.

6.2 PARTICULARS OF BUSINESS

6.2.1 External environment faced by and business and operation development of the Bank

1. Analysis of the environment of our main operating areas

In 2018, the economy of Anhui Province operated on a reasonable track and maintained a stable operation momentum. The growth rate of key indicators was top-ranked nationwide and leading in central China. During the year, the provincial GDP reached RMB3,000 billion, representing an increase of 8%, which was 1.4 percentage points higher than the national average; the added value of industries above the designated scale increased by 9.3%, which was 3.1 percentage points higher than the national average, ranking 4th nationwide and 1st in central China; and fixed investment during the year increased by 11.8%, which was 5.9 percentage points higher than the national average, ranking 2nd nationwide and 1st in central China. In 2018, the further pushing forward of supply-side structural reform of Anhui Province accelerated the replacement of old features with new ones. The tax reduction during the year was RMB110.32 billion, representing an increase of 19.9%. The investment in agriculture, residential services, ecological protection and environmental treatment sector during the year increased by 33%, 31.9% and 42.1%, respectively, with growth rate faster than all investments. The growth rate of added value of service industry was 0.6 percentage point faster than GDP, and the proportion increased from 42.9% in the previous year to 45.1% hit a new record high. Among these industries above the designated scale, the added value of high-tech industries increased by 13.9%, and the proportion increased from 40.2% to 40.4%; while the output value of the strategic emerging industries increased by 16.1%, and the proportion of output value increased from 24.7% to 29.5%. Boom in economy of Anhui offer a broad market space for advancing the development of "Six Financial Strategies" by the Bank.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

1. *Analysis of the environment of our main operating areas (Continued)*

Amid the optimization of the industrial structure and improvement of the growth quality and efficiency, the economy of Anhui was still under greater downward pressure in the face of complex and severe external environment and it is necessary to focus on three types of risks. The first is the real estate sector. Currently, the unchanged objective of real estate regulation and control, tightened financing environment and possible fluctuation in housing prices to a certain extent may trigger risk related assets involving housing loans, industries related to real estate and real estate serves as collateral. The Bank will prepare for the real estate customer access management to strengthen the value evaluation of real estate-based collateral. The second is the vehicle sector. With the gradually opening proportion of foreign ownership in the vehicle sector and the accelerating in new energy strategy by foreign capital giants, the pressure on the operation of mid-low end domestic brands has doubled, and the mid-low end vehicle market has entered the phase-out period from the supporting- policies period, some of the proprietary brand vehicles with low brand awareness and production technological contents are gradually marking their ends. The Bank will focus on the collection pressure and operational risks of the upstream components enterprises of automakers, as well as the high inventory risks of mid-low end domestic brand auto dealers. The third is small and micro enterprises. Small and micro enterprises are of procyclical nature and potential vulnerability during a period of downward economic trends. Under the pressure of “Two Increases, Two Controls”, it is necessary to achieve both the policy objective of the rapid growth in scale and the reduction of financing costs, and to prevent and control credit risks, so as to build a bottom line for asset quality control.

2. *Business performance of the Bank in 2018*

Facing the complex economic and financial situation in 2018, the Bank focused on high-quality development as the main line, adhered to the principle of striving for stability and tackling difficulties, promoted “strengthening management, remaining innovation and adjusting structure”, and achieved the expected goal of steady progress and stable improvement, and also laid a solid foundation for the implementation of “One Body, Two Wings (一體兩翼)” three-year action plan.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. Business performance of the Bank in 2018 (Continued)

(1) Persisting in returning to the origin and enhancing the quality and efficiency to serve the real economy

By focusing on supporting the real economy and supply-side structural reforms, the Bank will continue to increase the effective investment and vigorously develop the six finances, namely people's livelihood, industry, science and technology, green, inclusive and poverty alleviation. The Bank supported public infrastructure construction, released PPP and shanty-town reformation funds, innovated and launched the "people's livelihood loan" product. It also supported the transformation and upgrading of traditional industries, supported the enterprises in province to increase their scale and strengths by carrying out various businesses such as debt-to-equity swaps and debt financing plans and issuance. It actively carried out pilot of the investment and loan linkage mechanism, with a view to offer investment and loan linkage services such as "external investment and internal loan" and "option loan" for science and technology small and medium-sized enterprises. It served targeted poverty alleviation and overcame obstacles in the prevention and treatment of pollution, innovated poverty alleviation products such as addition-tied-to-subtraction land and the first ever poverty alleviation debt financing plans across the country through releasing of the first ever green finance bond in the province.

(2) Persisting in making adjustments to the structure to achieve balanced development of business

The Bank simultaneously moved forward its corporate banking, retail banking and interbank businesses, and formed a sound situation by means of insisting in taking the development as priorities, realizing its two-pronged strategy in traditional business and innovative business, and balancing and fasting development in each business. As for corporate business, the Bank launched "Five Organization Promotion Plans (五大組織推動方案)", and ranked the first place in the province for the eleventh consecutive year in term of the market share of corporate deposits. It actively marketed special bonds, and remained the highest accumulative proceeds received in the province. In response to the "Belt and Road Initiative", the business volume of cross-border guarantee business ranked the first place in the city commercial banks across the country. As for retail business, the market share of retail deposits in the province increased with a steady pace. The Bank implemented the "One Circle and Chain for One Bank (一行一圈鏈)" mode to provide chain and circle marketing services for small and micro customers. It established direct banking business department, and made new breakthroughs in the number of accounts of "Hui Chang You Cai (徽常有財)", holding a leading position in China. As for interbank business, the Bank accelerated the reform of specialized system to the interbank, stepped up product innovation and implemented the first ever bus ABS project in the province. It became the first corporate financial institution which obtained the core dealer of credit risk mitigation instruments, qualification to issue credit risk mitigation certificates and qualification to issue credit-linked notes in the province.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. Business performance of the Bank in 2018 (Continued)

(3) Persisting in stepping up innovation to strengthen the momentum of transformation and development

Through insisting on innovation to promote transformation, focusing on serving the real economy and tapping into the potential needs of customers, the Bank placed emphasis on building professional and improved investment banking, trade banking and private banking, as well as six business product system including wealth management, asset management, mobile finance and digital banking by new ideas, new models and new methods. By taking advantage of class A lead underwriter, the Bank underwrote debt financing instruments in Jiangsu to make breakthroughs in the market outside the province. It successfully implemented the first ever bond financing support instruments for private enterprise in the province, and issued the first ever credit enhancement overseas bonds in city commercial banks across the country. It also successfully launched the personal mobile financial portals 4.0, with the number of users increased by 28.7%, launched big data gateway platform, and replicated the experience of the smart city project in Bozhou to proactively promote the introduction and application of information on smart city in each city within the province. The Bank sped up the construction of small and micro digital finance, vigorously promoted and continued to optimize the online businesses such as "Tax e-Finance", "Credit e-Lending", "Online Micro-Lending" and Quick-e-Loan (快e貸).

(4) Persisting in strengthening risk control and adhering to the bottom risk line

Through insisting on creating tailored solutions, addressing both symptoms and root causes, and emphasizing accountability, the Bank emphasized on risk control in key areas and resolutely fought the tough battle of preventing and resolving financial risks, with all types of risks generally controllable. As for credit risk, the Bank maintained a strict control of the new debts while painstakingly reducing old debts, carried out special activities of "policies for loans with significant risks and a watch list for debtors (兩高兩策)" and "collection, write-off, restructuring and transfer of loans with potential risks (四個一批)", organized risk investigations in key areas such as real estate, government financing debts, large enterprise groups and small business customers, and made solid progress in maturity management of non-credit business. As for liquidity risk, the Bank actively expanded the sources of liabilities, strengthened to monitor working capital on a daily basis, and improved the efficiency of the treasury. It strictly implemented gap management and stress testing to ensure that major liquidity indicators met regulatory requirements. As for market risk, the Bank actively studied and judged, strengthened quota management and built valuation models to improve market risk response capabilities. As for operational risk, the Bank focused on eight areas including deposit settlement, bank card and employee behavior management, and carried out risk investigation of key cases. It continued to carry out "Safety Huishang Bank" activities, strengthened continuity management of businesses, and carried out the management and control of various risks, such as legal risk, IT risk and reputation risk. No major cases or major responsibility accidents occurred.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. **Business performance of the Bank in 2018** (Continued)

(5) *Persisting in strengthening management and continuing to lay a solid foundation for management*

Based on the system and relying on the process, the Bank comprehensively improved the delicacy management and professional level. It also prepared a three-year action plan of “One Core with Two Complements” on the basis of strengthening strategic planning management, building high-quality development index and evaluation system. The Bank optimized asset and liability management to ensure that MPA assessment of various regulatory indicators meets the standards. The credit resources focused on investment in real economy sectors such as inclusive finance, small and micro enterprises, rural areas, poverty alleviation, green finance and technology finance. The Bank promoted the management of human resources, and continued to optimize the talent structure through various ways such as selection of senior management, promotion of middle-class management personnel, rotational shift of person in charge of secondary team leaders and on-the-job training. It innovated the credit review management, promote the reform of the credit approval system, so as to strengthen the unified authorization management, reconstruct the approval process for emerging businesses, improve the credit authorization system and implement the differentiated authorization of non-credit business. It also carried out “earlier review” activity to improve the quality and efficiency of review.

3. **Analysis of key financial performance indicators during the year**

Key financial data and key regulatory indicators adopted by the Bank reflect the Bank’s operating results, profits and risk control level in 2018. During the Reporting Period, the Bank achieved satisfactory year-on-year performance of all of its financial data, and all of its regulatory indicators met regulatory requirements. See details in Chapter II “Summary of Accounting Data and Business Data” in this annual report.

4. **Environmental policy, performance and compliance of laws and regulations**

(1) *Environmental policy and performance of the Bank*

The Bank supported national industrial policies and environmental protection policies, practiced green finance concept, conserved resources, protected and improved natural ecological environment, and supported the environmental and sustainable development. During the Reporting Period, the Bank successfully issued green bonds with amount of RMB4 billion to support the development of green industries; the Bank entered into Anhui “green loan” cooperation agreement with Anhui Provincial Department of Finance and Department of Ecology and Environment of Anhui Province, pursuant to which, the Bank actively researched and interviewed the environmental protection enterprises as borrowers of green loans, effectively solved their financing difficulties, promoted green economic development and carried out the first “green loan” business in Anhui province.

Chapter VI Report of the Board of Directors

6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. Environmental policy, performance and compliance of laws and regulations (Continued)

(2) Compliance with laws and regulations by the Bank

The Bank actively carried out anti-money laundering management, and prevented money laundering activities. Firstly, it strictly implemented the "Management Measures of Huishang Bank for Evaluation of the Risks of Anti-Money Laundering for Products", "Management Regulations of Huishang Bank for Re-straining Assets Involved in Terrorist Activities", "Supervisory Measures of Huishang Bank for Anti-Money Laundering Audits", "Operational Procedures of Huishang Bank for Large-Value and Suspicious Transactions", "Management Measures of Huishang Bank for Identification and Risk Classification of Customers of Foreign Exchange Business", and "Management Measures of Huishang Bank for Classification of Overseas Agencies in Anti-Money Laundering" to strengthen the foundations of internal control for anti-money laundering. Secondly, it diligently pressed ahead with the implementation of customer identification works to stringently safeguard proper customer admittance. The Bank enhanced its risk indicator system for money laundering by customers and dynamically adjusted the risk level of money laundering by customers based on qualitative and quantitative principles. Thirdly, it conducted training on anti-money laundering in different aspects through multiple channels to enhance the awareness of staff in performing anti-money laundering duties and create a conducive environment for compliance with anti-money laundering measures. The Bank actively participated in the publicity activities on anti-money laundering organized by regulators in the outdoor plaza and anti-money laundering surveys and researches, in order to encourage its staff to learn and think about as well as to write and reflect on anti-money laundering laws and regulations and boost the ability of its staff in performing anti-money laundering duties.

(3) Relationship between the Bank and its employees

a. Remuneration of employees

The remuneration policy of the Bank was designed to facilitate the achievement of strategic operational goals, enhancement of competitiveness, and the nurturing of talent and risk control. The policy aims at developing a comprehensive, scientific and effective incentive and constraint mechanism that maximizes shareholders' value, corporate benefits and employee benefits. It enables the Bank to work its way towards stable operation and sustainable development by adopting advanced, sustainable, lawful, timely and practical management.

b. Staff employment

The Bank has enhanced staff employment management by formulating a standardized set of recruitment criteria and procedure regulating internal recruitment, deployment and other aspects of internal staff management. The Bank has also expanded efforts in recruiting through external channels such as schools, college-graduate village officials, other industry players and headhunters. The Bank has adopted strict procedures in credential checks, written tests, interviews and background checks to ensure that the recruitment process is open, just and fair.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. Environmental policy, performance and compliance of laws and regulations (Continued)

(3) Relationship between the Bank and its employees (Continued)

c. Staff training and career development

In 2018, the Bank implemented the training program formulated at the beginning of the year to provide multi-dimensional training across the Bank with reference to the skills and competence requirements of staff at different levels and positions with the aim of enhancing their skills and overall qualities and greatly facilitating their career development.

The Bank provided diverse staff training via multiple channels. In 2018, the Bank made full use of the training center, optimized the online training platform and diversified the mobile learning platform where staff could receive integrated online and offline training in the forms of video, live courses and face-to-face lectures.

The Bank implemented certificate-for-job system and certificate awards activity. In order to further strengthen the professional team construction and regulate certificate-for-job system, in 2018, the Bank organized 10 job qualification exams with 10,372 examinees, covering 14 subjects. In order to further encourage staff to upgrade their skills, the Bank conducted several training incentive activities in 2018, including microlecture contest, selection of excellent students and courses, and certificate awards, to stimulate enthusiasm in learning, thus encouraging staff to continuously improve their qualities, thereby providing continuous intelligence support for business development.

In respect of staff career development, in 2018, the Bank continually deepened the position sequence management by setting up a position sequence system covering all working positions within the Bank. Currently, based on the nature and characteristics of the positions, all positions in the Bank are divided into four main sequences: management sequence, professional sequence, marketing sequence and operational sequence. There is corresponding development channel in each sequence. The Bank set up rules on hierarchical promotion for each sequence and rules on changing sequences, which provided effective support for further promoting staff career development, increasing staff promotion opportunities, and guaranteeing the Bank's talent team construction.

(4) Relationship between the Bank and its customers

See details in section 5.9 "Management Discussion and Analysis – Business Operation" in this annual report.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.2 Subsequent events

From 1 January 2019 to the Latest Practicable Date, there has not been any non-financial event that may cause material effects on the results of the Bank.

6.2.3 Future business development trends of the Bank

See details in section 5.13 “Management Discussion and Analysis – Prospects and Measures” in this annual report.

6.2.4 Major risks and uncertainties faced by the Bank

See details in section 5.10 “Management Discussion and Analysis – Risk Management” in this annual report.

6.3 RESERVES

Please refer to the statement of financial position for details of the movements in the reserves of the Bank.

6.4 RESERVES AVAILABLE FOR DISTRIBUTION

Please refer to Note 39 to the financial statements for details of the reserves available for distribution as at 31 December 2018.

6.5 FIXED ASSETS

Please refer to Note 26 to the financial statements for details of movements in the fixed assets of the Bank as of 31 December 2018.

6.6 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank has not held nor traded shares of other listed companies during the Reporting Period.

6.7 PURCHASE, SALE OR REDEMPTION OF THE BANK’S LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Bank by the Bank or its subsidiaries during the Reporting Period.

6.8 PRE-EMPTIVE RIGHTS

The Articles of Association of the Bank does not provide for pre-emptive rights. There are no pre-emptive rights for the shareholders of the Bank.

6.9 RETIREMENT BENEFITS

Please refer to Note 36 to the financial statements for details of the retirement benefits provided to employees by the Bank.

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6.10 MAJOR DEPOSITORS/BORROWERS

The Bank is not dependent too much on a single major depositor/borrower. As at the end of the Reporting Period, the aggregate amount of operating income generated from the five largest depositors/borrowers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank. The directors of the Bank and its connected persons do not have any significant interest in the aforementioned five largest depositors/borrowers.

6.11 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to Chapter VIII "Profile of Directors, Supervisors, Senior Management, Employees and Institutions" in this annual report.

6.12 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As of 31 December 2018, the following directors, supervisors and chief executives of the Bank and their respective associates had the interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance of Hong Kong or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Hong Kong Listing Rules. In view of the fact that the Bank issued bonus shares on the proportion of 1 bonus share for every 10 shares to the shareholders during the Reporting Period according to the 2017 profit distribution plan, the number of shares held by each director, supervisor and chief executive in the table below reflects the number of shares held by such director, supervisor or chief executive after the bonus issue.

Name	Position	Class of Shares	Status	Number of shares (share) (Long position)	Percentage of related issued shares in the class (%)	Percentage of all issued ordinary shares (%)
Ci Yaping	Director, Vice President	Domestic Shares	Beneficial Owner	146,796	0.0017	0.0012
Zhang Youqi ⁽¹⁾	Chairman of the Board of Supervisors	Domestic Shares	Beneficial Owner	25,252	0.0003	0.0002
Tang Chuan ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	56,009	0.0006	0.0005
Yang Mianzhi	Supervisor	Domestic Shares	Beneficial Owner	6,613	0.0001	0.0001
Zhong Qiushi ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	32,133	0.0004	0.0003
Zhou Tong ⁽¹⁾	Former Supervisor	Domestic Shares	Beneficial Owner	184,771	0.0021	0.0015
Xu Chongding ⁽¹⁾	Former Supervisor	Domestic Shares	Beneficial Owner	547,581	0.0063	0.0045

Note: (1) For details of the position change of Mr. Zhang Youqi, Mr. Tang Chuan, Mr. Zhong Qiushi, Ms. Zhou Tong and Mr. Xu Chongding, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Save as disclosed above, as of 31 December 2018, none of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Bank or its associated corporations.

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6.13 DIRECTORS AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, none of the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years acquired any right by the way of purchase of shares or bonds of the Bank or exercised any such related rights; and none of the Bank or any of its subsidiaries had made any arrangements to enable the directors, supervisors of the Bank or their respective spouses or children under the age of 18 years to obtain such rights in any other body corporate.

6.14 DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors of the Bank had any interest in any business that constitutes or may constitute, directly or indirectly, a competing business of the Bank.

6.15 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this annual report, there are, to the knowledge of the Bank, no other relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material or related relationships.

6.16 DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

During the Reporting Period, no director or supervisor of the Bank (or its connected entities) had any direct or indirect significant interest in any transaction, arrangement or contract of significance entered into by the Bank or other subsidiaries. None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation). During the Reporting Period, none of the Bank or its subsidiaries had any arrangement that enables the directors and supervisors to acquire benefits by acquiring shares in and debentures of companies or any other corporate body.

6.17 PENALTIES AND INVESTIGATIONS OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, no director, supervisor or senior management of the Bank has been subject to penalties or investigations by competent authorities causing a material impact on the operations of the Bank.

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6.18 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in China, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, connected transactions carried out between the Bank and connected persons are conducted under normal commercial principles, which are not favorable than the conditions for similar transactions with non-connected persons. The transaction terms are fair and reasonable and in the interests of the Bank and shareholders as a whole. The Bank conducted a series of connected transactions with connected persons (as defined under the Hong Kong Listing Rules) and all these transactions were conducted under normal commercial terms in the ordinary course of business and were exempted from the requirements of reporting, announcement, annual review, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposits from its connected persons (including directors, supervisors and/or their respective associates) under normal deposit interest rates and normal commercial terms in the ordinary course of business. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules (namely financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms or on terms better to the issuer, where no security over the assets of the issuer is granted in respect of the financial assistance), and thus will be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the directors, supervisors and/or their respective associates) in the ordinary course of its business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The loans and credit facilities offered by the Bank to its connected persons are in the ordinary course of its business and are on normal commercial terms and on comparable terms provided to independent third parties. Therefore, these transactions constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business for the benefit of a connected person on normal commercial terms, and will thus be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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6.18 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary course of business – other banking service and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) in the ordinary course of business to its connected persons (including directors, supervisors of the Bank and/or their respective associates) with service fees and charges at normal charging standards and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

It is expected that the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to the Bank by a connected person and its associates will not exceed 0.1%. Therefore, these transactions constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and will thus be exempted from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Note 49 to the financial statements of this report discloses the related party transactions of the Bank in accordance with the International Accounting Standards. The transactions disclosed therein between the Bank and the following parties constitute the connected transactions of the Bank under the requirements of Chapter 14A of the Hong Kong Listing Rules and part of the continuing connected transactions conducted by the Bank in the ordinary course of business as disclosed in this Chapter, and are exempted from compliance of the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules: Zhongjing Xinhua Asset Investment Management Company Ltd. and Anhui Energy Group Co., Ltd..

6.19 MATERIAL LITIGATION AND ARBITRATIONS

Insofar as the Bank is aware, as at the end of December 2018, the Bank was involved in the following litigation proceeding in its regular course of business: the number of material pending litigation and arbitrations involving the Bank amounted to 42, with a total amount of RMB1.405 billion. Among them, the number of pending litigation and arbitrations, to which the Bank is a plaintiff, each with an amount of more than RMB0.5 million, amounted to 5, totalling approximately RMB325 million. The Bank made full provisions for doubtful accounts of loans involved in the cases above according to expected losses. None of the cases will have material adverse effect on the Bank's financial position and operating results.

6.20 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, some of the Bank's assets have been pledged to other banks and the Ministry of Finance as pledge in respect of disposal of repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal and reorganization outside the ordinary course of business operations.

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6.21 USE OF FUNDS BY RELATED PARTIES

During the Reporting Period, neither the major shareholders nor the related parties of the Bank used any funds of the listed company for non-operating purposes, and no proceeds of the public offering were used in any unfair connected transactions.

6.22 REVIEW OF ANNUAL RESULTS

The financial report of the Bank prepared under International Financial Reporting Standards has been audited by Ernst & Young and a standard audit report with unqualified opinions has been issued. The Bank's Audit Committee has reviewed the results and the financial statements of the Bank for the year ended 31 December 2018.

6.23 PROFIT AND DIVIDENDS

The Board of Directors of the Bank is required to submit the proposals in respect of dividend payments to a shareholders' general meeting for approval. The Board will, according to laws, regulations and regulatory requirements of the PRC, consider whether to pay dividends and the amount of dividend payments based on the Bank's results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors of the Bank deems relevant.

The profit of the Bank for the year ended 31 December 2018 and the Bank's financial position as of that date are set out in the Consolidated Financial Statements section of this annual report. In accordance with the resolutions passed at the 2017 annual general meeting held on 30 June 2018, a final dividend for 2017 of 1 bonus share for every 10 shares plus a cash dividend of RMB0.25 (inclusive of tax) for every 10 shares, i.e. a total of 1,104,981,928 bonus shares (including 788,731,928 Domestic Shares and 316,250,000 H Shares), and a total cash dividend of RMB276.2455 million were declared and distributed to all shareholders whose names appeared on the register of members of the Bank on 11 July 2018.

As to the 2018 profit distribution plan, the Board of Directors recommends a cash dividend of RMB0.56 (including tax) for every 10 shares in an aggregate amount of RMB681 million (including tax), accounting for approximately 8% of the audited net profit of the Bank in 2018. In addition, the Bank may distribute special dividends according to the progress of A share IPO application and policy adjustment, which is expected to be 15% of the audited net profit of the Bank in 2018. The Bank will go through a separate decision-making procedure to determine the special dividend plan. The 2018 profit distribution plan will be submitted to the forthcoming annual general meeting of 2018 of the Bank for approval. Subject to the shareholders' approval on the 2018 profit distribution plan, the Bank expects to pay the cash dividend of RMB0.56 (including tax) for every 10 shares by the end of August 2019, and will make further announcements after convening of the 2018 general meeting in relation to details of the cash dividend distribution arrangements, including closure of share register and expected payment date.

The withholding and exemption of income tax from dividends shall be conducted in accordance with the relevant laws and regulations.

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6.24 PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Board of Directors, from April 2016 to the Latest Practicable Date, the Bank's H share public float was below 25%, the minimum level as required in Rule 8.08(1) (a) of the Hong Kong Listing Rules. As at the Latest Practicable Date, the Bank's H share public float was approximately 15.66%.

According to the Board resolutions, the Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) suggesting the substantial shareholders of the Bank to place down their shares in the Bank; (ii) seeking opportunities to conduct placing of H shares after considering the market conditions in full and with detailed planning; and (iii) proactively promoting the initial public offering and listing of A shares. For details on the public float of the Bank's H Shares, please refer to the announcements published by the Bank since 11 May 2016 in relation to the public float of the Bank's H shares.

6.25 TAX DEDUCTION

6.25.1 Overseas shareholders

According to the "Notice on the Collection of Personal Income Tax after the Expiration of National Tax Bureau Notice [1993] No. 045" (Guo Shui Han [2011] No. 348), which was released by the State Administration of Taxation on 28 June 2011, the responsible party should withhold personal income tax by law from overseas resident individual shareholders on their dividend income deriving from shares in domestic non-foreign invested companies issued in Hong Kong. However, the overseas resident individual shareholders who hold shares of domestic non-foreign invested companies issued in Hong Kong may be entitled to the relevant favorable tax treatments based on the tax treaties between the countries in which they are domiciled and China and the tax arrangements between Mainland China and Hong Kong (or Macau).

Based on the tax regulation mentioned above, the Bank will withhold personal income tax of the dividend at 10% tax rate for the overseas individual H shareholders. However, where there are different requirements otherwise specified in relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

The Bank will withhold 10% enterprise income tax of the dividend for non-resident corporate overseas H shareholders based on the "Law of the People's Republic of China on Enterprise Income Tax" and relevant implementation rules which have been effective since 1 January 2008.

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6.25 TAX DEDUCTION (Continued)

6.25.1 Overseas shareholders (Continued)

If the overseas H shareholders of the Bank have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank's H shares.

6.25.2 Mainland's shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect

Pursuant to the "Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect" (Cai Shui [2014] No. 81) and the "Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Cai Shui [2016] No. 127), which were jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on 31 October 2014 and 5 November 2016, respectively, for dividends obtained by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the "CSDC") for providing the register of mainland individual investors and withhold personal income tax at 20% tax rate from mainland individual investors. While for dividends obtained by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the CSDC will withhold personal income tax at 20% tax rate. Individual investors may, by producing valid tax payment certificates, apply to the competent tax authority under the CSDC for tax credit relating to the withholding tax already paid abroad.

For dividend income obtained by the mainland security investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, personal income tax shall be withheld according to the above regulations.

For dividend income obtained by the mainland corporate investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such income shall be included in their total revenue and enterprise income tax shall be withheld by law. Meanwhile, for dividend income obtained by mainland resident enterprises from holding H shares for 12 consecutive months, enterprise income tax shall be exempted by law. H-share companies listed on Hong Kong Stock Exchange shall apply to the CSDC for providing the register of the mainland enterprise investors. The H-share companies shall not withhold income tax of dividends for mainland enterprise investors and such investors shall declare and pay relevant tax themselves.

6.26 PERMITTED INDEMNITY PROVISIONS

The Bank has maintained appropriate director liability insurance to indemnify the directors for liabilities arising from corporate affairs.

6.27 DONATION

In 2018, the Bank donated RMB3 million for Anhui Province's Heroic Act Foundation. The donation is specifically available for the Anhui Province's Heroic Act Foundation to commend, award, help and subsidize the justice-upholding volunteers, promote the righteousness and commend the kindness.

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6.28 MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Bank, the Bank did not enter into any other contract with any individual, company or body corporate to manage or deal with the whole part or any significant part of the Bank's business.

6.29 STOCK-LINKED AGREEMENTS

The Bank did not enter into any other stock-linked agreement in 2018, and there was no stock-linked agreement remaining effective by the end of 2018.

6.30 ISSUE OF DEBENTURES

To expand the sources of liabilities of the Bank to enhance the maturity matching of assets and liabilities, the Bank issued various types of debentures, the details of which are presented as follows:

6.30.1 The Bank issued RMB4 billion of 2011 subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Bank has an option to redeem all of this tranche of bonds at face value on the last day of the tenth year of interest accrued of this tranche of bonds.

Claims on subordinated debts are subordinate to other liabilities but superior to the Bank's share capital. From 1 January 2013, they are qualified for inclusion as tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks".

6.30.2 The Bank issued RMB2.2 billion of small and micro enterprises financial bonds on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.5%, paid annually and expired on 22 March 2018.

6.30.3 The Bank issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually and expired on 30 July 2018.

6.30.4 The Bank issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.

6.30.5 The Bank issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Bank has an option to redeem part or all of these bonds at face value on the last day of the fifth year of interest accrued of this tranche of bonds, subject to the approval from relevant regulatory authorities. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary creditors and is superior to equity, other tier 1 capital instruments and mixed capital debts.

6.30.6 The Bank issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.9%, paid annually and expired on 24 September 2018.

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6.30 ISSUE OF DEBENTURES (Continued)

- 6.30.7** The Bank issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.1%, paid annually.
- 6.30.8** The Bank issued RMB7.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- 6.30.9** The Bank issued RMB3.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- 6.30.10** The Bank issued RMB1 billion of green financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.
- 6.30.11** In 2017, the Bank issued 225 zero-coupon interbank certificates of deposit in total face value of RMB253.09 billion, with maturities ranging from one month to one year, and also issued 2 floating-rate interbank certificates of deposit in total face value of RMB300 million, with a maturity of three years. As at 31 December 2018, the aggregate face value of undue certificates of deposit issued amounted to RMB152.48 billion.
- 6.30.12** The Bank issued RMB4 billion of green financial bonds on 29 September 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.50%, paid annually.

By order of the Board

Wu Xuemin

Chairman

27 March 2019

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	31 December 2018		Changes during the Reporting Period	31 December 2017	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
Domestic Shares	8,676,051,211	71.38	788,731,928	7,887,319,283	71.38
H Shares	3,478,750,000	28.62	316,250,000	3,162,500,000	28.62
Total number of ordinary shares	12,154,801,211	100	1,104,981,928	11,049,819,283	100

Note:

- During the Reporting Period, according to the 2017 profit distribution plan, the Bank issued a total of 1,104,981,928 bonus shares on the proportion of 1 bonus share for every 10 shares to the shareholders listed on the shareholders' register of the Bank on 11 July 2018.
- As of 31 December 2018, the Bank had a total of 17,906 shareholders of ordinary shares, including 1,589 shareholders of H Shares and 16,317 shareholders of Domestic Shares.

7.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

As of 31 December 2018, the order of the top ten shareholders of the Bank was sorted by: (1) (for H Shares) the aggregate of the H Shares of the Bank held by investors which were deposited into the Central Clearing and Settlement System of the Hong Kong Stock Exchange and registered under the name of HKSCC NOMINEES LIMITED, a wholly-owned subsidiary of the Hong Kong Stock Exchange, representing 28.59% of the total share capital of ordinary shares and representing 99.88% of the total H Shares issued; and (2) for Domestic Shares, the order was based on the number of shares held directly under the domestic shareholders register kept by China Securities Depository and Clearing Co., Ltd..

No.	Name of shareholder	Nature of shareholder	Number of shares held as at the end of the Reporting Period	Percentage to total share capital of ordinary shares (%)	Type of shares	Increase/decrease during the Reporting Period (shares)	Pledged or frozen (shares)
1	HKSCC Nominees Limited	⁽¹⁾	3,474,556,078	28.59	H Share	316,144,098	⁽¹⁾
2	Anhui Energy Group Co., Ltd.	State-owned legal person	843,363,819	6.94	Domestic Share	76,669,438	0
3	Anhui Credit Guaranty Group Co., Ltd.	State-owned legal person	827,658,091	6.81	Domestic Share	75,241,645	413,829,020
4	Anhui Guoyuan Financial Holding Group Co., Ltd. ⁽²⁾	State-owned legal person	709,927,764	5.84	Domestic Share	64,538,888	0
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	515,935,874	4.24	Domestic Share	46,903,261	0
6	Zhongjing Sihai Co., Ltd. ⁽³⁾	Domestic non-state-owned legal person	489,165,776	4.02	Domestic Share	44,469,616	0 ⁽³⁾
7	Hefei Xingtai Financial Holding Group Co., Ltd.	State-owned legal person	377,950,631	3.11	Domestic Share	34,359,148	0
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	294,012,833	2.42	Domestic Share	26,728,439	0
9	CCB Trust Co., Ltd.	State-owned legal person	248,102,994	2.04	Domestic Share	22,554,818	0
10	Anhui Hengtai Real Estate Development Co., Ltd.	Domestic non-state-owned legal person	234,675,695	1.93	Domestic Share	34,675,695	234,675,695

Notes:

- The relevant information has not yet been obtained by the Bank, nor can it be verified based on the existing information.
- According to the information publicly disclosed and notified to the Bank by Guoyuan Securities Co., Ltd. and Anhui Guoyuan Financial Holding Group Co., Ltd., Guoyuan Securities Co., Ltd. has transferred its 127,882,931 domestic shares of the Bank to Anhui Guoyuan Financial Holding Group Co., Ltd. on 4 January 2019. Upon completion of the transfer, Anhui Guoyuan Financial Holding Group Co., Ltd. holds 837,810,695 domestic shares of the Bank, accounting for 6.89% of the entire ordinary share capital.
- According to the relevant information notified by Zhongjing Sihai Co., Ltd. to the Bank and provided by China Securities Depository and Clearing Co., Ltd., Zhongjing Sihai Co., Ltd. pledged 55,400,000 domestic shares of the Bank in February 2019.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

According to the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks of CBIRC, the substantial shareholders of the Bank as at the end of the Reporting Period are as follows:

No.	Name of shareholder	Number of shares held	Individual shareholding ratio	Joint shareholding ratio
1	Zhongjing Xinhua Asset Investment Management Company Ltd.	224,781,227	1.85%	16.12%
	Zhongjing Sihai Co., Ltd.	489,165,776	4.02%	
	Wealth Honest Limited	532,415,400	4.38%	
	Golden Harbour Investments Management Limited	440,000,000	3.62%	
	Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	273,449,000	2.25%	
2	Anhui Energy Group Co., Ltd.	843,363,819	6.94%	10.89%
	Anhui Wenergy Company Limited	150,814,726	1.24%	
	Xing An Holding Limited	329,973,600	2.71%	
3	Wkland Finance Holding Company Limited	562,254,000	4.63%	8%
	Wkland Finance Holding II Company Limited	410,130,600	3.37%	
4	Anhui Guoyuan Financial Holding Group Co., Ltd.	709,927,764	5.84%	7.19%
	Guoyuan Securities Co., Ltd.	127,882,931	1.05%	
	Anhui Guoyuan Trust Co., Ltd.	35,751,470	0.29%	
	Anhui Guoyuan Ma'anshan Asset Management Co., Ltd.	361,662	0.00%	
5	Anhui Credit Guaranty Group Co., Ltd.	827,658,091	6.81%	6.83%
	Anhui Jinrun Information Technology Co., Ltd.	2,524,326	0.02%	
6	Hefei Xingtai Financial Holding Group Co., Ltd.	377,950,631	3.11%	5.15%
	CCB Trust Co., Ltd.	248,102,994	2.04%	
	Hefei Xingtai Assets Management Co., Ltd.	445,368	0.00%	
7	Sunshine Life Insurance Corporation Limited	598,094,200	4.92%	4.92%
8	Anhui Transportation Holding Group Co., Ltd.	515,935,874	4.24%	4.26%
	Anhui Transportation Holding Group (H.K.) Limited	2,999,700	0.02%	
9	Wuhu Construction Investment Co., Ltd.	294,012,833	2.42%	2.42%
10	Anhui Publishing Group Co., Ltd.	103,693,815	0.85%	0.85%

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (1) Zhongjing Xinhua Asset Investment Management Company Ltd. was established on 14 June 2003. It was registered in Huangshan of Anhui Province with a registered capital of RMB2.875 billion. Its statutory representative is GAO YANG, Its scope of business includes enterprise investment management; enterprise management, enterprise mergers and acquisitions as well as asset restructuring planning; project investment consultation, economic information consultation, business information consultation, asset operation, industrial investment, investment consultation, technology consultation, and technical service. According to the information submitted by shareholders, its controlling shareholder is Jing'An Shanghai Silver Investment Co., Ltd., its de facto controller is Shanghai Soong Ching Ling Foundation. Its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Xinhua Asset Investment Management Company Ltd. has pledged 209,850,000 domestic shares of the Bank, representing 1.73% of the entire ordinary share capital of the Bank.

Zhongjing Sihai Co., Ltd. was established on on 28 June 1995. It was registered in Huangshan of Anhui Province with a registered capital of RMB1,261.9757 million. Its statutory representative is GAO YANG. Its scope of business includes industrial investment, asset management, investment operation management, and investment consultation service; sales of office supplies, hotel supplies, metal materials, and automobile and motorcycle accessories. According to the information submitted by shareholders, its controlling shareholder is Zhongjing Xinhua Asset Investment Management Company Ltd., its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Sihai Co., Ltd. did not pledge any shares of the Bank. In addition, Zhongjing Sihai Co., Ltd. pledged 55,400,000 domestic shares of the Bank in February 2019, representing 0.46% of the entire ordinary share capital of the Bank. Zhongjing Sihai Co., Ltd. has appointed GAO YANG to the Bank as a director.

Wealth Honest Limited was incorporated in British Virgin Islands on 30 March 2006. Its statutory representative is GAO YANG. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Zhongjing Xinhua Property Management (Hong Kong) Co., Limited, its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Wealth Honest Limited did not pledge any shares of the Bank.

Golden Harbour Investments Management Limited was incorporated in British Virgin Islands on 28 October 2016. Its general manager is Zhang Qinbao. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Wealth Honest Fund LP, its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Golden Harbour Investments Management Limited did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

Zhongjing Xinhua Property Management (Hong Kong) Co., Limited was incorporated in Hong Kong on 28 January 2014. Its statutory representative is GAO YANG. Its scope of business includes investment. According to the information submitted by shareholders, its controlling shareholder is Zhongjing Xinhua Asset Investment Management Company Ltd., its de facto controller is Shanghai Soong Ching Ling Foundation, its ultimate beneficiaries are women and children who received charitable donations from Shanghai Soong Ching Ling Foundation across the country and it does not have any persons acting in concert. As at the end of the Reporting Period, Zhongjing Xinhua Property Management (Hong Kong) Co., Limited did not pledge any shares of the Bank.

- (2) Anhui Energy Group Co., Ltd. was established on 9 April 1990. It was registered in Hefei of Anhui Province with a registered capital of RMB4.375 billion. Its statutory representative is Zhang Feifei. Its scope of business includes state-owned assets operation, project investment and management, economic and technological cooperation, exchanges and services with foreign countries, business information and investment information consultation services, and investment evaluation of construction projects. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Energy Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Energy Group Co., Ltd. did not pledge any equity interests of the Bank. Anhui Energy Group Co., Ltd. has appointed Zhu Yicun to the Bank as a director.

Anhui Wenergy Company Limited was established on 13 December 1993. It was registered in Hefei of Anhui Province with a registered capital of RMB1,790,395,978. Its statutory representative is Zhu Yicun. Its scope of business includes investment and operation of electricity, energy-saving and related projects; development of raw materials related to electricity power construction; development, investment and operation of high and new technology and export-oriented foreign exchange generating projects. According to the information submitted by shareholders, its controlling shareholder is Anhui Energy Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Wenergy Company Limited and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Wenergy Company Limited did not pledge any shares of the Bank.

Xing An Holdings Limited was incorporated in Hong Kong in June 2004. Its statutory representative is Zhu Yicun. Its scope of business includes electricity investment. According to the information submitted by shareholders, its controlling shareholder is Anhui Energy Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Energy Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Xing An Holdings Limited did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (3) Wkland Finance Holding Company Limited was incorporated in British Virgin Islands 28 October 2013. It has two directors, namely Zhang Xu and Mo Fan. According to the information submitted by shareholders, its controlling shareholder is Wkland Limited, its de facto controller is China Vanke Co., Ltd., its ultimate beneficiary is China Vanke Co., Ltd. and it acts in concert with Wkland Finance Holding II Company Limited. As at the end of the Reporting Period, Wkland Finance Holding Company Limited did not pledge any shares of the Bank.

Wkland Finance Holding II Company Limited was incorporated in British Virgin Islands 28 October 2013. It has two directors, namely Zhang Xu and Mo Fan. According to the information submitted by shareholders, its controlling shareholder is Wkland Limited, its de facto controller is China Vanke Co., Ltd., its ultimate beneficiary is China Vanke Co., Ltd. and it acts in concert with Wkland Finance Holding Company Limited. As at the end of the Reporting Period, Wkland Finance Holding II Company Limited did not pledge any shares of the Bank. Wkland Finance Holding II Company Limited has appointed Wang Wenjin to the Bank as a director.

- (4) Anhui Guoyuan Financial Holding Group Co., Ltd. was established on 30 December 2000. It was registered in Hefei of Anhui Province with a registered capital of RMB3 billion. Its statutory representative is Li Gong. Its scope of business includes the operation of all state-owned assets and state-owned shares of state-authorized group companies and their holding companies, capital operations, asset management, mergers and acquisitions, asset restructuring and investment consultation. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Financial Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Wu Tian to the Bank as a director.

Guoyuan Securities Co., Ltd. was established on 6 June 1997. It was registered in Hefei of Anhui Province with a registered capital of RMB3,365,447,050. Its statutory representative is Cai Yong. Its scope of business includes securities broking; securities investment consultation; financial advisory related to securities trading and securities investment activities; securities underwriting and sponsoring; securities proprietary business; securities asset management; securities margin trading; distribution of securities investment funds; providing intermediary business for futures companies; distribution of financial products; and insurance agency business. According to the information submitted by shareholders, its controlling shareholder is Anhui Guoyuan Financial Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Guoyuan Securities Co., Ltd. did not pledge any shares of the Bank. In addition, Guoyuan Securities Co., Ltd. transferred its 127,882,931 domestic shares of the Bank to Anhui Guoyuan Financial Holding Group Co., Ltd. on 4 January 2019.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

Anhui Guoyuan Trust Co., Ltd. was established on 14 January 2004. It was registered in Hefei of Anhui Province with a registered capital of RMB3 billion. Its statutory representative is Xu Bin. Its scope of business includes fund trusts, trusts of movable property, real estate trusts, trusts of marketable securities, trusts of other properties or property rights; engaging in fund investment business as the promoter of an investment fund or a fund management company; engaging in business including enterprise asset restructuring, mergers and acquisitions, project financing, corporate finance, financial consulting and others; entrusted securities underwriting business as approved by relevant departments of the State Council; mediation, advising, credit investigation business and others; bailment and safe deposit locker facility business; utilization of proprietary assets by way of deposits at banks and other financial institutions, lending to banks and other financial institutions, loans, leasing and investments; provision of guarantees for other parties with proprietary assets; engaging in interbank lending business; other business stipulated by laws and regulations or approved by China Banking Insurance Regulatory Commission. According to the information submitted by shareholders, its controlling shareholder is Anhui Guoyuan Financial Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commissions of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Trust Co., Ltd. did not pledge any shares of the Bank.

Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. was established on 31 March 2004. It was registered in Ma'anshan of Anhui Province with a registered capital of RMB65 million. Its statutory representative is Zhou Min. Its scope of business includes financial investment; asset management; entrusted wealth management; entrusted investment, investment (real estate, enterprise shareholding, national debt, trust products, stocks); non-financial guarantee business; corporate mergers and acquisitions consulting, financial consulting; housing leasing, automobiles Leasing (excluding operators), rental of machinery and equipment; wholesale and retail of metal materials, building materials, chemical products (excluding dangerous goods and precursor chemicals), mechanical and electrical products, home appliances, and general merchandises. According to the information submitted by shareholders, its controlling shareholder is Anhui GuoYuan Investment Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. did not pledge any shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (5) Anhui Credit Guaranty Group Co., Ltd. was established on 25 November 2005. It was registered in Hefei of Anhui Province with a registered capital of RMB10.766 billion. Its statutory representative is Qian Li. Its scope of business includes performance guarantee business such as loan guarantee, promissory notes guarantee, trade finance guarantee, project financing guarantee, letter of credit guarantee; re-guarantee and bond issuance guarantee business; procedural preservative guarantee, tender guarantee, prepayment guarantee, project performance guarantee, final payment guarantee, etc.; financing consultancy, financial advisory services and business information consultation relating to the provision of guarantee; investment with self-own capital. According to the information submitted by shareholders, its controlling shareholder is the People's Government of Anhui Province, its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Credit Guaranty Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Credit Guaranty Group Co., Ltd. has pledged 413,829,020 domestic shares of the Bank. Anhui Credit Guaranty Group Co., Ltd. has appointed Qian Li to the Bank as a director.

Anhui Jinrun Information Technology Co., Ltd. was established on 14 May 2002. It was registered in Hefei of Anhui Province with a registered capital of RMB8 million. Its statutory representative is Zhang Lunchao. Its scope of business includes computer and electronic technology information application and consulting services, communication engineering, network engineering; enterprise management services; housing leasing; water and electricity installation; selling of building materials, chemical products (excluding dangerous goods), office supplies, furniture, computers and auxiliary equipment, communication products, hardware & electrical appliances, heating equipment, auto parts, general merchandise, clothing, shoes and hats, leather products; property management. According to the information submitted by shareholders, its controlling shareholder is Anhui Guarantee Asset Management Co., Ltd. (安徽擔保資產管理有限公司), its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Jinrun Information Technology Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Jinrun Information Technology Co., Ltd. did not pledge any shares of the Bank.

- (6) Hefei Xingtai Financial Holding Group Co., Ltd. was established on 18 January 1999. It was registered in Hefei of Anhui Province with a registered capital of RMB6 billion. Its statutory representative is Cheng Rulin. Its scope of business includes operation of state-owned assets within the authorization, corporate planning, management consultation, financial advisory, company wealth management, industrial investment as well as other approved operating activities. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Hefei City, its de facto controller is the State-owned Assets Supervision and Administration Commission of Hefei City, its ultimate beneficiary is Hefei Xingtai Financial Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Hefei Xingtai Financial Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Chen Rui to the Bank as a supervisor.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

CCB Trust Co., Ltd. was established on 31 December 2003. It was registered in Hefei of Anhui Province with a registered capital of RMB1,527,270,000. Its statutory representative is Wang Baokui. Its scope of business includes fund trusts, movable property trusts, real estate trusts, negotiable securities trusts, other property or property rights trusts, as promoters of investment fund or fund management company to be engaged in investment fund business, restructuring, mergers and acquisitions and project financing of enterprise assets; financial management, financial advisory and other services for companies; entrusted to operate the securities underwriting business approved by the relevant departments of the State Council; handle intermediation, consulting, credit investigation and other business, custody service and safe deposit box service business to place interbank loans, call loans to banks, loan, leasing, investment methods Inherent property, providing guarantees for others with inherent property, engaged in interbank lending, other business approved by the laws and regulations or by the China Banking Regulatory Commission. According to the information submitted by shareholders, its controlling shareholder is China Construction Bank Corporation Limited, its de facto controller is Central Huijin Investment Co., Ltd, its ultimate beneficiary is CCB Trust Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, CCB Trust Co., Ltd. did not pledge any shares of the Bank.

Hefei Xingtai Assets Management Co., Ltd. was established on 20 March 2002. It was registered in Hefei of Anhui Province with a registered capital of RMB500 million. Its statutory representative is Ge Lixin. Its scope of business includes equity investment; asset management; and asset acquisition. According to the information submitted by shareholders, its controlling shareholder is Hefei Xingtai Financial Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Hefei City, its ultimate beneficiary is Hefei Xingtai Assets Management Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Hefei Xingtai Assets Management Co., Ltd. did not pledge any shares of the Bank.

- (7) Sunshine Life Insurance Corporation Limited was established on 17 December 2007. It was registered in Sanya of Hainan Province with a registered capital of RMB18,342.50 million. Its statutory representative is Li Ke. Its scope of business includes personal insurance business such as life insurance, health insurance, and accident insurance; re-insurance business of the aforesaid businesses; the scope of use of insurance funds permitted by the national laws and regulations; sales of securities investment funds; other business approved by CIRC. According to the information submitted by shareholders, its controlling shareholder is Sunshine Insurance Group Corporation Limited, it does not have any de facto controller, its ultimate beneficiary is Sunshine Life Insurance Corporation Limited and it does not have any persons acting in concert. As at the end of the Reporting Period, Sunshine Life Insurance Corporation Limited did not pledge any shares of the Bank and has appointed Zhao Zongren to the Bank as a director.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (8) Anhui Transportation Holding Group Co., Ltd. was established on 27 April 1993. It was registered in Hefei of Anhui Province with a registered capital of RMB16 billion. Its statutory representative is Qiao Chuanfu. Its scope of business includes building, supervision, inspection, design, construction, technical consultation and service of road and related infrastructure; investment and asset management; real estate development and management; road transportation; logistics services; operation and management of service areas alongside highways; tolling, road maintenance, operation and management of road properties and rights of road; production and distribution of advertisements. According to the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Transportation Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Transportation Holding Group Co., Ltd. did not pledge any shares of the Bank and has appointed Qian Dongsheng to the Bank as a director.

Anhui Transportation Holding Group (H.K.) Limited was incorporated in Hong Kong in September 2013 with a registered capital of US\$24.80 million. Its statutory representative is Xie Xinyu. Its scope of business includes investment, planning, design, construction, supervision, operation, technical consultation and supporting services for high-class highway; investment, development and operation as well as sales of real estate, property management, house rental; import and export of construction materials, automobile spare parts, mechanical equipment and technology, trade agency, storage; equity investment, etc. According to the information submitted by shareholders, its controlling shareholder is Anhui Transportation Holding Group Co., Ltd., its de facto controller is the State-owned Assets Supervision and Administration Commission of Anhui Provincial People's Government, its ultimate beneficiary is Anhui Transportation Holding Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Transportation Holding Group (H.K.) Limited did not pledge any shares of the Bank.

- (9) Wuhu Construction Investment Co., Ltd. was established on 16 February 1998. It was registered in Wuhu of Anhui Province with a registered capital of RMB6,722.50 million. Its statutory representative is Huang Feng. Its scope of business includes building, supervision, inspection, design, construction, technical consultation and service of road and related infrastructure; investment and asset management; real estate development and management; road transportation; logistics services; operation and management of service areas alongside highways; tolling, road maintenance, operation and management of road properties and rights of road; production and distribution of advertisements. According the information submitted by shareholders, its controlling shareholder is the State-owned Assets Supervision and Administration Commission of Wuhu City, its de facto controller is the State-owned Assets Supervision and Administration Commission of Wuhu City, its ultimate beneficiary is Wuhu Construction Investment Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Wuhu Construction Investment Co., Ltd. did not pledge any shares of the Bank and has appointed Li Ruifeng to the Bank as a supervisor.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES (Continued)

- (10) Anhui Publishing Group Co., Ltd. was established on 26 October 2005. It was registered in Hefei of Anhui Province with a registered capital of RMB1,031.704 million. Its statutory representative is Wang Min. Its scope of business includes: (i) engaged in asset management, capital operation and investment business according to the relevant requirements of the Country, as well as providing asset or equity management services and financing consultation services to wholly-owned and controlling subsidiaries according to the laws. (ii) management of the publishing, sales, logistics and distribution, chain operation of books, journals, newspaper, electronic publications, audio and video products as well as online publications produced by subsidiaries with the country, consultation services for book rental and leasing. According to the information submitted by shareholders, its controlling shareholder is the People's Government of Anhui Province, its de facto controller is the People's Government of Anhui Province, its ultimate beneficiary is Anhui Publishing Group Co., Ltd. and it does not have any persons acting in concert. As at the end of the Reporting Period, Anhui Publishing Group Co., Ltd. did not pledge any shares of the Bank and has appointed Hu Jing to the Bank as a supervisor.

- Notes: (1) Particulars of substantial shareholders of ordinary shares are based on the information submitted to the Bank or the public disclosure information published by substantial shareholders.
- (2) The pledge of domestic shares of the Bank is based on the relevant information provided by China Securities Depository and Clearing Corporation Limited and the pledge of H share is based on the information submitted by the shareholders.
- (3) For the definition of substantial shareholders, Controlling Shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirement of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC, which requires a commercial bank to manage its substantial shareholders, controlling shareholders, de facto controller, related parties, parties acting in concert and ultimate beneficial owner as its related parties according to the "Look-through principle". As at the end of the Reporting Period, the Bank has 577 related legal entities and 9,406 related natural persons with the balance of related transactions of RMB20.303 billion. As at the end of the Reporting Period, details of the related transactions are set out in Note 49 to the financial statements. Due to limitations on space, this annual report does not provide the list of related parties of substantial shareholders.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As of 31 December 2018, the following persons (other than the directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). In view of the fact that the Bank issued bonus shares on the proportion of 1 bonus share for every 10 shares to shareholders during the Reporting Period according to the 2017 profit distribution plan, the number of shares held by each shareholder in the table below reflects the number of shares held by such shareholder after the bonus issue.

Name of Shareholder	Type of share	Long/short Position	Capacity	Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd.	H Share	Long	Interest of controlled corporation	329,973,600	9.49	2.71	1
	Domestic Share	Long	Interest of controlled corporation	150,814,726	1.74	1.24	1
	Domestic Share	Long	Beneficial owner	843,363,819	9.72	6.94	1
Xing An Holdings Co., Limited	H Share	Long	Beneficial owner	329,973,600	9.49	2.71	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	2,524,326	0.03	0.02	2
	Domestic Share	Long	Beneficial owner	827,658,091	9.54	6.81	2
Anhui Guoyuan Financial Holding Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	163,996,063	1.89	1.35	3
	Domestic Share	Long	Beneficial owner	709,927,764	8.18	5.84	3
	H Share	Long	Interest of controlled corporation	2,999,700	0.09	0.02	4
Domestic Share		Long	Beneficial owner	515,935,874	5.95	4.24	4
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	972,384,600	27.95	8.00	5
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	562,254,000	16.16	4.63	5
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	410,130,600	11.79	3.37	5
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	598,094,200	17.19	4.92	6
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	598,094,200	17.19	4.92	6
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Name of Shareholder	Type of share	Long/short Position	Capacity	Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Modern Innovation Holdings Co., Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Jing'An Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	489,165,776	5.64	4.02	8
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	7
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	489,165,776	5.64	4.02	8
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	972,415,400	27.95	8.00	10, 11
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	9
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	10
	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
Qingdao State-owned Assets Supervision & Administration Commission	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Qingdao City Construction Investment (Group) Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Qingdao City Construction Financial Holding Group Co., Ltd.	H Share	Long	Security interest	440,000,000	12.65	3.62	11
China Golden Harbour (Holdings) Group	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Golden Harbour Global Holdings Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	11
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	11
CITIC Securities Company Limited	H Share	Long	Interest of controlled corporation	137,526,503	3.95	1.13	12
	H Share	Short	Interest of controlled corporation	130,536,503	2.67	1.07	12

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

- (1) Xing An Holdings Limited holds 329,973,600 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited.

At the same time, Anhui Energy Group Co., Ltd. directly holds 843,363,819 Domestic Shares (long position) of the Bank. Anhui Energy Group Co. also effectively control 150,814,726 Domestic Shares of the Bank that were held by its controlling subsidiary, Anhui Province Wenergy Co., Ltd. (安徽省皖能股份有限公司).

- (2) Anhui Jinrun Information Technology Co., Ltd. (安徽省金潤資訊科技有限責任公司) holds 2,524,326 Domestic Shares (long position) of the Bank. Anhui Jinrun Information Technology Co., Ltd. is a wholly-owned subsidiary indirectly controlled by Anhui Credit Guaranty Group Co., Ltd. (安徽省信用擔保集團有限公司). As such, Anhui Credit Guaranty Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Jinrun Information Technology Co., Ltd. At the same time, Anhui Credit Guaranty Group Co., Ltd. holds 827,658,091 Domestic Shares (long position) of the Bank.

- (3) Anhui Guoyuan Financial Holding Group Co., Ltd. was formerly known as Anhui Guoyuan Holding (Group) Co., Ltd. The shareholdings of Anhui Guoyuan Financial Holding Group Co., Ltd. in the Bank include the Domestic Shares of the Bank held by its subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司), Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司).

- (4) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 2,999,700 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 515,935,874 Domestic Shares (long position) of the Bank.

- (5) China Vanke Co., Ltd. is deemed to be interested in a total of 972,384,600 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:

5.1 Wkland Finance Holding Company Limited holds 562,254,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

5.2 Wkland Finance Holding II Company Limited holds 410,130,600 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

- (6) Sunshine Life Insurance Corporation Limited holds 598,094,200 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (7) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 224,781,227 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). The 97.5% shares of Zhongjing Industry are held by Shanghai Soong Ching Ling Foundation ("Shanghai Soong Ching Ling Foundation"). As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.
- (8) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 489,165,776 Domestic Shares (long position) of the Bank. It is a subsidiary directly controlled by Zhongjing Xinhua. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.
- (9) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 273,449,000 H Shares (long position) of the Bank.

Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.

- (10) Wealth Honest Limited ("Wealth Honest") holds 532,415,400 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.
- (11) Golden Harbour Investments Management Limited ("Golden Harbour") held 440,000,000 H Shares (long position) of the Bank. The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (10) above. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-owned Assets Supervision and Administration Commission of Qingdao City and its subsidiaries, Golden Harbour Global Holdings Limited, a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group, holds 70% equity interests in Wealth Honest Fund LP; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. The State-owned Assets Supervision and Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited own security interest in 400 million H Shares of the Bank.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (12) CITIC Securities Company Limited is interested in 137,526,503 H Shares (long position) and 130,536,503 H Shares (short position) of the Bank. These equity interests are all interests of derivatives.

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

7.5 INITIAL PUBLIC OFFERING OF A SHARES

The 2014 annual general meeting was convened by the Bank on 29 May 2015, at which, among others, the proposal for initial public offering of A shares was considered and approved. The Bank proposed issuing no more than 1,228 million A shares. The relevant resolutions in respect of the A share offering plan and the authorization granted to the Board of Directors to deal with specific matters related to the A share offering were approved by the shareholders at the 2015 and 2016 annual general meetings of the Bank, agreeing to extend the valid period of such resolutions to 27 May 2018.

The Bank published the Announcement on Withdrawal of Application for the A Share Offering on 12 February 2018. Given that further negotiations with certain directors and shareholders of the Bank on certain matters stipulated by relevant laws and regulations and requirements of the CSRC were still needed, the Bank decided to withdraw the application for the A share offering after careful deliberation with the professional parties involved in the A share offering and as approved by the Board of Directors of the Bank. The CSRC decided to terminate the review of the Bank's application for the A share offering on 5 March 2018. In view of the healthy business operation of the Bank, withdrawing the application for the A share offering did not result in any material adverse impact on the financial position or operation of the Bank. For details of the A share offering, please refer to the announcements dated 6 May 2015, 29 June 2015, 24 September 2015, 28 March 2016, 27 March 2017, 18 April 2017, 26 December 2017 and 12 February 2018 and the circulars dated 13 May 2015, 11 April 2016 and 5 May 2017 of the Bank.

On 28 December 2018, the Resolution on the Proposal for the Initial Public Offering and Listing of the A Shares of Huishang Bank Corporation Limited was considered and approved at the forty-sixth meeting of the third session of the Board of the Bank, proposing to issue no more than 1,500,000,000 A shares. The proposal is subject to the consideration and approval at the general meeting of the Bank by way of special resolution. The A share offering is expected to proceed by the Board exercising the general mandate of share offering authorized at the Bank's general meeting. The price of the A shares to be issued will be determined after taking into full account the interests of the existing shareholders as a whole, and the actual conditions of the capital markets and the Bank at the time of the A share offering, and will be in full compliance with Rule 13.36(5) of the Hong Kong Listing Rules. For details, please refer to the announcement of the Bank dated 30 December 2018.

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7.6 NON-PUBLIC OFFERING OF OVERSEAS PREFERENCE SHARES

7.6.1 ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE RECENT THREE YEARS

On 10 November 2016, the Bank issued 44,400,000 Overseas Preference Shares on the offshore market through non-public offering at the issue price of US\$20 per share and raised US\$888 million. The Overseas Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of the Overseas Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

7.6.2 NUMBER OF HOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

As at the end of the Reporting Period, the Bank recorded one holder of preference shares (or depository). Particulars of its shareholding are presented as follows:

Name of holder of preference shares	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Overseas Preference Shares	-	100	44,400,000	-	Unknown

Notes:

- Particulars of the shareholding of the holder of preference shares are based on the information in the Bank's register of holders of preference shares.
- As the issuance was an offshore non-public offering, the register of holders of preference shares presented information on the preference shares held by DB Nominees (Hong Kong) Limited as the depository on behalf of the placee in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as at the end of the Reporting Period.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.6 NON-PUBLIC OFFERING OF OVERSEAS PREFERENCE SHARES (Continued)

7.6.3 PROFIT DISTRIBUTION OF PREFERENCE SHARES

The Board of Directors of the Bank passed a resolution on 24 August 2018 for distribution of dividends to holders of preference shares according to the requirements of relevant laws and regulations, the Articles of Association and the terms and conditions on preference shares issuance. The total dividends of such preference shares paid amounted to US\$54,266,666.67, of which US\$48,840,000 was actually paid to the holder of preference shares at the coupon rate of 5.5%; and US\$5,426,666.67 was withheld and paid as income tax at a rate of 10% according to the requirements of relevant laws. The dividend payment date was 10 November 2018. The interest period was from 10 November 2017 (inclusive) to 10 November 2018 (exclusive). Recipients were persons registered on the register of holders of preference shares as at the close of business of such clearing systems on 9 November 2018. For details, please refer to the announcement of the Bank dated 24 August 2018.

On 10 November 2018, the Bank completed the first payment of dividends after the issuance of Overseas Preference Shares.

7.6.4 REDEMPTION OR CONVERSION OF PREFERENCE SHARES

During the Reporting Period, there was no redemption or conversion of preference shares issued by the Bank.

7.6.5 THE ADJUSTMENT TO THE CONVERSION PRICE OF THE PREFERENCE SHARES

According to the relevant provisions of the conversion terms of the Overseas Preference Shares, the conversion price of the Overseas Preference Shares shall be adjusted if the Bank issues any H Shares credited as fully paid up to the H shareholders of the Bank by way of bonus issue or capitalisation issue.

The Profit Distribution Plan of the Bank for 2017 was considered and approved at the 2017 annual general meeting of the Bank, pursuant to which the Bank distributed a dividend of 1 share (tax inclusive) for every 10 shares (the "Bonus Issue") and RMB0.25 (tax inclusive) for every 10 shares to the shareholders whose names appear on the register of members of the Bank on 11 July 2018. The adjustment to conversion price of the Overseas Preference Shares as a result of the Bonus Issue shall be based on the following formula:

$$P1 = P0 \times N / (N + n)$$

where: "P1" is the conversion price effective after adjustment; "P0" is the conversion price effective before adjustment; "N" is the total number of H Shares of the Bank before the Bonus Issue or capitalization issue of H Shares; and "n" is the number of new H Shares issued under the Bonus Issue or capitalisation issue of H Shares. According to the calculation, the adjusted conversion price is HK\$4.03 per H Share.

As the H Shares under the Bonus Issue were delivered to the H shareholders of the Bank on 29 August 2018, the conversion price of the Overseas Preference Shares was adjusted from HK\$4.44 per H Share to HK\$4.03 per H Share pursuant to the relevant provisions of the conversion terms of the Overseas Preference Shares with effect from 29 August 2018.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.6 NON-PUBLIC OFFERING OF OVERSEAS PREFERENCE SHARES (Continued)

7.6.6 RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARE

During the Reporting Period, there was no restoration of voting rights of preference shares issued by the Bank.

7.6.7 ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND GROUNDS

Pursuant to the requirements of Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and Provisions on the Distinction between Financial Liabilities and Equity Instruments and the Relevant Accounting Treatment promulgated by the Ministry of Finance as well as International Accounting Standard 39 Financial Instruments: Recognition and Measurement and International Accounting Standard 32 Financial Instruments: Presentation formulated by the International Accounting Standards Board, the terms of the preference shares issued by the Bank and outstanding conform to the accounting requirements for equity instruments, and are accounted for as equity instruments.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name of current directors	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽⁵⁾
Wu Xuemin	Male	February 1968	Executive Director	28 November 2018	70.3
			Chairman	30 January 2019	
Zhang Renfu	Male	March 1962	Executive Director	28 December 2018	69.2
			President	30 January 2019	
Ci Yaping	Male	May 1959	Executive Director	28 November 2018	58.8
			Vice President	30 January 2019	
Zhu Yicun	Male	October 1961	Non-executive Director	28 December 2018	–
Qian Li	Male	March 1974	Non-executive Director	28 November 2018	–
Wu Tian	Male	October 1964	Non-executive Director	28 December 2018	–
Qian Dongsheng	Male	October 1967	Non-executive Director	28 December 2018	–
Gao Yang	Male	June 1966	Non-executive Director	28 November 2018	–
Wang Wenjin	Male	December 1966	Non-executive Director	28 December 2018	–
Zhao Zongren	Male	February 1956	Non-executive Director	28 November 2018	–
Dai Peikun	Male	April 1953	Independent Non-executive Director	28 December 2018	–
Zhou Yana	Female	January 1954	Independent Non-executive Director	28 November 2018	10
Liu Zhiqiang	Male	September 1956	Independent Non-executive Director	28 December 2018	–
Yin Jianfeng	Male	December 1969	Independent Non-executive Director	28 December 2018	–
Huang Aiming	Female	December 1969	Independent Non-executive Director	21 January 2019	–
Hu Jun	Male	October 1973	Independent Non-executive Director	28 December 2018	–

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Name of current Supervisor	Gender	Date of birth	Position held	Start of term of office ⁽²⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽⁵⁾
Zhang Youqi	Male	October 1965	Employee Supervisor	26 October 2018	61.0
			Chairman of the Board of Supervisors	13 December 2018	
Tang Chuan	Male	November 1962	Employee Supervisor, Chairman of Labor Union, General Manager of the Human Resources Department ⁽⁴⁾	26 October 2018	133.7
Zhong Qiushi	Male	February 1965	Employee Supervisor, General Manager of the Risk Management Department ⁽⁴⁾	26 October 2018	73.9
Chen Rui	Male	November 1977	Shareholder Supervisor	28 November 2018	–
Li Ruifeng	Male	February 1970	Shareholder Supervisor	28 November 2018	–
Hu Jing	Female	May 1975	Shareholder Supervisor	28 November 2018	–
Pan Shujuan	Female	October 1955	External Supervisor	28 November 2018	20.4
Yang Mianzhi	Male	July 1969	External Supervisor	28 November 2018	18.9
Dong Xiaolin	Female	September 1963	External Supervisor	28 November 2018	2.7

Name of current senior management	Gender	Date of birth	Position held	Start of term of office ⁽³⁾	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽⁴⁾
Zhang Renfu	Male	March 1962	Executive Director	28 December 2018	69.2
			President	30 January 2019	
Ci Yaping	Male	May 1959	Executive Director	28 November 2018	58.8
			Vice President	30 January 2019	
Gao Guangcheng	Male	January 1964	Vice President	30 January 2019	58.4
Yi Feng	Male	August 1963	Assistant to President	30 January 2019	160.3
Xia Min	Male	April 1971	Assistant to President	30 January 2019	167.3
Ni Jianxiang	Male	November 1962	Director of Retail Banking	30 January 2019	127.4
Huang Xiaoyan	Female	December 1971	Director of Investment and Wealth Management	30 January 2019	134.2
Zhou Tong	Female	September 1965	Director of Compliance and Risk Management and General Manager of the Compliance Department ⁽⁴⁾	30 January 2019	157.3
Li Dawei	Male	July 1964	Financial Controller and General Manager of the Financial Accounting Department ⁽⁴⁾	30 January 2019	129.8
Gao Chunming	Female	April 1964	Director of Corporate Banking	30 January 2019	135.0
Lian Baohua	Male	August 1965	Secretary to the Board and General Manager of the Research and Development Department ⁽⁴⁾	30 January 2019	126.9

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Name of resigned Personnel ⁽⁶⁾	Gender	Date of birth	Position held	Term of office	Total remuneration from the Bank during the Reporting Period before tax (RMB10 thousand) ⁽⁵⁾
Zhang Feifei	Male	June 1959	Former Non-executive Director	10 July 2013 – 28 December 2018	–
Zhu Jiusheng	Male	March 1969	Former Non-executive Director	8 October 2014 – 28 December 2018	–
Lu Hui	Female	July 1961	Former Non-executive Director	13 July 2015 – 28 December 2018	–
Qiao Chuanfu	Male	August 1959	Former Non-executive Director	13 July 2015 – 28 December 2018	–
Dai Genyou	Male	December 1949	Former Independent Non-executive Director	10 July 2013 – 28 December 2018	15.6
Wang Shihao	Male	April 1950	Former Independent Non-executive Director	10 July 2013 – 28 December 2018	15.6
Zhang Shenghuai	Male	June 1962	Former Independent Non-executive Director	10 July 2013 – 28 December 2018	15.6
Au Ngai, Daniel	Male	October 1968	Former Independent Non-executive Director	10 July 2013 – 28 December 2018	15.6
Zhu Hongjun	Male	January 1976	Former Independent Non-executive Director	8 October 2014 – 28 December 2018	14.4
Zhang Renfu	Male	March 1962	Former Employee Supervisor, Former Chairman of the Board of Supervisors	8 January 2016 – 25 July 2018	
Zhou Tong	Female	September 1965	Former Employee Supervisor	23 August 2014 – 6 March 2018	
Xu Chongding	Male	November 1957	Former Employee Supervisor, Former Chairman of Labor Union	10 July 2013 – 15 June 2018	12.1
Cheng Rulin	Male	August 1963	Former Shareholder Supervisor	10 July 2013 – 28 November 2018	–
Cheng Junpei	Female	October 1963	Former External Supervisor	10 July 2013 – 28 November 2018	17.4
Sheng Hongqing	Male	July 1971	Former Assistant to President and Chief Investment Officer	17 March 2015 – 18 May 2018	84.9
Chen Hao	Male	July 1958	Former Chief Information Officer	26 December 2014 – 21 September 2018	195.3

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Notes:

- (1) The Bank held the 2018 first extraordinary general meeting on 28 November 2018, at which the fourth session of the Board of Directors was elected. Among the directors elected at the meeting, Mr. Wu Xuemin, Mr. Ci Yaping, Mr. Qian Li, Mr. Gao Yang, Mr. Zhao Zongren and Ms. Zhou Yana are re-elected directors, with their appointments effective from the date of the meeting.

Mr. Zhang Renfu, Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Wang Wenjin, Mr. Dai Peikun, Mr. Liu Zhiqiang, Mr. Yin Jianfeng and Mr. Hu Jun are newly-appointed directors, whose qualifications are subject to the approval by the CBIRC Anhui Office. The Bank made an announcement on 3 January 2019, announcing that the qualifications of the above directors have been approved by the CBIRC Anhui Office with effect from 28 December 2018;

Ms. Huang Aiming is a newly-appointed director, whose qualification is subject to the approval by the CBIRC Anhui Office. The Bank made an announcement on 21 January 2019, announcing that the qualification of Ms. Huang Aiming as a director has been approved by the CBIRC Anhui Office with effect from 21 January 2019.

- (2) On 26 October 2018, the Bank elected Mr. Zhang Youqi, Mr. Tang Chuan and Mr. Zhong Qiushi as employee supervisors of the fourth session of the Board of Supervisors according to the employee election procedures with their appointments effective from the date of the meeting.

The Bank held the 2018 first extraordinary general meeting on 28 November 2018, at which Mr. Chen Rui, Mr. Li Ruifeng and Ms. Hu Jing were elected as shareholder supervisors of the fourth session of the Board of Supervisors, and Ms. Pan Shujuan, Mr. Yang Mianzhi and Ms. Dong Xiaolin were elected as external supervisors of the fourth session of the Board of Supervisors, with their appointments effective from 28 November 2018.

The Bank held the first meeting of the fourth session of the Board of Supervisors on 13 December 2018, at which Mr. Zhang Youqi was elected as the chairman of the fourth session of the Board of Supervisors, with his appointment effective from 13 December 2018.

- (3) The Bank held the first meeting of the fourth session of the Board of Directors on 30 January 2019, at which Mr. Wu Xuemin was elected as the chairman of the fourth session of the Board of Directors, and the fourth session of senior management was appointed. The appointments of Mr. Wu Xuemin, Mr. Zhang Renfu, Mr. Ci Yaping, Mr. Gao Guangcheng, Mr. Yi Feng, Mr. Xia Min, Mr. Ni Jianxiang, Ms. Huang Xiaoyan, Ms. Zhou Tong, Mr. Li Dawei, Ms. Gao Chunming, Mr. Lian Baohua have been effective from 30 January 2019.

- (4) Mr. Tang Chuan has served as the Chairman of Labor Union of the Bank since 15 June 2018 and General Manager of Human Resources Department of the Bank since 17 May 2011. Mr. Zhong Qiushi has served as the General Manager of Risk Management Department of the Bank since 9 April 2018. Ms. Zhou Tong has served as the General Manager of Compliance Department of the Bank since 6 June 2014. Mr. Li Dawei has served as the General Manager of Financial Accounting Department of the Bank since 6 December 2013. Mr. Lian Baohua has served as the General Manager of Research and Development Department of the Bank since 28 July 2014.

- (5) This report only disclosed the remuneration of the above executive directors, employee supervisors and senior management during their term of office in the Bank. Pursuant to the requirements of the relevant PRC authorities, the remuneration payable to the executive directors, employee supervisors and senior management of the Bank above is still subject to final confirmation. Further disclosure will be made after the confirmation of the final remuneration. The total remuneration before tax from the Bank during the Reporting Period includes the "five insurances and housing provident fund" and the portion of corporate contribution to enterprise annuity.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Notes: (Continued)

- (6) For details of changes in duties and positions held by Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel, Mr. Zhu Hongjun, Mr. Zhang Renfu, Ms. Zhou Tong, Mr. Xu Chongding, Mr. Cheng Rulin, Mr. Cheng Junpei, Mr. Sheng Hongqing and Mr. Chen Hao, please refer to “Changes in Directors, Supervisors and Senior Management of the Bank” under section 8.2 of this annual report.

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

1. The Bank convened the 2018 first extraordinary general meeting on 28 November 2018 and elected the fourth session of the Board of Directors, including the re-election of Mr. Wu Xuemin, Mr. Ci Yaping, Mr. Qian Li, Mr. Gao Yang, Mr. Zhao Zongren and Ms. Zhou Yana as directors, with effect from the same date; and the election of Mr. Zhang Renfu, Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Wang Wenjin, Mr. Dai Peikun, Mr. Liu Zhiqiang, Mr. Yin Jianfeng, Ms. Huang Aiming and Mr. Hu Jun as new directors, whose qualifications are subject to the approval of CBIRC Anhui Office. The Bank published announcements on 3 January and 21 January 2019, respectively, announcing that the qualifications of the above directors were approved by CBIRC Anhui Office.

The Bank made an announcement on 3 January 2019, announcing that, given that the appointments of the members of the fourth session of the Board of Directors had become effective, the members of the third session of the Board of Directors of the Bank, including Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun retired as directors of the Bank and from the respective position in the Board committees.

2. The Bank made an announcement on 25 July 2018, announcing that due to change of position, Mr. Zhang Renfu tendered his resignation to the Bank on the date of the announcement as the chairman of the Board of Supervisors, a member of the Nomination committee under the Board of Supervisors, a member of the supervisory committee under the Board of Supervisors and an employee supervisor of the Bank. His resignation took effect upon the formal appointment of Mr. Zhang Youqi as succeeding employee supervisor by the Bank on 25 July 2018. The Bank made an announcement on 27 July 2018, announcing that Mr. Zhang Youqi was elected as the chairman of the third session of the Board of Supervisors of the Bank at the 37th meeting of the third session of the Board of Supervisors. The Bank made an announcement on 23 August 2018, announcing that Mr. Zhang Renfu was appointed as the president of the Bank according to a resolution passed at the 41st meeting of the third session of the Board of Directors of the Bank. On 23 August 2018, the Bank received the approval on the qualification of Mr. Zhang Renfu from Anhui Banking Regulatory Bureau.
3. The Bank made an announcement on 28 February 2018, announcing that Ms. Zhou Tong tendered her resignation to the Bank as a member of the supervisory committee under the Board of Supervisors and an employee supervisor of the Bank with effect from the date of the official appointment of Mr. Tang Chuan as an employee supervisor by the Bank.
4. The Bank made an announcement on 15 June 2018, announcing that Mr. Xu Chongding, an employee supervisor of the Bank, tendered his resignation on the date of the announcement as a member of the Nomination Committee under the Board of Supervisors and an employee supervisor of the Bank as he reached the retirement age, with effect from the date of the formal appointment of Mr. Zhong Qiushi as succeeding employee supervisor by the Bank.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK (Continued)

5. The Bank made an announcement on 28 November 2018, announcing that the 2018 first extraordinary general meeting elected Mr. Chen Rui, Mr. Li Ruifeng and Ms. Hu Jing as shareholder supervisors, and Ms. Pan Shujuan, Mr. Yang Mianzhi and Ms. Dong Xiaolin as external supervisors of the fourth session of the Board of Supervisors. Mr. Zhang Youqi, Mr. Tang Chuan and Mr. Zhong Qiushi were elected as employee supervisors on 26 October 2018 according to the Bank's employee election procedures. The fourth session of the Board of Supervisors of the Bank was then established. Meanwhile, Mr. Cheng Rulin, a former shareholder supervisor, and Ms. Cheng Junpei, a former external supervisor, retired.
6. Mr. Sheng Hongqing, an assistant to president of the Bank, due to his desire to devote more time to his other business commitments, tendered his resignation to the Bank on 18 May 2018 as an assistant to president of the Bank with immediate effect.
7. Mr. Chen Hao, the chief information officer of the Bank, tendered his resignation to the Bank on 21 September 2018 as the chief information officer of the Bank as he reached the retirement age, with immediate effect.
8. The Bank convened the third meeting of the fourth session of the Board of Directors on 27 March 2019 and passed the resolution to appoint Mr. Yi Feng, an assistant to president of the Bank, as the vice president of the Bank, whose qualification is subject to the approval of CBIRC Anhui Office.
9. The Bank convened the third meeting of the fourth session of the Board of Directors on 27 March 2019 and passed the resolution to recommend the election of Mr. He Jiehua as an executive director of the fourth session of the board of directors of the Bank. Please refer to the announcement dated 27 March 2019 of the Bank for details.
10. Save as disclosed above, pursuant to the requirement of Rule 13.51B(1) of the Hong Kong Listing Rules, the changes in the information of directors, supervisors and senior management of the Bank are as follows:
 - (1) Mr. Tang Chuan, an employee supervisor of the Bank, currently serves as the chairman of labor union.
 - (2) Mr. Zhong Qiushi, an employee supervisor of the Bank, concurrently serves as a shareholder supervisor of Huishang Bank Financial Leasing Co., Ltd.
 - (3) Mr. Yang Mianzhi, an external supervisor of the Bank, serves as the Dean, a professor and a Ph.D. supervisor of the School of Business Administration of China University of Petroleum, Beijing, a member of the Accounting Professional Education Advisory Committee of Colleges under the Ministry of Education, a legislative adviser of the NPC Financial and Economic Affairs Committee and Budgetary Affairs Committee in Anhui Province, and is concurrently an independent director of Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司).

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

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors



Mr. Wu Xuemin, joined the Bank in October 2010, is currently an executive director and the chairman of the Board of Directors of the Bank. His primary working experience includes: deputy director of the newspaper and theories department of China Construction Bank, deputy director of the administration office of China UnionPay Co., Ltd., general manager of Anhui Branch of China UnionPay Co., Ltd., general manager of the strategic development department and legal compliance department of China UnionPay Co., Ltd. and the president of the Bank. Mr. Wu, a senior economist, obtained a master's degree in economics from Renmin University of China and a master's degree in business administration for senior management from Fudan University.



Mr. Zhang Renfu, joined the Bank in December 2005. He is currently an executive director and the president of the Bank. His primary working experience includes: the deputy director of the liaison division, a researcher at the third division of the secretariat, the deputy director of the fifth division, the deputy director of the secretariat and the deputy director of the second division of the secretariat of the general office of Anhui Provincial Government, and the deputy director in charge of the work of the finance office of Anhui Provincial Government as well as an executive director, employee supervisor and the chairman of the Board of Supervisors of the Bank. Mr. Zhang, a senior economist, obtained a master's degree in law from Renmin University of China.



Mr. Ci Yaping, joined the Bank in December 2005, is currently an executive director and vice president of the Bank. His primary working experience includes: vice president of Anqing Branch of the Bank of Communications, and chairman of the board of directors and president of Anqing City Commercial Bank. Mr. Ci, a senior economist, obtained an Executive Master of Business Administration (EMBA) master's degree from Arizona State University of United States.



Mr. Zhu Yicun, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: the head of Liuqiao No.1 Mine of Wanbei Mining Bureau, the chairman and the general manager of Anhui Hengyuan Coal-Electricity Group Co., Ltd., the deputy general manager of Wanbei Coal-Electricity Group Co., Ltd., and the deputy general manager of Anhui Province Energy Group Company Limited. He is currently a director and the general manager of Anhui Province Energy Group Company Limited, chairman of Anhui Province Wenergy Co., Ltd. and a director of Guoyuan Securities Co., Ltd. Mr. Zhu, a senior engineer, obtained a master's degree in control engineering from China University of Mining and Technology.



Mr. Qian Li, joined the Bank in July 2015, is currently a non-executive director of the Bank. His primary working experience includes: executive of the comprehensive research office, deputy chief of Secretary Office I and head and deputy chief of the Financial Office under the Government of Anhui Province and vice mayor of Huainan City Government. He currently serves as the general manager of Anhui Credit Guaranty Group Co., Ltd. He obtained a doctorate degree in political economics from Fudan University.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Wu Tian, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: the counsellor and deputy secretary of Communist Youth Party Committee at Anhui Technical Institute, the director of the third division of the general office and the deputy chief (director-level) of the second division of the general office of Anhui Provincial Government, the deputy general manager, the general counsel, a director and the general manager of Anhui Expressway Holding Corporation and the deputy general manager of Anhui Guoyuan Holding (Group) Co., Ltd.. He is currently the general manager of Anhui Guoyuan Financial Holding Group Co., Ltd. He obtained a master's degree in engineering from Zhejiang University.



Mr. Qian Dongsheng, joined the Bank in December 2018, is currently a non-executive director of the Bank. His primary working experience includes: deputy chief of supervision division, chief of construction division of Anhui Provincial High Grade Highway Administration Bureau, the director of engineering construction division of Anhui Expressway Holding Corporation, and the deputy general manager of Anhui Expressway Holding Group Company Limited. He is currently the general manager and a director of Anhui Transportation Holding Group Co., Ltd. Mr. Qian, a senior engineer, obtained a master's degree in engineering from the University of Science and Technology of China.



Mr. Gao Yang, joined the Bank in December 2009, is currently a non-executive director of the Bank. Mr. Gao was the chairman of the board of directors of China Strategic Holdings Limited, and is the chairman of Zhongjing Industry (Group) Co., Ltd., Zhongjing Sihai Co., Ltd., and Zhongjing Xinhua Asset Investment Management Co., Ltd., director of WEALTH HONEST LIMITED and Zhongjing Xinhua Asset Investment Management (Hong Kong) Co., Ltd. and the chairman of Guosheng Huaxing Investment Co., Ltd. Mr. Gao studied hotel management at Meinl Vocational School in Vienna from March 1985 to March 1987 as a guest student.



Mr. Wang Wenjin, joined the Bank in December 2018, is currently a non-executive director of the Bank. Mr. Wang was the general manager of financial management department, the financial controller and the chief financial officer of Vanke. He is currently a director, the executive vice-president and the chief risk officer of China Vanke Co., Ltd. Mr. Wang, a non-practising member of the Chinese Institute of Certified Public Accountants, obtained a master's degree from Zhongnan University of Economics and Law.



Mr. Zhao Zongren, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experience includes: director of the office of Jining Branch, president of Qufu Sub-branch, vice president of Jining Branch, and chief of the planning office and the finance planning office of Shandong Branch of China Construction Bank Corporation Limited, deputy general manager of Shandong Branch and general manager of Guangxi Branch of China Cinda Asset Management Co., Ltd., and assistant to the president and chief supervisor of Sunshine Insurance Group Corporation Limited. Mr. Zhao is a vice chairman and executive director of Sunshine Insurance Group Corporation Limited. Mr. Zhao, a senior economist, obtained a master's degree from the investment department of Dongbei University of Finance and Economics.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Dai Peikun, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. His primary working experience includes: the deputy director (deputy director-level) of industrial economics research division of Anhui Economic and Cultural Research Center, the deputy head, the head, an assistant to the director, the deputy director and an inspector (department level) of the Finance and Trade Economics Division and International Economics Division of the Development Research Center of Anhui Provincial Government. He obtained a master's degree in economics from Peking University.



Ms. Zhou Yana, joined the Bank in August 2018, is currently an independent non-executive director of the Bank. Ms. Zhou was a lecturer, an associate professor and a professor, and the department head, the vice president, the executive vice president of the School of Economics of Anhui University and the dean of the School of Business Administration of Anhui University. She is currently a professor of the School of Business of Anhui University, and an independent director of Ningbo Runhe High-tech Materials Technology Co., Ltd. and Hefei Urban Construction Development Co., Ltd, both of which are listed companies. She obtained a master's degree in accounting from Anhui University.



Mr. Liu Zhiqiang, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. His primary working experience includes: the deputy director and the director of the planning bureau and the statistics and analysis department of the People's Bank of China, and the director of Hong Kong-Macau-Taiwan financial affair office of the People's Bank of China, the deputy head of the economics department of Xinhua News Agency, Hong Kong Branch, the deputy general manager of Guangdong International Trust Investment Corporation, the president of Guangdong Development Bank, the vice president of China CITIC Bank, a director and the vice president of CITIC Holdings, a director of CITIC Group, the chairman of CITIC Asset Management Corporation and the chairman of CITIC Xinbang Asset Management Corporation Ltd. He obtained a doctorate degree in economics from Zhongnan University of Economics and Law.



Mr. Yin Jianfeng, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. Mr. Yin was the executive vice president of CEIBS Lujiazui Institute of International Finance, and the deputy director of the Finance Institute of Chinese Academy of Social Sciences. He is currently a professor of the finance department and an instructor of doctorate students (entitled to the "special government allowance" granted by the State Council) at the University of International Business and Economics and the chief economist of China Zheshang Bank Co., Ltd.. He obtained a doctorate degree in finance from Chinese Academy of Social Sciences.



Ms. Huang Aiming, joined the Bank in January 2019, is currently an independent non-executive director of the Bank. She had worked for Agricultural Bank of China, Shenzhen Branch and Shenzhen Zhuojun Wangcai Investment Management Co., Ltd. She is currently the president of China International Capital Limited and the chairman of Shenzhen Huichuang Equity Investment Fund Management Co., Ltd. She obtained a master's degree in economics at the Department of Political Science of Xiamen University and a Finance EMBA degree from Cheung Kong Graduate School of Business.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)



Mr. Hu Jun, joined the Bank in December 2018, is currently an independent non-executive director of the Bank. He had worked for Fangda Partners and Simpson Thacher & Bartlett. He is currently a partner of Beijing Zhong Lun Law Firm. He obtained a doctorate degree in law from Duke University of the United States, and an executive master's degree in business administration (EMBA) and a doctorate degree in business administration (DBA) from Cheung Kong Graduate School of Business.

Supervisors



Mr. Zhang Youqi, joined the Bank in December 2005, is currently the chairman of the Board of Supervisors and an employee supervisor of the Bank, as well as a director and the vice chairman of Chery Huiyin Motor Finance Service Co., Ltd.. He served as the deputy manager and principal staff member of the business department of the foreign exchange swap center and section head of the general section of the international balance of payments division, section head of the cooperation section of the banking division, assistant to the director of finance division in Anhui branch of the People's Bank of China; deputy division head of the operations division of Anhui Branch of China Unicom, vice president of Hefei Sub-branch of China Everbright Bank, deputy general manager (in charge of general operations) of Tongling Branch and general manager of Fuyang Branch of China Unicom; chairman of the board of directors of Tongling Urban Credit Cooperatives; a director, the president of Tongling Branch, the general manager of the business department and the institutional management department of the head office, the secretary to the board of directors and a vice president of the Bank. Mr. Zhang, a senior economist, and an Executive Master of Business Administration (EMBA) degree from Renmin University of China.



Mr. Tang Chuan, joined the Bank in January 2006, is currently an employee supervisor, the chairman of labor union and general manager of the human resources department of the Bank. Mr. Tang once worked as deputy director of the comprehensive planning section and manager of the international business department of Ma'anshan Sub-branch of China Construction Bank, director of the construction office, deputy director of the home loans department and deputy director (leading role of the section) of the housing office of the Ma'anshan Branch of China Construction Bank, manager of the credit business department and vice president of Ma'anshan City Commercial Bank, as well as vice president (in charge of operations) and president of Ma'anshan Branch of the Bank. Mr. Tang, a senior economist, obtained an Executive Master of Business Administration (EMBA) degree from the University of Science and Technology of China.



Mr. Zhong Qiushi, joined the Bank in January 2002, is currently an employee supervisor and the general manager of the risk management department of the Bank, as well as a shareholder supervisor of Huishang Bank Financial Leasing Co., Ltd. He once served as the vice president of Feixi County Sub-branch, vice president (in charge of operations) and person-in-charge of the credit operation department of Hefei branch of China Construction Bank president of the Sipailou Branch and the Youth Road Branch of Hefei City Commercial Bank Corporation Limited, and the general manager of the corporate banking department of the Hefei Branch, an assistant to the president of the Huaibei Branch, and the deputy general manager and deputy general manager (in charge of general operations) and the general manager of the credit assessment department of the head office, the president of the Bengbu Branch of the Bank. Mr. Zhong, a senior economist, obtained an Executive Master of Business Administration (EMBA) degree from the University of Science and Technology of China.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)



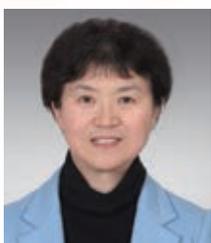
Mr. Chen Rui, joined the Bank in November 2018, is currently a shareholder supervisor of the Bank. He had served as the secretary, the deputy director and the director of the president office of Hefei Xingtai Holdings Group Co., Ltd., the deputy general manager, the general manager and the chairman of Hefei Xingtai Asset Management Co., Ltd., and a director of Hefei Department Store Group Co., Ltd. He is currently a director and the deputy general manager of Hefei Xingtai Financial Holdings (Group) Co., Ltd., the chairman of Hefei Xingtai Financing Guarantee Group Co., Ltd., and the chairman of Hefei Xingtai Guarantee Industry Security Operating Co., Ltd.. Mr. Chen, a senior economist, obtained a master's degree in political economics from the School of Economics of Anhui University.



Mr. Li Ruifeng, joined the Bank in June 2017, is currently a shareholder supervisor of the Bank. He served as a director (director of State-owned Assets Office) of the finance department under the Management Committee of Wuhu Economic and Technology Development Zone (蕪湖市經濟技術開發區管委會財政局). He also served as general manager of Wuhu Economic and Technology Development Zone Construction and Investment Company (蕪湖經濟技術開發區建設投資公司). Mr. Li is currently a deputy general manager of Wuhu Construction Investment Co., Ltd (蕪湖市建設投資有限公司). He is also the chairman of Wuhu Binjiang Construction and Development Co., Ltd. (蕪湖市濱江建設發展有限公司), and serves as a director of Wuhu Yuanda Venture Capital Company Limited (蕪湖遠大創業投資有限公司), Hua Ya Wuhu Plastic Co., Ltd. (華亞蕪湖塑膠有限公司), Wuhu Jincai Pawnshop Co., Ltd. (蕪湖金財典當有限責任公司), Guoyuan Agricultural Insurance Co., Ltd. (國元農業保險股份有限公司), Wuhu Jincai Financing Guarantee Co., Ltd. (蕪湖金財融資擔保有限責任公司), Wu Hu Min Qiang Financing Guarantee (Group) Co., Ltd (蕪湖市民強融資擔保(集團)有限公司) and Wuhu Jiangdong Venture Capital Management Co., Ltd. (蕪湖市江東創業投資管理有限公司), respectively. Mr. Li also acts as a supervisor of Chery Huiyin Motor Finance Service Co., Ltd. (奇瑞徽銀汽車金融股份有限公司) and Wuhu Huicheng Squatter Settlement and Construction Co., Ltd. (蕪湖市惠城棚改建設有限公司), respectively. He obtained his bachelor's degree in economics from the Central Institute of Finance (currently known as the Central University of Finance and Economics).



Ms. Hu Jing, joined the Bank in November 2018, is currently a shareholder supervisor of the Bank. She was an accountant of Anhui Education Press, the manager of the finance department of Anhui Dianshi Information Technology Co., Ltd., and an audit manager of Anhui Jiutong Certified Public Accountants. She is currently the director of the finance and accounting department of Anhui Publishing Group Co., Ltd. Ms. Hu, a Chinese certified public accountant and a senior accountant, obtained a master's degree in business management from the University of Science and Technology of China.



Ms. Pan Shujuan, joined the Bank in July 2013, is currently an external supervisor of the Bank. She is a professor in Anhui University of Finance & Economics. Her primary working experience includes: deputy head of Department of Finance, vice dean of the School of Economics and Finance and dean of the School of Finance of Anhui University of Finance & Economics, member of the Academic Committee and the Educational Committee of Anhui University of Finance & Economics, and director of the Professor Committee of the School of Finance of Anhui University of Finance & Economics. Ms. Pan is currently an independent director of Anhui Guang De Rural Commercial Bank. She got a bachelor's degree from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade).

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)



Mr. Yang Mianzhi, joined the Bank in June 2017, is currently an external supervisor of the Bank. He served as a head of the Department of Finance and an associate dean at the School of Business, Anhui University. Currently, he serves as the dean, a professor and an instructor of doctorate students of the School of Business Administration of China University of Petroleum, a member of the Accounting Professional Education Advisory Committee of Colleges under the Ministry of Education, a legislative adviser of the Financial and Economic Affairs Committee and Budgetary Affairs Committee of the People's Congress in Anhui Province, and is concurrently an independent director of Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司). He obtained his doctorate degree in management from Renmin University of China.



Ms. Dong Xiaolin, joined the Bank in November 2018, is currently an external supervisor of the Bank. Her primary working experience includes: a teaching assistant, a lecturer and an associate professor of Nanjing Agricultural University and an independent director of Jiangsu Gaochun Rural Commercial Bank Corporation Limited. She is currently a professor and an instructor of doctorate students in the college of finance in Nanjing Agricultural University, and is concurrently a director of Key Research Base of Philosophy and Society Science in Jiangsu Province, namely, Rural Financial Development Research Center of Jiangsu Province in Nanjing Agricultural University, and she is a member of the Finance Institute of Nanjing City, a member of Expert Committee of Nanjing Finance Promotion Council and an independent director of Jiangsu Lishui Rural Commercial Bank Corporation Limited and Anhui Langxi Rural Commercial Bank (安徽郎溪農村商業銀行). She obtained a doctorate degree majoring in the management of agricultural economy from Nanjing Agricultural University.

Senior management

Mr. Zhang Renfu is an executive director and the president of the Bank. Please refer to "Directors" section in this chapter for details of his biography.

Mr. Ci Yaping is an executive director and a vice president of the Bank. Please refer to "Directors" section in this chapter for details of his biography.



Mr. Gao Guangcheng, joined the Bank in February 1997, is currently a vice president of the Bank. His primary working experience includes: president of Sub-branch of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president and then president of Hefei City Commercial Bank Corporation Limited, and president of Hefei Branch of the Bank. Mr. Gao, a senior economist, obtained a master's degree in business administration.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Mr. Yi Feng, joined the Bank in May 2009, is currently an assistant to the president of the Bank. His primary working experience includes: deputy director of the administration office of CCB Anhui Branch, president of CCB Huangshan Branch, director of the entrustment loan department of CCB Anhui Branch, general manager of the institution and investment banking department of CCB Anhui Branch, president of CCB Hefei Sanxiaokou Sub-branch, and president of CCB Hefei City West Sub-branch, and president of Hefei Branch, assistant to president and president of Hefei Branch of the Bank and assistant to the president and secretary to the board. Mr. Yi, a senior economist, obtained a master's degree in arts from Xiamen University.



Mr. Xia Min, joined the Bank in February 1997, is currently an assistant to the president of the Bank. His primary working experience includes: assistant to the president of Changjiang Middle Road Sub-branch of Hefei City United Bank, vice president of Xiaoyaojin Sub-branch of Hefei City Commercial Bank Corporation Limited, general manager of the fund and planning department of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president of Hefei City Commercial Bank Corporation Limited, assistant to the president and general manager of the planning and finance department of the Bank, assistant to the president and general manager of the assets and liabilities department of the Bank, and assistant to the president and president of Hefei Branch of the Bank. Mr. Xia, an economist, obtained a doctoral degree in economics from the Research Institute for Fiscal Science of the MOF.



Mr. Ni Jianxiang, joined the Bank in January 2006, is currently the director of retail banking of the Bank. He previously served as the deputy director of the Xijiao Office of Bengbu Branch of CCB; manager of Bengbu Office of Anhui Provincial Trust and Investment Company, president of the High and New Technology District Sub-branch and vice president of Bengbu Branch; vice president and president of Bengbu City Commercial Bank; president of Fuyang Branch of the Bank, general manager of the organizational management department, president of Wuhu Branch, general manager of Credit Card Center, the director of retail banking and general manager of Credit Card Center. Mr. Ni, an economist, obtained a bachelor's degree in management from Anhui University of Finance and Economics.



Ms. Huang Xiaoyan, joined the Bank in February 1997, is currently the director of investment and wealth management of the Bank. She previously served as the general manager of the capital operation department of Hefei City Commercial Bank Corporation Limited; deputy general manager in charge of the work of the capital operation department of the Bank, general manager of the financial market department, general manager of the asset and liability management department and general manager of the financial market department, general manager of the assets management department, and director of investment and wealth management and general manager of the asset and liability management department. Ms. Huang, a senior economist, obtained an executive master of business administration (EMBA) degree from the University of Science and Technology of China.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Ms. Zhou Tong, joined the Bank in December 1997, is currently the director of compliance and risk management and general manager of the compliance department of the Bank. She previously served as director of Treasury Securities Services Department and deputy director of the Finance Bureau of Xishi District, Hefei City; president of Meng Cheng Road Sub-branch of Hefei City Commercial Bank Corporation Limited; president of Changjiangxi Road Sub-branch of Hefei Branch; an assistant to the president, vice president and president of Anqing Branch; general manager of the Compliance Department and an employee supervisor of the Bank. She graduated with an EMBA degree from University of Science and Technology of China, and is an accountant and a senior economist.



Mr. Li Dawei, joined the Bank in February 1997 and is currently the financial controller and general manager of the financial accounting department of the Bank. He previously served as an assistant to the president of Hefei Branch of the Bank, deputy general manager of the planning and finance department, deputy general manager (in charge of work) and general manager of the accounting management department of the Bank, general manager of the accounting management department and general manager of the operations management department as well as general manager of the financial accounting department and general manager of the operations management department. He obtained a bachelor's degree in economics from Shanghai University of Finance and Economics, and is an accountant and a certified public accountant.



Ms. Gao Chunming, joined the Bank in March 2006 and is currently the director of Corporate Banking of the Bank. She previously served as director of business department in Tongling City Credit Union; general manager in corporate banking operation department, general manager in corporate banking operation department and general manager in retail banking department, an assistant to the president, deputy president, deputy president (in charge of operation) and president of Tongling Branch of the Bank, and the director of Corporate Banking and general manager of the corporate banking department of the Bank. She graduated from Party School of the Central Committee of C.P.C in foreign economic management, and is an accountant.



Mr. Lian Baohua, joined the Bank in July 2014, is currently the secretary to the board and general manager of the research and development department of the Bank. He previously served as deputy section officer and section officer of the department of industrial economics and an assistant to the director of international economic affairs division of Development Research Center of Anhui Provincial Government; deputy director of the planning committee of Tongling City; director of international economic affairs division and finance division of Development Research Center of Anhui Provincial Government; director of Decision-Making magazine; director and deputy general manager of Anhui BBKA Pharmaceuticals Co., Ltd.. He obtained a doctorate degree in economics from Nanjing University.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank provides remunerations to independent directors and external supervisors according to the Proposals on Subsidies to Independent Directors of the Bank and Subsidies to External Supervisors of the Bank, and provides remuneration to executive directors, employee supervisors and senior management according to the "Measures of Huishang Bank on Directors' Remuneration", the "Measures of Huishang Bank on Supervisors' Remuneration", and the "Measures of Huishang Bank on Senior Management's Remuneration".

The non-executive directors and shareholder supervisors do not receive any remuneration from the Bank.

According to the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on the Board of Directors and Directors (Amended)", the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on Senior Management and its Members (Amended)", and the "Performance Appraisal Measures on the Board of Supervisors and Supervisors of Huishang Bank (Amended)", the Board of Supervisors of the Bank assesses annually the duties performance by directors, supervisors and the senior management.

Mr. Dai Peikun, an independent non-executive director of the Bank, voluntarily gives up the remuneration from the Bank. Other than Mr. Dai Peikun, no director of the Bank gave up or agreed to give up any remuneration from the Bank during the Reporting Period as described in Rule 24A of Appendix 16 of the Hong Kong Listing Rules. The details of directors', supervisors' and senior management's remunerations received from the Bank for the year are stated in section 8.1 "Directors, Supervisors and Senior Management" of this annual report. The top five highest paid individuals of the year are listed in Note 13 of the financial statements.

8.5 EMPLOYEE

As of 31 December 2018, the Bank had a total of 9,515 employees in service. The composition of employees is as follows:

1. Responsibilities:

		Number of employees	% of total
Responsibilities	Management	2,428	25.52 %
	Marketing	5,212	54.78 %
	Supporting	1,875	19.70%

2. Academic distribution:

		Number of employees	% of total
Academic structure	Master and above	1,543	16.22%
	Bachelor	7,115	74.77%
	Diploma degree and below	857	9.01%

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.5 EMPLOYEE (Continued)

Staff remuneration policy

The Bank's remuneration policy aims to establish a well-developed, scientific and efficient incentive and control mechanisms for realization of shareholders value and optimization of the Bank and employees' interest. The policy will stimulate stable operation and sustainable development. It is useful for meeting the strategic objectives, enhancing competitiveness, retaining talent and managing risk. By following the principle of being "advanced, sustainable, compliant, timely, and practical", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

The Bank manages remuneration through three levels, namely the board of directors, senior management, and head office and branches. The board of directors manages the total amount of remuneration and senior management's remuneration. Under the Board's request, the senior management allocates the total amount of remuneration and drafts policy management of all branches. All branches manage employee salary within the scope of unified rules and framework.

Staff training plan

2018 is the first year for Huishang Bank to build the overall development framework of "One Body, Two Wings (一體兩翼)" and a modern bank with high-quality development in an all-round manner. During the Reporting Period, the training center of Huishang Bank carefully implemented the deployment requirements of the Party Committee on education and training, closely focused on the trend of national economic and financial hotspots and key direction of the overall operation and development, and vigorously performed the annual training plan according to the requirements of training guidance at the beginning of the year, with continuous improvement of the training management system and mechanism as the main line, supported by the combination of internal training and external training as well as online and offline training, aiming to create key training branded projects, promote internationalization level and enhance foreign affairs service assurance. Through comprehensively and effectively utilized three training platforms, namely, the Binhu training center, Huiyin Internet School and Huiyin Academy, the training work has achieved new results with all major work carried out progressively.

The Bank conducted a total of 1,279 concentrated training sessions in 2018, amounting to 873,931 training hours with a total enrolment of 111,987. For the year, the hours and sessions per capita were 91.86 and 11.76 respectively.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

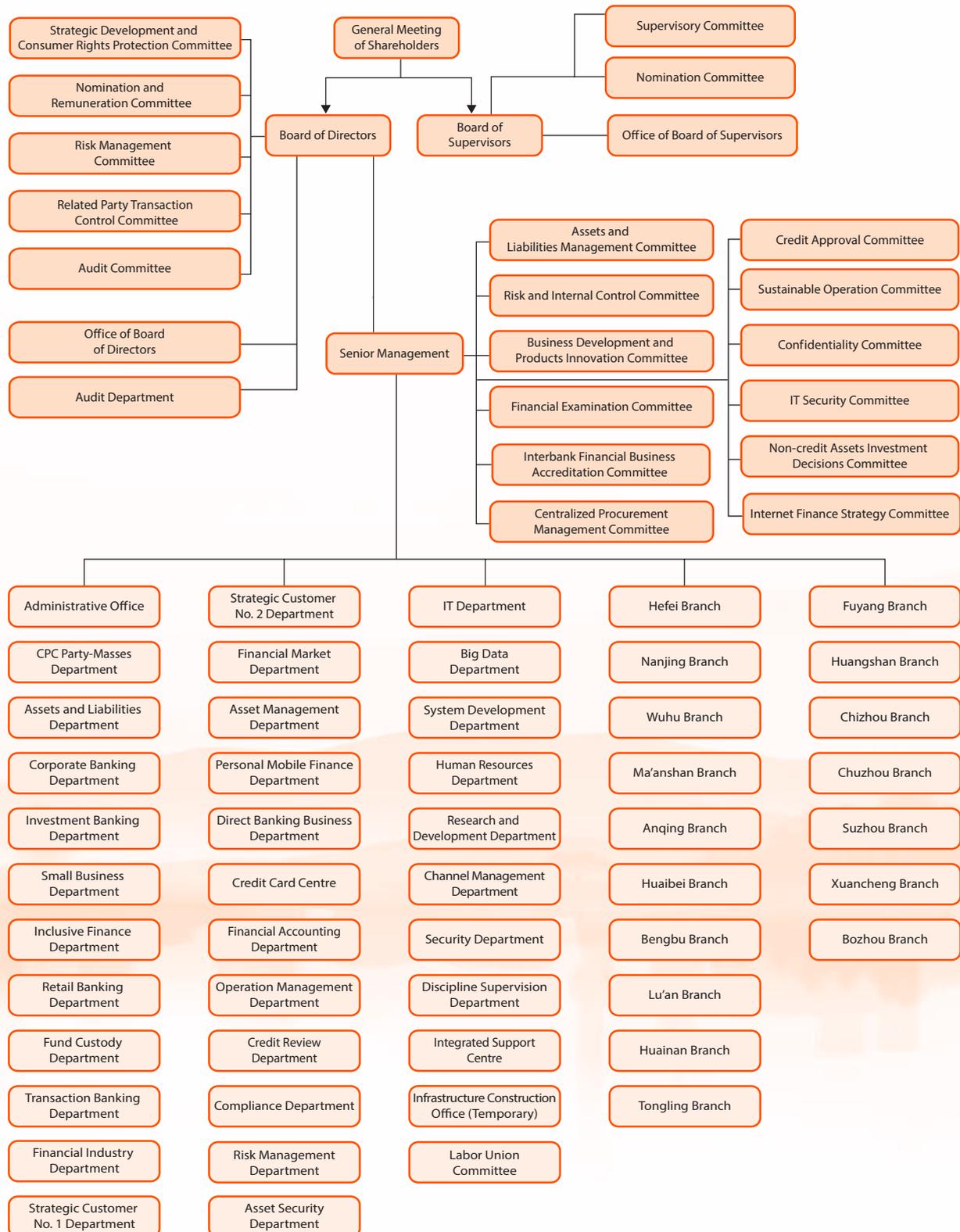
8.6 BRANCHES

As of 31 December 2018, the composition of branches of the Bank is as follows:

Region	Name of the Institution	Address	Postcode	Number of Branch
Head Office	Head Office	No. 79, Anqing Road, Hefei	230001	1
Anhui Province	Hefei Branch	No. 626, Huangshan Road, Gaoxin District, Hefei	230000	96
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	36
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	25
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	24
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	29
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	16
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	28
	Huangshan Branch	No. 2, Tanguang Avenue, Tunxi District, Huangshan	245000	12
	Chizhou Branch	No. 515, Changjiang Zhong Road, Chizhou	247000	14
	Chuzhou Branch	No. 95, Longpan Main Road, Chuzhou	239000	15
	Suzhou Branch	No. 123, Yinheyi Road, Suzhou	234000	16
	Xuancheng Branch	No. 109, Meiyuan Road, Xuanzhou District, Xuancheng	242000	19
	Bozhou Branch	Xiangzhang Mansion, West Shaohua Road, Bozhou	236000	12
	Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000
Total				440

Chapter IX Corporate Governance Report

9.1 CORPORATE GOVERNANCE STRUCTURE



Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE

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

The Bank has established a relatively comprehensive corporate governance structure, clearly setting forth the responsibilities of general meeting, the Board of Directors, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism so as to ensure the independent operation of various parties and an effective check and balance.

During the Reporting Period, apart from paragraphs A.2.1, A.4.2 and A.5.1 of the code provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, the Bank has strictly complied with the provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and conforms to substantially all of the recommended best practices set forth therein. For the deviation by the Bank from code provisions of the Corporate Governance Code, please refer to the descriptions in Sections 9.4.2, 9.4.4 and 9.5.2 of this Chapter.

The Bank has incorporated the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by CBRC into the Bank's governance structure and policies. The Code and Guidelines are well reflected in the Bank's Articles of Association and the Terms of Reference of general meeting, Board of Directors and special committees. The general meeting, Board of Directors, Board of Supervisors and management performed their respective duties, and formed good corporate governance structure. The Bank ensured regulated operation according to the requirements of Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and Guidelines on the Corporate Governance of Commercial Banks.

The Bank has also strictly complied with the management of insider information required by the relevant laws and regulations and the Hong Kong Listing Rules.

The Bank will review the corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and meet the higher expectations from the shareholders and investors.

Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE (Continued)

Nomination of directors and Board diversity policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors for the Bank to achieve sustainable development, achieve its strategies and maintain good corporate governance.

In respect of appointing the Board of Directors, the Bank will consider the diversity of the members in several aspects including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge, service term and other regulatory requirements, etc.

The Board members were appointed on the basis of their skills by taking into consideration the skills and experience required for overall smooth growth of the Board. In addition, the Bank thoroughly considers the goals and requirements for having a diversified Board of Directors.

Members of the Board of Directors will be selected according to a series of diversification benchmarks including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge and service term. The final decision will be made based on the candidate's specialty and his potential contribution to the Board.

The Nomination and Remuneration Committee of the Board is responsible for reviewing the structure, number of members, and composition of the Board of Directors. In addition, the Committee makes recommendations to the Board relating to the size and structure of the Board of Directors based on the Bank's strategic plans, business operations, asset size and shareholding structure. The Committee also discusses and reviews the selection standard, the nomination and appointment process of relevant Directors, and makes recommendations to the Board of Directors. The candidates will be approved by the Board of Directors.

This policy needs to be followed when the Nomination and Remuneration Committee of the Board makes recommendations on the candidates or when the Board of Directors makes nomination. The Nomination and Remuneration Committee of the Board is responsible for monitoring the implementation of this policy and reviewing this policy at the appropriate time to ensure its effectiveness. The Nomination and Remuneration Committee will discuss any amendments when necessary and make recommendations to the Board of Directors for final approval.

During the Reporting Period, this policy was followed when the Nomination and Remuneration Committee made recommendations on the candidates and when the Board made nomination. Taking the composition of the fourth session of the Board of Directors of the Bank as an example, in identifying candidates, the Bank solicits candidates through publicly, referrals by existing directors, and recommendation by shareholders of the Bank in accordance with the Articles of Association. The fourth session of the Board of Directors includes 2 female members and 14 male members, ranging in age from 45 to 66. The directors' residences are located in Hefei, Beijing, Shanghai, Shenzhen, Hong Kong and other places, and occupations include senior managers, university professors, lawyers, think tank experts and other types. These directors have educational background and professional experiences covering management, economics, finance, accounting, engineering, law and other fields, and fully satisfied the requirements of the diversity of board members in terms of gender, age, regional, educational background, professional experiences and other aspects.

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS

On 30 June 2018, the Bank held the 2017 annual general meeting in Hefei, at which the following resolutions were considered and approved:

To consider and approve the final financial accounts of the Bank for 2017;

To consider and approve the financial budget of the Bank for 2018;

To consider and approve the appointment of external auditors of the Bank for 2018;

To consider and approve the appraisal report on the performance of duties by Directors (including independent non-executive Directors) in 2017 by the Board of Directors of the Bank;

To consider and approve the appraisal report on the performance of duties by Supervisors (including external Supervisors) in 2017 by the Board of Supervisors of the Bank;

To consider and approve the work report of the Board of Directors of the Bank for 2017;

To consider and approve the work report of the Board of Supervisors of the Bank for 2017;

To consider and approve the election of Ms. Zhou Yana as an independent non-executive Director of the third session of the Board of Directors of the Bank;

To consider and approve the resolution on the adjustment of the allowance standard for independent non-executive directors of the Bank;

To consider and approve the resolution on the adjustment of the allowance standard for external supervisors of the Bank;

To consider and approve the resolution on the determination of remuneration standard for executive directors of the Bank for 2015;

To consider and approve the resolution on the determination of remuneration standard for the former chairman of the Board of Supervisors of the Bank for 2015;

To consider and approve the Profit Distribution Plan of the Bank for 2017;

To consider and approve the resolution on the general mandate for the issue of shares by the Bank;

To consider and approve the resolution on amendments to the Articles of Association of Huishang Bank Corporation Limited

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

On 28 November 2018, the Bank held the 2018 first extraordinary meeting of shareholders in Hefei, at which the following resolutions were considered and approved:

To consider and approve the election rules for Directors at the general meeting;

To consider and approve the election rules for Supervisors at the general meeting;

Election of the executive Directors of the fourth session of the Board of Directors of the Bank, including:

- (a) election of Mr. Wu Xuemin as an executive Director;
- (b) election of Mr. Zhang Renfu as an executive Director;
- (c) election of Mr. Ci Yaping as an executive Director;

Election of the non-executive Directors of the fourth session of the Board of Directors of the Bank, including:

- (a) election of Mr. Zhu Yicun as a non-executive Director;
- (b) election of Mr. Qian Li as a non-executive Director;
- (c) election of Mr. Wu Tian as a non-executive Director;
- (d) election of Mr. Qian Dongsheng as a non-executive Director;
- (e) election of Mr. Gao Yang as a non-executive Director;
- (f) election of Mr. Wang Wenjin as a non-executive Director;
- (g) election of Mr. Zhao Zongren as a non-executive Director;

Election of the independent non-executive Directors of the fourth session of the Board of Directors of the Bank, including:

- (a) election of Ms. Zhou Yana as an independent non-executive Director;
- (b) election of Mr. Dai Peikun as an independent non-executive Director;
- (c) election of Mr. Yin Jianfeng as an independent non-executive Director;
- (d) election of Ms. Huang Aiming as an independent non-executive Director;
- (e) election of Mr. Hu Jun as an independent non-executive Director;
- (f) election of Mr. Liu Zhiqiang as an independent non-executive Director;

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

Election of the Shareholder representative Supervisors of the fourth session of the Board of Supervisors of the Bank, including:

- (a) election of Mr. Chen Rui as a Shareholder representative Supervisor;
- (b) election of Mr. Li Ruifeng as a Shareholder representative Supervisor;
- (c) election of Ms. Hu Jing as a Shareholder representative Supervisor;

Election of the external Supervisors of the fourth session of the Board of Supervisors of the Bank, including:

- (a) election of Ms. Pan Shujuan as an external Supervisor;
- (b) election of Mr. Yang Mianzhi as an external Supervisor;
- (c) election of Ms. Dong Xiaolin as an external Supervisor;

To consider and approve the resolution on the establishment of an asset management subsidiary;

To consider and approve the resolution on amendments to the Articles of Association of the Bank;

To consider and approve the resolution on the issuance of capital supplementary bonds.

The convening, notification, holding and voting procedures of the above meetings are in compliance with the Hong Kong Listing Rules, the Company Law, other relevant laws and regulations in China and the relevant provision of the Articles of Association of the Bank.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS

The Board of Directors is core to the corporate governance. The Bank adopts the president accountability system under the leadership of the Board of Directors. The Board is the independent decision-making body, which is responsible for implementing the resolution of the general meetings, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and the Bank's internal management setup, formulating the annual financial budget, final accounts and profit distribution plan, appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs.

The Bank's Board of Directors emphasizes similarity in both externality and internality in system establishment and practical operation. With respect to the establishment of the Board's structure, the Bank makes the Board's decision more scientific and reasonable through the establishment of a diversified board structure, and improves the Board's efficiency in decision-making and operation through the efficient operation of the special committees. It adheres to grasping key points, direction and strategy in Board operation. During the Reporting Period, there were a total of 13 meetings convened and 88 resolutions considered. Constantly strengthening balanced, sound and sustainable development concept, the Board of Directors ensures the rapid, sustainable and sound development of the Bank through the effective management of the strategy, risk, capital, compensation and audit.

9.4.1 Members of the Board of Directors

The Bank elects its Directors based on the qualification requirements and election procedures set out in the Articles of Association. As of 27 March 2019, the Board of Directors consists of 16 directors, including 3 executive directors, namely Wu Xuemin (chairman of the Board), Zhang Renfu (president of the Bank) and Ci Yaping (vice president); 7 non-executive directors, namely Zhu Yicun, Qian Li, Wu Tian, Qian Dongsheng, Gao Yang, Wang Wenjin and Zhao Zongren; 6 independent non-executive directors, namely Dai Peikun, Zhou Yana, Liu Zhiqiang, Yin Jianfeng, Huang Aiming and Hu Jun. The number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follow the relevant rules and regulations of regulatory authorities and the Bank's Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed all matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured financial stability and protected the interests of the Bank and its shareholders.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.2 Appointment, re-election and removal of directors

According to the Bank's Articles of Association, Directors shall be elected or removed from office by shareholders at a general meeting. The term of office of a director shall be three (3) years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a director whose term of office has not expired may be removed by shareholders' ordinary resolution, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive directors and independent non-executive directors shall be the same as that of other directors of the Bank and they may be re-elected and re-appointed upon the expiration of their term of office, provided that such term of office of independent non-executive directors shall not be more than six (6) years on an accumulative basis.

The directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The Nomination and Remuneration Committee is responsible for discussing and reviewing the qualification and experience of each candidate and recommending the suitable candidates to the Board of Directors. After the approval from the Board of Directors, the selected candidates will be recommended for further approval by the general meeting of shareholders. Except for the independent non-executive directors who have to be treated separately due to the expiration of office, the other new directors will be re-elected by general meeting at the expiration of the term of that Board session (each session has a term of three years), instead of being elected during the first general meeting after his/her appointment.

According to the code provision in paragraph A.4.2 of the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, each director (including directors with a specified term) shall be subject to retirement by rotation at least once every three years. The term of the third session of the Board of Directors of the Bank expired on 10 July 2016. Due to time requirement of the nomination procedure for some shareholder directors and the selection of successors for some directors, the Bank completed the election of the fourth session of the Board of Directors at the first extraordinary general meeting of 2018 held on 28 November 2018, and the relevant directors have successively taken office. As at the end of January 2019, the re-election of the Board of Directors of the Bank has been completed.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.3 Responsibility of directors

During the Reporting Period, all the Bank's directors are prudent, earnest, and diligent to exercise their rights granted by the Bank and domestic and overseas regulatory authorities. The Bank's directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of Bank's operation with the requirement of national laws, administrative regulations and the requirements of national economic policies. The Bank's directors have treated all the shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, implemented the laws and administrative regulations, departmental rules and other diligence obligations prescribed by the Articles of Association. The directors confirmed that they are responsible for the preparation of the annual financial report for the year ended 31 December 2018.

The independent non-executive directors of the Bank make full use of their respective professional expertise to provide professional and independent advices on the corporate governance, operation and management of the Bank in various Board committees, including the Strategic Development and Consumer Rights Protection Committee, Nomination and Remuneration Committee, Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, ensuring that scientific decision-making could be made by the Board of Directors.

The Bank also pays attention to the ongoing training of directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities conferred by the relevant laws and regulatory requirements of the CBIRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association of the Bank. The Bank has bought the director liability insurance for all directors.

During the Reporting Period, the Bank carried out evaluation of the performance of Board of Directors and Directors by the Board of Supervisors, evaluation of the performance of senior management and its members by the Board of Supervisors, evaluation of the performance of Supervisors by the Board of Supervisors and mutual assessment of external supervisors.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.4 The chairman and president

The roles and work of the Chairman and President of the Bank are held by different individuals. Their respective responsibilities are clearly defined and meet the requirements of the Hong Kong Listing Rules. Wu Xuemin, chairman of the Bank, leading and managing the Board of Directors, is responsible for managing the operation of the Board, ensuring that all directors are aware of the current issues within the Board of Directors meeting and that all important and relevant matters could be discussed by the Board in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board fully communicate with senior management to ensure that all directors receive timely, appropriate, complete and reliable information for their consideration and review. Mr. Zhang Renfu serves as the president of the Bank, who is responsible for business operations, implementing the Bank's strategy and operation plan.

According to the code provisions of paragraph A.2.1 of the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual. Before Mr. Zhang Renfu served as the president of the Bank, as a transitional arrangement, Mr. Wu Xuemin, chairman of the Bank, fulfilled the duties of president from 12 December 2017 to 23 August 2018.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings

Directors	General Meeting ⁽¹⁾⁽²⁾		Board of Directors ⁽³⁾	Board Committees					
	Attendance of 2017 annual general meeting	2018 first extraordinary general meeting		Strategic Development and Consumer Rights Protection Committee	Nomination and Remuneration Committee	Risk Management Committee	Related Party Transaction Control Committee	Audit Committee	
				Actual attendance/Required attendance					
Executive Directors	Wu Xuemin	✓	✓	13/13	5/5	5/5	-	-	-
	Ci Yaping	✓	✓	12/13 ⁽⁴⁾	-	-	5/5	-	-
Non-executive Directors	Zhang Feifei ⁽⁵⁾	-	-	9/13 ⁽⁴⁾	5/5	-	-	-	3/3
	Zhu Jiusheng ⁽⁶⁾	-	-	6/13 ⁽⁴⁾	1/5 ⁽⁴⁾⁽⁵⁾	-	-	-	-
	Qian Li	-	-	9/13 ⁽⁴⁾	3/5 ⁽⁴⁾	3/5 ⁽⁴⁾	-	-	-
	Lu Hui ⁽⁶⁾	✓	-	13/13	5/5	-	-	-	-
	Zhao Zongren	-	-	8/13 ⁽⁴⁾	5/5	-	-	-	-
	Qiao Chuanfu ⁽⁶⁾	-	-	9/13 ⁽⁴⁾	-	-	4/5 ⁽⁴⁾	-	-
	Gao Yang	✓	✓	10/13 ⁽⁴⁾⁽⁵⁾	4/5 ⁽⁴⁾	4/5 ⁽⁴⁾	-	-	-
Independent Non-executive Directors	Dai Genyou ⁽⁶⁾	-	-	12/13 ⁽⁵⁾	-	5/5	-	-	3/3
	Wang Shihao ⁽⁶⁾	-	-	12/13 ⁽⁴⁾	3/5 ⁽⁴⁾	-	3/5 ⁽⁴⁾	-	-
	Zhang Shenghua ⁽⁶⁾	-	-	13/13	-	5/5	-	5/5	-
	Au Ngai, Daniel ⁽⁶⁾	-	-	13/13	-	3/5 ⁽⁵⁾	-	5/5	-
	Zhu Hongjun ⁽⁶⁾	-	-	10/13 ⁽⁵⁾	-	-	-	5/5	3/3
	Zhou Yana	-	-	5/5	-	2/2	-	-	-

Notes: (1) The Bank held the 2017 annual general meeting on 30 June 2018 and the 2018 first extraordinary general meeting on 28 November 2018 in Hefei City, Anhui Province.

(2) For directors who were unable to attend the 2017 annual general meeting and the 2018 first extraordinary general meeting due to personal reasons, all of them have completed the formalities for leave application in writing.

(3) During the Reporting Period, the Bank held 13 Board meetings in total.

(4) If the actual attendance is lower than required attendance, it represents the proxy attendance when the above directors are absent from Board meeting in person.

(5) If the actual attendance is lower than required attendance, it represents the above directors are absent from Board meeting in person, with Director, Gao Yang absent from 2 of the Board meetings; Director Dai Genyou absent from 1 of the Board meetings, Director Zhu Hongjun absent from 3 of the Board meetings, Director Zhu Jiusheng absent from 1 of the Strategic Development and Consumer Rights Protection Committee meetings, Director Au Ngai, Daniel absent from 2 of the Nomination and Remuneration Committee meetings.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings (Continued)

Notes: (Continued)

- (6) For details of the changes in the positions held by Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" in this annual report.
- (7) As the new members of the fourth session of the Board of Directors, Mr. Zhang Renfu, Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Wang Wenjin, Mr. Dai Peikun, Mr. Yin Jianfeng, Mr. Hu Jun and Mr. Liu Zhiqiang took office on 28 December 2018, Ms. Huang Aiming's appointment took effect on 21 January 2019. These directors did not attend the general meetings, board of directors meetings or committee meetings of the Bank during the Reporting Period.

9.4.6 Securities transaction by directors, supervisors and senior management

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors, the supervisors and the related employees (having the same meaning as defined in Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules) of the Bank. Having made specific enquiry of all directors, supervisors and the staff of senior management, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

9.4.7 Performance of the independent non-executive directors

The Bank's Board of Directors consists of 6 independent non-executive directors and the qualification, number and proportion are in accordance with the regulations of the CBIRC, the CSRC and the Hong Kong Listing Rules. The 6 independent non-executive directors are not involved in any conflict with the independence issue described in the Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive director the annual independence confirmation in accordance with the Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Bank confirms that all the independent non-executive directors complied with the Hong Kong Listing Rules in respect of their independence. During the Reporting Period, independent non-executive directors represent the majority of the Bank's Audit Committee, the Nomination and Remuneration Committee and Related Party Transaction Control Committee under the Board and serve as chairman of these committees. During the Reporting Period, the independent non-executive directors of the Bank kept in touch with the Bank through various means such as attending the meetings and symposiums. They earnestly participated in meetings of the Board of Directors and the Board committees and actively gave their opinions and emphasized on the interests of minority shareholders. The independent non-executive directors have fully discharged their responsibilities.

During the Reporting Period, the Bank's independent non-executive directors issued independent opinions on the Bank's related party transactions.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS

The Bank's Board of Directors has delegated some of its responsibilities to the different Board committees. The Bank has set up 5 Board committees, including the Strategic Development and Consumer Rights Protection Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transaction Control Committee according to the relevant PRC laws, regulations, the Bank's Articles of Association and the Hong Kong Listing Rules.

During the Reporting Period, the Board committees exercised their respective authorities and powers in an independent, standardized and effective manner. In 2018, they held a total of 23 meetings, at which 102 resolutions that are significant to the sustainable development of the Bank and improvement of corporate governance, were studied and considered, improving the efficiency and scientific decision-making ability of the Board while promoting the sound development of the businesses of the Bank.

9.5.1 Strategic Development and Consumer Rights Protection Committee

As of the Latest Practicable Date, our Strategic Development and Consumer Rights Protection Committee consists of 2 executive directors, namely Mr. Wu Xuemin and Mr. Zhang Renfu; 6 non-executive directors, namely Mr. Zhu Yicun, Mr. Qian Li, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Gao Yang and Mr. Zhao Zongren; and 1 independent non-executive director, namely Mr. Yin Jianfeng. Mr. Wu Xuemin is the chairman of the committee.

During the Reporting Period, our Strategic Development and Consumer Rights Protection Committee consists of 1 executive director, namely Mr. Wu Xuemin; 6 non-executive directors, namely Mr. Zhang Feifei, Mr. Zhu Jiusheng, Mr. Qian Li, Ms. Lu Hui, Mr. Zhao Zongren and Mr. Gao Yang; and 1 independent non-executive director, namely Mr. Wang Shihao. Mr. Wu Xuemin is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" of this annual report.

The principal responsibilities of the Strategic Development and Consumer Rights Protection Committee include:

- formulating operational and management goals, medium to long-term development strategy and listing plans of the Bank and making recommendations to the Board;
- reviewing the strategic capital allocation and management objectives of assets and liabilities and making recommendations to the Board;
- preparing plans for the overall development of various financial businesses and making recommendations to the Board;
- reviewing strategic development plans for human resources and making recommendations to the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development and Consumer Rights Protection Committee (Continued)

- supervising and examining the implementation of annual operating plans and investment proposals;
- reviewing annual financial budgets and final reports and making recommendations to the Board;
- considering plans for significant institutional restructuring and re-organization and making recommendations to the Board;
- reviewing the plan of significant investment and financing and relevant proposals submitted by the senior management, and making recommendations to the Board;
- reviewing the design of merger and acquisition plans and relevant proposals submitted by the senior management, and making recommendations to the Board;
- reviewing plans for information technology development and other special strategic development plans and making recommendations to the Board;
- reviewing and evaluating the effectiveness of corporate governance structure so as to ensure that the financial reporting, risk management and internal control meet our standards for corporate governance;
- formulating the strategy, policy and objective for protection of consumer rights and interests across the whole Bank, and making recommendations to the Board;
- reviewing the organizational structure and operating mechanism of works on protection of consumer rights and interests across the whole Bank, as well as the internal control system, and making recommendations to the Board;
- guiding the senior management in conducting works on protection of consumer rights and interests from the perspective of overall planning, supervising and evaluating the comprehensiveness, promptness and effectiveness of the works on protection of consumer rights and interests across the whole Bank and relevant duty performance of senior management, listening to special reports of senior management in respect of the progress of works on protection of consumer rights and interests on regular basis, and treating relevant works as an important part of information disclosure.

During the Reporting Period, our Strategic Development and Consumer Rights Protection Committee held 5 meetings in total, at which resolutions on the annual final financial report, annual financial budget plan and annual general business operation plan, etc. were considered and approved.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee

As of the Latest Practicable Date, our Nomination and Remuneration Committee consists of 2 executive directors, namely Mr. Wu Xuemin and Mr. Zhang Renfu; 2 non-executive directors, namely Mr. Gao Yang and Mr. Wang Wenjin; and 5 independent non-executive directors, namely Mr. Dai Peikun, Ms. Zhou Yana, Mr. Yin Jianfeng, Ms. Huang Aiming, Mr. Hu Jun. Currently, Mr. Dai Peikun is the chairman of the committee.

During the Reporting Period, our Nomination and Remuneration Committee consists of 1 executive director, namely Mr. Wu Xuemin; 2 non-executive directors, namely Mr. Qian Li and Mr. Gao Yang; and 4 independent non-executive directors, namely Mr. Dai Genyou, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Ms. Zhou Yana. Mr. Dai Genyou is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" of this annual report.

The principal responsibilities of the Nomination and Remuneration Committee include:

- preliminarily reviewing the qualifications of candidates for directors and candidates for senior management (especially the chairman and president), and making recommendations to the Board;
- making recommendations to the Board on the structure, number, size and composition (including the skills, knowledge and experience) of the Board based on our business operation, asset scale and shareholding structure;
- identifying candidates with suitable qualifications to serve as directors and senior management, and establishing a mechanism for key talents pool;
- evaluating the independence of independent non-executive directors;
- developing appraisal criteria for directors and senior management, organizing performance appraisals for directors and senior management on a regular basis, and submitting the appraisal results to the Board;
- considering our remuneration management system and policies, preparing the appraisal and remuneration proposals for directors and senior management, making recommendations to the Board, developing policies and approval plans, and monitoring the implementation of such plans;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee (Continued)

- making recommendations to the Board on the remuneration package of individual executive directors and senior management. The factors that shall be considered by the committee include salaries paid by comparable companies, time commitment of directors and their responsibilities, employment conditions of other positions within the Bank and whether salaries should be determined on the basis of performance;
- reviewing compensation payable to executive directors and senior management for any loss or termination of office or appointment, and making recommendations to the Board;
- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct, and making recommendations to the Board;
- ensuring that no director or any of his or her associates (defined under the Hong Kong Listing Rules) is involved in deciding his or her own remuneration.

During the Reporting Period, our Nomination and Remuneration Committee held 5 meetings in total, at which resolutions on the performance report of directors and senior management by the Board, the 2017 annual performance results of executive directors and senior management and review of candidates' qualifications for directors, etc. were considered and approved.

As the former independent non-executive director, Mr. Feng Yiquan, ceased to serve as an independent non-executive director and a member of the Nomination and Remuneration Committee of the Bank since 20 March 2017, our Nomination and Remuneration Committee had only 6 members at the time, of which only three members were independent non-executive directors, which did not meet the requirements of the majority members as independent non-executive directors in the Nomination and Remuneration Committee required by Rule 3.25 and paragraph A.5.1 of the Corporate Governance Code of Appendix 14 of the Hong Kong Listing Rules. The Bank elected Ms. Zhou Yana as an independent non-executive director at the 2017 Annual General Meeting held on 30 June 2018, and the Bank has received the approval that her qualification for the office was approved by the Anhui Banking Regulatory Bureau on 21 August 2018. At the board meeting held on 24 August 2018, Ms. Zhou Yana was appointed as a member of the Nomination and Remuneration Committee of the third session of the Board of Directors, and the appointment took effect on the same date. Since then, the Bank has complied with the requirements of Rule 3.25 and paragraph A.5.1 of the Corporate Governance Code of Appendix 14 of the Hong Kong Listing Rules.

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9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.3 Risk Management Committee

As of the Latest Practicable Date, our Risk Management Committee consists of 2 executive directors, namely Mr. Wu Xuemin, Mr. Ci Yaping, 3 non-executive directors, namely Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, and 2 independent non-executive directors, namely Mr. Liu Zhiqiang, Mr. Hu Jun. Mr. Ci Yaping is the chairman of the committee.

During the Reporting Period, our Risk Management Committee consists of 1 executive director, namely Mr. Ci Yaping; 1 non-executive director, namely Mr. Qiao Chuanfu; and 1 independent non-executive director, namely Mr. Wang Shihao. Mr. Wang Shihao is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” of this annual report.

The principal responsibilities of the Risk Management Committee include:

- reviewing our risk management policies to ensure they are in line with our overall strategy, supervising and evaluating their implementation and effectiveness, and making relevant recommendations to our Board;
- providing guidance on establishing our risk management systems;
- supervising and evaluating the establishment, organizational structure, working procedures and effects of the risk management department, and making suggestions for improvement;
- considering our risk report, conducting regular assessments on risk policy, management status and risk tolerance of the Bank, and making suggestions on improving our risk management and internal control;
- supervising and assessing the risk control by our senior management in respect of credit, market and operation risks;
- examining and approving significant risk management matters or transaction items that are beyond the license rights of the president or submitted by the president to the Risk Management Committee for consideration, in accordance with the authorization of the Board.

During the Reporting Period, our Risk Management Committee held 5 meetings in total, at which issues related to risk supervision evaluation report, asset quality analysis report, compliance risk management report and credit policy execution report, etc. were studied.

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9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.4 Related Party Transaction Control Committee

As of the Latest Practicable Date, our Related Party Transaction Control Committee consists of 1 executive director, namely Mr. Zhang Renfu, 1 non-executive director, namely Mr. Zhao Zongren, 3 independent non-executive directors, namely Mr. Liu Zhiqiang, Ms. Huang Aiming and Mr. Hu Jun. Mr. Hu Jun is the chairman of the committee.

During the Reporting Period, our Related Party Transaction Control Committee consists of 3 independent non-executive directors, namely Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun. Mr. Zhang Shenghuai is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 "Changes in Directors, Supervisors and Senior Management of the Bank" of this annual report.

The principal responsibilities of the Related Party Transaction Control Committee include:

- identifying related parties and connected persons, the relationship among them and with us and related party transactions and connected transactions, managing the risks arising from related party transactions and connected transactions;
- identifying and reviewing significant related party transactions and connected transactions, and submitting the same to the Board for consideration;
- formulating our rules for the management of related party transactions and connected transactions;
- submitting to the Board, upon completion of each year, a detailed report of the overall status, risk analysis and structure of our related party transactions and connected transactions that occurred in the year.

During the Reporting Period, our Related Party Transaction Control Committee held 5 meetings in total, at which it considered resolutions including business plans related to ordinary connected transactions and status report of the connected transactions.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee

As of the Latest Practicable Date, our Audit Committee consists of 2 non-executive directors, namely Mr. Qian Li and Mr. Wang Wenjin; and 3 independent non-executive directors, namely Mr. Dai Peikun, Ms. Zhou Yana and Ms. Huang Aiming. Ms. Zhou Yana is the chairman of the committee, and has the appropriate professional qualifications in accounting or relevant financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

During the Reporting Period, our Audit Committee consists of 1 non-executive director, namely Mr. Zhang Feifei; and 2 independent non-executive directors, namely Mr. Zhu Hongjun and Mr. Dai Genyou. Mr. Zhu Hongjun is the chairman of the committee. For the changes in the office of directors, please refer to Section 8.2 “Changes in Directors, Supervisors and Senior Management of the Bank” of this annual report.

The principal responsibilities of the Audit Committee include:

- examining our financial statements, annual report and accounting records, interim report and quarterly reports (if drafted for publication), reviewing significant opinion on financial reporting contained in accounting statements and financial reports and other information related to our business operation, and conducting an audit on our operating efficiency, profit distribution and capital utilization;
- checking the letter of recommendations for management (or any equivalent document) given by an external auditor to the senior management and ensuring that the Board responds to it in a timely manner, and reviewing any major questions raised by the external auditor to the senior management with respect to our accounting records, financial accounts or monitoring system, and any responses given by the senior management;
- reviewing our disclosure made at the general meeting and to the public, and verifying the truthfulness, legality, completeness, and accuracy of our financial reports, capital utilization reports and major events
- reviewing our internal control and financial control systems, and auditing our significant related party transactions, monitoring the implementation of our risk management system and its compliance, discussing the internal control system with the senior management and reporting it to the Board. Reviewing major investigation findings on matters relating to the internal control system as delegated by the Board or on its own initiative and the senior management’s response to these findings;
- overseeing the implementation of our internal audit system;
- organizing and guiding the internal audit under the authorization of the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee (Continued)

- taking in charge of our annual audit, making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and preparing reports confirming the truthfulness, accuracy, completeness and timeliness of information contained in the audited financial statements based on its own judgment, and submitting them to the Board for discussion and consideration. The Audit Committee should require the appointed external auditor to give an explanation on their services provided, terms of appointment, fees charged and other relationships or matters that may affect the independence of such external auditor, make an evaluation on the independence of external auditor and submit it to the Board for approval. The Audit Committee should deal with any issue related to the resignation or removal of the external auditor;
- reviewing our financial and accounting policies and practice;
- taking charge of the communication and coordination between the internal auditor and external auditor, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank;
- evaluating the mechanisms for our employees to make whistle blowing on financial statements, internal control or other irregularities, and conducting independent and fair investigations on matters relating to whistle blowing by us, and adopting any mechanism for appropriate actions.

During the Reporting Period, our Audit Committee held 3 meetings in total, at which it considered resolutions on the 2017 annual report, the 2017 annual profit distribution plan, the 2018 interim report, appointment of external auditors and the 2018 audit plan etc. The Audit Committee reviewed the 2017 annual report and the 2018 interim report, discussed the key accounting policies, accounting estimates and internal control with the management. Besides, it also communicated with the external auditors and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditors, reviewed and approved the 2017 annual report and the 2018 interim report of the Bank and then submitted them to the Board for consideration.

Chapter IX Corporate Governance Report

9.6 CORPORATE GOVERNANCE FUNCTION

During the Reporting Period, the Board of Directors took the responsibilities of corporate governance as follows:

- revising and improving rules and regulations related to the Bank's corporate governance, and making necessary changes to ensure the effectiveness of the policy;
- supervising the training of directors and senior management and their sustained performance;
- supervising the policies and practice of the Bank with respect to the compliance with laws and regulations;
- supervising the code of conduct and compliance manual applicable to directors and employees;
- reviewing the Bank's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures set out in the corporate governance report.

9.7 MANAGEMENT

The Bank shall have one president and may have several vice presidents and other members of senior management identified by the regulatory authorities. They shall be appointed or dismissed by the Board of Directors. The president shall be accountable to the Board of Directors.

The president of the Bank shall perform and exercise the following functions and powers:

- take charge of the daily operation and management of the Bank, organize the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
- submit annual business plans and investment proposals to the Board of Directors and organize the implementation upon approval by the Board of Directors;
- draft proposals on the establishment of the Bank's internal management entities;
- draft the Bank's basic management system;
- formulate the Bank's specific regulations;
- propose to the Board of Directors to engage or dismiss the vice presidents of the Bank and other members of senior management identified by the regulatory authorities;

Chapter IX Corporate Governance Report

9.7 MANAGEMENT (Continued)

- engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;
- authorize members of senior management and persons in charge of internal departments and branches to conduct operational activities;
- draw up the Bank's proposals on annual financial budgets and final accounts, profit distribution plan and loss remedial plan, increase or reduction of registered capital, issue and listing of bonds or negotiable securities, and put forward the proposals to the Board of Directors;
- review and approve general related transactions;
- decide on the appointment and dismissal of the Bank's staff, and approve proposals on their wages, benefits, rewards and punishment;
- formulate plans on emergency treatment and risk prevention; adopt emergency measures when any major emergency arises and promptly report them to the Board of Directors, the Board of Supervisors and the banking regulatory authority;
- and other powers and rights conferred by the laws, administrative regulations, departmental rules, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS

The Board of Supervisors, our supervisory body, aims to guarantee the legitimate interests of the Bank, shareholders, employees, creditors and other stakeholders and has the obligation to oversee our financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the general meeting of shareholders.

9.8.1 Composition of the Board of Supervisors

As at the end of the Reporting Period, our Board of Supervisors currently consists of 9 supervisors, of whom 3 are employee supervisors, 3 are shareholder supervisors and 3 are external supervisors. The structure of our Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role. For the biographical details of members of the Board of Supervisors, please see “Profile of Directors, Supervisors and Senior Management” under section 8.3 of this annual report.

During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by directors and the senior management. They also performed resignation audit to the executive directors and the senior management as required. They audited and supervised the financial activities, risk management and internal control and investigated any abnormal operating activities.

9.8.2 Responsibilities and operating model of the Board of Supervisors

The principal responsibilities of our Board of Supervisors include:

- reviewing periodic reports of the Bank prepared by the Board and providing written review opinions;
- supervising the discharge of duties by the Board of Directors and the senior management;
- monitoring the due diligence of directors, the chairman of the Board of Directors and the senior management and their violation of laws, administrative regulations as well as the Articles of Association when discharging their duties;
- conducting resignation audits of our directors and the senior management when necessary;
- requesting directors and the senior management to rectify any acts that are detrimental to the interest of the Bank;
- examining and supervising financial activities of the Bank;
- supervising and examining our capital management, business decision-making, risk management and internal control and monitoring rectification of the deficiencies;
- proposing to remove, or instituting proceedings according to law, against directors and the senior management who are in violation of laws, administrative regulations or the Articles of Association or any resolutions adopted by shareholders’ general meetings;

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9.8 BOARD OF SUPERVISORS (Continued)

9.8.2 Responsibilities and operating model of the Board of Supervisors (Continued)

- proposing for an extraordinary meeting of shareholders; convening and presiding over shareholders' general meetings when the Board of Directors fails to perform its duties in accordance with the Company Law;
- putting forward proposals to shareholders' general meetings;
- proposing for an extraordinary meeting of the Board;
- reviewing the financial report, business report and profit distribution plans and other financial information submitted to shareholders' general meetings. The Board of Supervisors may conduct investigation when any question or abnormal operation of the Bank is identified; it may, at the expenses of the Bank, hire an accounting firm, law firm or other professional personnel to assist its investigation when necessary;
- making remuneration arrangement of supervisors;
- other functions and powers granted by laws, administrative regulations, departmental rules, relevant regulators and the Articles of Association, as well as shareholders' general meetings.

Our Board of Supervisors fulfills their supervisory responsibilities mainly in the following manners: convening regular supervisor meetings, attending shareholders' general meetings, attending the Board meetings and some Board committee meetings, attending the relevant meetings of the senior management, review of various kinds of documents and materials from the senior management, listening to work report and project report of the senior management, evaluating the annual performance of directors and the senior management, conducting resignation audits of our executive directors and the senior management, conducting supervision and inspection of subsidiary institution annually, conducting investigation and research on branches, carrying out a variety of special investigation etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of directors and the senior management.

During the Reporting Period, the Board of Supervisors assessed the annual performance of the Board of Directors, directors, the senior management and supervisors of the Bank, and held the symposiums of shareholders' representatives and persons in charge of the head office and sub-branch offices to elicit various comments and conduct on-site evaluation. Based on the foregoing, the Board of Supervisors prepared a performance evaluation report and feedback for the Board of Directors and the senior management as well as relevant banking regulatory bodies.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.3 Meetings of the Board of Supervisors during the Reporting Period

During the Reporting Period, the Board of Supervisors duly fulfilled its duties under the Articles of Association of the Bank and held 13 meetings, of which 8 were on-site, 5 were by written resolutions, at which 52 resolutions were considered.

During the Reporting Period, there was no objection to the matters concerning the supervision of the Board of Supervisors.

The attendance of supervisors at meetings during the Reporting Period

	No. of Required Attendance	Attendance in Person	Attendance through Proxy
Zhang Youqi	7	7	0
Tang Chuan	13	13	0
Zhong Qiushi	10	10	0
Xu Chongding	4	4	0
Chen Rui	2	2	0
Li Ruifeng	13	13	0
Hu Jing	2	2	0
Cheng Rulin	11	9	2
Pan Shujuan	8	8	0
Yang Mianzhi	5	5	0
Dong Xiaolin	2	2	0
Cheng Junpei	11	11	0
Zhang Renfu	6	6	0
Zhou Tong	0	0	0

9.8.4 Attendance at the general meetings during the Reporting Period

During the Reporting Period, the Board of Supervisors designated representatives to attend the general meeting and the extraordinary meeting of shareholders of the Bank. Chairman of the Board of Supervisors as the chief scrutineer, supervised legal compliance of the content of meetings, procedures of meetings, as well as the voting process on-site. The Board of Supervisors presented its annual report on work and results of performance appraisal of Supervisors, which were approved at the meeting.

9.8.5 Attendance at the meetings of the Board and the senior management

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

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors

The Board of Supervisors has a Nomination Committee and a Supervisory Committee, compositions of which are as follows:

Committees of the Board			
No.	of Supervisors	Chairman	Members
1	Nomination Committee	Pan Shujuan	Zhang Youqi, Li Ruifeng, Dong Xiaolin, Tang Chuan
2	Supervisory Committee	Yang Mianzhi	Zhang Youqi, Chen Rui, Hu Jing, Zhong Qiushi

Note: At the Bank's first and second meetings of the fourth session of the Board of Supervisors held on 13 December 2018, members and chairmen of the fourth session of the Board of Supervisors were elected and their appointments were effective from the same date.

Nomination Committee of the Board of Supervisors

The principal responsibilities of the Nomination Committee include:

- formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
- preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations to the Board of Supervisors;
- improving market-oriented selection and appointment mechanism, and making reservation of candidates for supervisors;
- conducting a comprehensive assessment and evaluation of duties performance of directors and senior management, and reporting it to the Board of Supervisors;
- supervising the process of election and appointment of directors;
- supervising the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration proposal for its senior management;
- determining the remuneration standards for supervisors and subsidy standards for external supervisors, and making recommendations to the Board of Supervisors in respect thereof;
- establishing and improving the incentive and control system, conducting an assessment and evaluation of duties performance of supervisors, and making recommendations to the Board of Supervisors in respect thereof;

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors (Continued)

Nomination Committee of the Board of Supervisors (Continued)

- ensuring that supervisors shall not participate in the decision-making process in connection with the evaluation of their duties performance and remuneration (or subsidies), save for the self-assessment in the evaluation of duties performance;
- other matters authorized by the Board of Supervisors.

The Nomination Committee held a total of 10 meetings in 2018, at which 31 resolutions were considered and approved.

Supervisory Committee of the Board of Supervisors

The principal responsibilities of the Supervisory Committee include:

- formulating plans for supervision of duties performance of Board of Directors and the senior management of the Bank, and supervising the adoption by the Board of Directors of prudent business philosophy, value standards and formulating development strategies that are in line with the actual situations of the Bank;
- formulating plans for supervision of the due diligence of directors and the senior management of the Bank;
- formulating plans for resignation audits of executive directors and the senior management of the Bank;
- formulating plans for the inspection and supervision of financial activities of the Bank;
- formulating plans for supervision and inspection of the business decision-making, risk management and internal control of the Bank;
- formulating plans for assessing the scientificity, reasonableness and effectiveness of development strategies set by the Board of Directors;
- taking charge of the organization and implementation of the above (I) to (VI) plans;
- other matters authorized by the Board of Supervisors.

In 2018, the Supervisory Committee held 8 meetings in total, at which 20 resolutions were considered.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.7 External supervisors work report

Chairman of the Board of Supervisors committees are served by external supervisors, which strengthens the role of external supervisors in performance assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the management quality and governance structure of the Bank.

In 2018, external supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of the sustainable development of the Bank and protection of its shareholders' interests, carefully gave independent opinions, and fulfilled the responsibilities of external supervisors according to laws.

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

Training and research of directors

Some directors studied the training materials prepared by Latham & Watkins LLP with respect to the latest development of compliance for listing in Hong Kong in March 2018.

Some directors took part in a training session held by the Bank in March 2018 on macroeconomic trends, Party construction work in state-owned enterprises, the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) and corporate governance.

Investigation, research and training of the Board of Supervisors

The Board of Supervisors commenced special investigation on the remuneration of the Bank, and then prepared reports based on findings. Some of the Bank's supervisors participated in the investigation.

The Board of Supervisors launched supervision and inspections over Jinzhai Huiyin Rural Bank Co., Ltd. Some of the Bank's supervisors participated in the supervision and inspections.

Some supervisors studied the training materials prepared by Latham & Watkins LLP with respect to the latest development of compliance for listing in Hong Kong in March 2018.

Some supervisor took part in a training session held by the Bank in March 2018 on macroeconomic trends, Party construction work in state-owned enterprises, the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) and corporate governance.

9.10 COMPANY SECRETARY UNDER HONG KONG LISTING RULES

Dr. Ngai Wai Fung is the Bank's company secretary under the Hong Kong Listing Rules. Dr. Ngai Wai Fung is a director and the chief executive officer of SWCS Corporate Services Group(Hong Kong) Limited. Dr. Ngai took part in relevant professional trainings for no less than 15 hours during the Reporting Period. Mr. Lian Baohua, secretary to the Board of the Bank, was the primary contact of Dr. Ngai during the Reporting Period.

Chapter IX Corporate Governance Report

9.11 ILLEGAL ACT REPORTS AND ALLEGATIONS

In 2018, the Bank did not have any material internal disputes.

9.12 COMMUNICATION WITH SHAREHOLDERS

Investors relationship

We place great importance over the Bank's shareholders' opinions and suggestions. We actively take part in all kinds of communication activities with investors and analysts in order to maintain a good relationship, and meet reasonable requirements by the shareholders in a timely manner.

For investors inquiries, please contact the Board of Directors at:

The Office of the Board of Directors of Huishang Bank Corporation Limited

Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC

Telephone: +86-551-62667729

Fax: +86-551-62667787

E-mail: djb@hsbank.com.cn

Investors can read this annual report from our website (www.hsbank.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Information disclosure

The Board of Directors and senior management of the Bank place great importance to the information disclosure. They rely on good corporate governance and internal control to provide timely, accurate and fair information for the investors. During the Reporting Period, no insider dealing of the Bank's shares was identified.

In accordance with the requirement of "Measures for the Information Disclosure of Commercial Banks", the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full texts of the annual report and interim report in both English and Chinese are available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report and interim report are available for review by the investors and stakeholders in the Board of Directors' office of the Bank.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS

Convening extraordinary shareholders' meetings

When individual or joint shareholders of the Bank who have more than 10% of voting right present a written request, the Board of Directors shall hold an extraordinary shareholders' general meeting within 2 months from the date of the request:

The shareholders shall put forward proposals to the Board in writing. The Board of Directors shall, in accordance with laws, administrative regulations and the Articles of Association of the Bank, give a written feedback expressing an opinion of agreements or disagreements with the convening of an extraordinary shareholders' general meeting or a class shareholders meeting within 10 days from the date of receiving the proposal.

If the Board of Directors agrees to convene an extraordinary general meeting or class shareholders' meeting, it should issue a notice to call for a shareholders' general meeting within 5 days from the date on which the relevant Board resolution is made. Any amendments to the original proposal in the notice should obtain the consent from the shareholders of the Bank who initiated such proposals.

Proposing resolutions at shareholders' general meeting

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may make provisional proposal to the shareholders' general meeting and submit written request to the convener 10 days before the meeting. The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal. The contents of the provisional proposal will be announced.

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may propose candidates for directors to the Board of Directors or to propose candidates for supervisors to the Board of Supervisors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for independent directors to the Board, who can be elected at shareholders' general meeting as independent directors. Those shareholders who have nominated directors shall not nominate independent directors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for external supervisors, who will be elected at shareholders' general meeting as external supervisors.

Convening extraordinary Board meetings

When shareholders individually or jointly holding more than 10% of the total voting shares raise a proposal, the chairman of the Board of Directors shall, within 10 days after receiving the proposal, call for and preside over an extraordinary Board meeting.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS (Continued)

Making inquiries to the Board

Our shareholders are entitled to supervise the business activities of the Bank, make recommendations or inquiries.

Shareholders are entitled to access to the following information in accordance with the laws, administrative regulations, departmental rules, normative documents, relevant regulations of the securities supervision authorities of the place(s) where the shares of the Bank are listed, and the provisions of the Articles of Association, including:

1. Obtaining the Articles of Association of the Bank upon the payment of costs;
2. Inspecting, free of charge, or having the right to inspect and copy the following documents upon the payment of reasonable costs:
 - (1) the register of all shareholders;
 - (2) personal information of directors, supervisors and the senior management of the Bank;
 - (3) the Bank's share capital;
 - (4) report showing the total nominal value, quantity, highest and lowest prices of each class of shares repurchased by the Bank since the previous financial year and all costs paid by the Bank in this regard;
 - (5) minutes of shareholders' general meetings;
 - (6) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors.

Shareholders who request to inspect or obtain any such information shall provide written documentation to the Bank, certifying the type of shares they held in the Bank as well as the number of their shareholdings. The Bank shall provide such documentation as required by shareholders after their identities are verified.

9.14 APPOINTMENT OF CERTIFIED PUBLIC ACCOUNTANTS

The Resolution on Appointment of External Auditors of Huishang Bank for 2018 was considered and approved at the 2017 annual general meeting held on 30 June 2018. The Bank has appointed Ernst & Young Hua Ming LLP (Special General Partnership) as our domestic auditor and Ernst & Young as our international auditor for the year of 2018, respectively.

In view that our former accountant firm PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) had served consecutively as the Bank's external auditor for a period reaching the limit provided in the Measures for Financial Enterprises to Select and Employ Accounting Firms (No.12 [2016] of the Ministry of Finance) issued by Ministry of Finance of the PRC, PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) ceased to be the external auditor of the Bank since 2017.

In 2018, the total remuneration paid to Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young for review of the financial statements and audit of the annual financial statements as agreed by the Bank and other remuneration amounted to RMB3.8 million and RMB0.325 million, respectively.

Chapter IX Corporate Governance Report

9.15 AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS OF THE BANK

At the 35th meeting of the third session of the Board held on 23 March 2018, the Resolution on the Amendment of the Articles of Associations of Huishang Bank Corporation Limited was considered and approved. The resolution was also considered and approved at the 2017 annual general meeting held on 30 June 2018. According to the "Notice of Organization Department of CPC Central Committee and SASAC Party Committee of State Council Regarding the 'Notice of Solidly Pushing the Requirement of State-Owned Enterprises for Party Building to be Incorporated into the Articles of Association' Forwarded by the Organization Department of Anhui Provincial Committee of CPC and Anhui SASAC Committee of CPC", the Bank amended some provisions in the Articles of Associations of Huishang Bank Corporation Limited based on its practical circumstances. The Bank received the "Approval from the China Banking Regulatory Commission, Anhui Office on the Amendments to the Articles of Association of Huishang Bank Corporation Limited" (Wan Yin Jian Fu [2018] No. 72) on 11 July 2018, approving the amended Articles of Association. For details, please refer to the Bank's announcement dated 11 July 2018.

At the 43rd meeting of the third session of the Board held on 27 September 2018, the Resolution on the Amendment of the Articles of Associations of Huishang Bank Corporation Limited was considered and approved. The resolution was also considered and approved at the 2018 first extraordinary general meeting held on 28 November 2018. According to the Interim Measures for the Equity Management of Commercial Banks (China Banking Regulatory Commission [2018] No.1), other relevant regulatory rules and its practical circumstances, the Bank amended some provisions in the Articles of Associations of Huishang Bank Corporation Limited. The Bank has received the "Approval from the China Banking and Insurance Regulatory Commission Anhui Office on the Amendments to the Articles of Association of Huishang Bank Corporation Limited" (Wan Yin Bao Jian Fu [2019] No. 58) on 22 January 2019, approving the amended Articles of Association. For details, please refer to the Bank's announcement dated 22 January 2019.

9.16 COMPLIANCE AND RISK MANAGEMENT

1. Procedures for identification, evaluation and management of material risks

Pursuant to the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and its schedules issued by the CBRC, the definition of risk and relevant terminology issued by Basel Committee and practices of other banks in the PRC and overseas, the Bank has made overall identification of a series of potential quantifiable and non-quantifiable risks arising from the coupled effect of business strategies, product mix, clients' needs and external macro-economy environment and measurement and control of existing risks based on its own circumstances.

Through collecting and issuing risk alerts, setting examples of and identifying, gathering and evaluating risk events and specifying key risks based on capital allocation to risk categories, regulatory identification of potential risks and requirements on capital for banks and identification and evaluation of risk events, the Bank annually selects the sensitive areas, key branches and key potential risks to carry out the risk identification and evaluation and covers the overall risk areas triennially. Besides, the Bank makes supplement or revision to relative systems according to the evaluation results. Such key potential risks include credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, compliance risk, legal risk, reputation risk and strategic risk, which were quantified and evaluated through specific measurement methods and tools.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

2. Key features of risk management system of the Bank

(I) Systemic structure

The Bank has a comprehensive risk management information system mainly comprised of three layers, namely business application, risk analysis and midway data.

1. The business application includes: the core system, credit management system, credit card related systems, capital transaction system, risk mitigation management system and loss database.
2. The risk analysis includes: the internal rating system on corporate clients, retail internal rating/rule engine tools, market risk management information system, asset and liability management system, portfolio risk quota management system, asset impairment provision system and tools for measuring associated risks among the systems.
3. The midway data includes: corporate database for storing and pooling business-related data of the whole Bank for easy indexing data in details.

(II) Key features

The risk management system of the Bank was designed and developed by customizing practices of advanced domestic banks based on its strategic development planning and practical circumstances, with key features as follows:

1. Sound systems and data supported mechanisms under the comprehensive risk management system to underpin relevant decision-making on risk management of the Bank;
2. Collection, records and storage of relevant data to a certain breadth and depth with emphasis on completeness, accuracy and truthfulness to support the internal rating system, calculation of capital and relevant management and regulatory reporting of the Bank;
3. Tools improving systems of the Bank to support risk measurement and calculation of capital;
4. A sound data management system of the Bank to ensure the accuracy, completeness and adequacy of risk management data.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

3. Key features of internal control system

The Bank attaches great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines and the “Guidelines for Internal Control of Commercial Banks” in a consistent manner, and has continued establishing the internal control management system from five key aspects in three layers, including corporate governance, business line management and procedural operation – which horizontally cover our business processes and management activities of various business lines and vertically cover the managing bodies of the head office, branches and sub-branches and all employees. The internal control management structure was equipped with well-defined duties and responsibilities which clarified internal control management duties of the Board of Directors, the Board of Supervisors and senior management and three defense lines. Under the structure, the Board of Directors was responsible for ensuring the Bank to establish and implement adequate and effective internal control system, the Board of Supervisors was responsible for overseeing the establishment and implementation of internal control by the Board of Directors and senior management, and the senior management was responsible for organizing the day-to-day internal control operation of the Bank. The Bank strengthened its management of the operation of the internal control system by regularly reorganizing internal control and relevant self-assessment to identify the issues and deficiencies in the implementation thereof. Through prompt rectifications and corrections on internal control, the Bank continuously improved and optimized its internal control system so as to support its business development. The Bank has also established an internal control compliance risk management system covering three key modules, namely internal control, compliance management and legal affairs, which enables the Bank to basically achieve a new compliance management model featured by systems, procedures and information technologies. The use of such systems has enabled the Bank to make use of information and digital technologies in its internal control management, strongly supporting the breadth and depth of internal control compliance analysis.

4. Risk management duties of the Board

The Board of Directors of the Bank has formulated the “Measures on Market Risk Management for Huishang Bank (for Trial Implementation)”, “Basic Norms of Internal Control for Huishang Bank (for Trial Implementation)” and other rules on the basis of laws and regulations such as the “Guidelines for Internal Control of Commercial Banks” and other laws and regulations, as well as the relevant requirements of the Hong Kong Stock Exchange in order to establish and implement a risk management and internal control system and undertake prompt review of the effectiveness of such systems. The Board of Directors of the Bank are of view that, the risk management and internal control system established and implemented by the Bank are sufficient and effective. The purpose of the risk management and internal control system of the Bank is to manage rather than eliminate such risks as would prevent the Bank from achieving its business goals, and such system reasonably (rather than absolutely) ensures that there would not be any material misrepresentation or loss.

Chapter IX Corporate Governance Report

9.17 PROCEDURES AND REGULATORY MEASURES FOR HANDLING INSIDER INFORMATION

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interests of investors by maintaining fairness with regard to information disclosure, the Bank formulated the Insider Information and Insider Management System of Huishang Bank Corporation Limited and the Measures on Information Disclosure Management of Huishang Bank Corporation Limited pursuant to domestic and offshore laws and regulations such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, Rules on Establishment of Insider Registration and Management System of Listed Companies, Measures for the Information Disclosure of Commercial Banks, the Hong Kong Listing Rules and other regulatory documents including laws and regulations and listing rules on securities or other regulatory documents of places and stock exchanges where the securities of the Bank are listed.

Pursuant to laws and regulations of places where the securities of the Bank are listed, the Insider Information and Insider Management System of Huishang Bank Corporation Limited expressly provides for the scope of operational, financial or other information that may have a material impact on the market price of securities of the Bank but has not yet been made available on any media for information disclosure designated by securities regulating authorities and the definition of insiders in connection thereof, as well as detailed requirements on management of insiders, confidentiality of such information and punishment measures for divulgence thereof.

The Bank discloses its information in strict accordance with regulatory requirements. The Measures on Information Disclosure Management of Huishang Bank Corporation Limited expressly provide for basic principles of information disclosure, including the disclosure principles in prospectuses, offering circulars, listing documents, regular reports and interim reports, and explicitly requires that information disclosure of the Bank be unifiedly managed and undertaken by the Board, while the chairman and the president be the persons ultimately responsible and the secretary to the Board be the main person-in-charge. The Measures also provide for detailed requirements on information disclosure duties of directors, supervisors, senior management and persons-in-charge of branches.

As the general administrative body with respect to information disclosure, the office of the Board of Directors has always strictly complied with domestic and offshore regulatory requirements, kept strengthening system management and promptly and appropriately disclosed relevant information.

Chapter X Internal Control

10.1 INTERNAL CONTROL

10.1.1 Internal control system and operation

Operating in compliance with regulations and under stable development, the Bank followed the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines, internal and external laws and regulations such as the “Commercial Banks Internal Control Guidelines” and “Basic Norms of Internal Control for Huishang Bank”, as well as the relevant requirements of the Hong Kong Stock Exchange to clarify the objectives, principles and organization of the internal control system, thereby setting up an internal control system comprised of five key elements, namely the internal environment, risk assessment, control activities, information and communication, and internal monitoring. The Bank has clearly defined the objectives, principles and organizational system of internal control through internal control system infrastructure; exerted full control over the whole process of various operation and management of the Bank; and in the course of carrying out internal control, continued to enhance our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; and formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of Directors of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board of Directors and senior management to establish and improve the internal control system; and overseeing the Board of Directors and the directors, senior management and senior officers to perform their duty of internal control. Senior management is responsible for execution of the internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and assesses the effectiveness of internal control.

During the Reporting Period, the Bank launched campaigns such as “Better Quality Year”, “Further Rectifying the Market Chaos in the Banking Industry” and “Strengthening the Three Bases and Attaining the Four Adequacies”, and continued to conduct special activities including Compliance Risk Identification and Assessment for 2018, Assessment on Anti-money Laundering for 2018 and Identification of Non-performing Loan Liabilities. In coordination with CBRC Anhui Office, the Bank completed series works of Implementation and rectification of regulatory opinions, and further improved the market risk, credit risk and operational risk management systems. Therefore, the internal control system operated effectively. In addition, all management units in the head office and branches of the Bank conducted self-assessment on the internal control for 2018. After inspection by the Board, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were identified.

Chapter X Internal Control

10.1 INTERNAL CONTROL (Continued)

10.1.2 Implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner

The Bank places great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner. Firstly, it has defined internal control and management systems and internal control duties of the operational divisions, business lines management department and compliance department to further clarify the relevant organizational structure and duty allocation of internal control. Secondly, the Bank formulated a risk control manual of basic business. It defined over 300 key risk points in business, and further clarified the internal connections among risk points, control measures, execution position and regulatory frameworks to guide all the employees of the Bank to carry out business operations in compliance with laws. Thirdly, the Bank established and improved the management system of employee conduct, formulated the “Management Measures for Employees of Huishang Bank”, and revised the “Management Measures for Abnormal Conduct of Employees of Huishang Bank” to define the prohibited conduct of employees, initiate the building of monitoring system for abnormal conduct of employees of Huishang Bank and gradually improve the management effectiveness of abnormal conduct of employees. Fourthly, it has organized bank-wide assessments on internal control for 2018, covering 9 business lines and 17 branches of the Bank. Based on results of the assessment, the design and execution of the internal control of the Bank were good, with basically sound internal control mechanisms and effective execution of control measures.

Chapter X Internal Control

10.2 INTERNAL AUDIT

We have implemented an internal audit system, set up an internal audit department which consists of four audit segments by region, and established independent and vertical management system for audit as well as the corresponding reporting system and lines for internal audit, which enabled the establishment of a complete internal audit system comprised of detailed standards, internal requirements and work manual based on internal control audit rules. We have established an audit model which combines on-site audit and off-site monitoring. We have formulated audit plan and annual audit plan and carried auditing activities efficiently in accordance with the audit plan and annual plan approved by the Board of Directors.

The internal audit department is responsible for auditing and supervising our financial revenue and expenditures and business activities, investigating, evaluating and facilitating our business activities, risk profile, internal control and corporate governance status through systematic and standardized methods with a view to promoting our sound development. The internal audit department shall report to the Board of Directors, the Board of Supervisors and the senior management regularly on audit work.

In 2018, the internal audit department continued to adhere to the audit philosophy of “risk-oriented, service-teneted and appreciation-aiming” and act around our overall development strategy to speed up the transformation and upgrading of our internal audit, improve the audit organizational structure, enhance the audit and supervision capacity and play the role of internal audit with a view to achieving the head office’s overall work objectives of “seeking progress amid stability and reinforcing risk control by strengthening management, emphasizing innovation and adjusting structure” for 2018. We have conducted on-site audit through various audit forms such as special audit, economic responsibility audit and specific audit investigation, and implemented off-site monitoring through information analysis and inspection of suspicious circumstances to strengthen supervision of fundamental outlet, fundamental business and junior staff. In addition, our internal audit department has put forward certain specific opinions on rectifications and recommendations for improvements, and enhanced the follow-up work to implement rectification measures, apply findings of the audit and further promote enhancement of our internal control and risk management as well as refinement of our management.

10.3 EVALUATION ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

At the end of 2018, as instructed by the audit committee under the Board, the Bank carried out internal control self-assessment for 2018 and issued a relevant report pursuant to requirements on internal control evaluation of commercial banks under “Commercial Banks Internal Control Guidelines” issued by the CBRC. The self-assessment represented an overall evaluation on the business, units and risk management policies of the Bank and the report was reviewed by the audit department. Huishang Bank 2018 Internal Control Assessment Report was considered by the audit committee and Board of the Bank, respectively, which believed that this report has fully reflected the internal control situation of the Bank, and fully assessed internal control management and execution of various business lines and branches. The Board of the Bank has reviewed the 2018 internal control system of the Bank, and is of the view that such system is effective and adequate.

Chapter XI Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors supervised the Bank's internal control, risk management, financial activities, legal compliance of operations, as well as the performance of duties of the Board of Directors and senior management in accordance with the Company Law, Guidelines for the Corporate Governance of Commercial Banks, Guidelines for the Work of the Boards of Supervisors in Commercial Banks and the responsibilities defined by the Bank's Articles of Association.

The Board of Supervisors has expressed an independent opinion on following matters:

1. Operation in accordance with laws and regulations

During the Reporting Period, the Bank's operation and management complied with the provisions of laws and regulations such as the Company Law, regulatory requirements and the Articles of Association of the Bank. The decision-making procedures of the Board of Directors were standardized and in conformity with laws. The senior management operated and managed the Bank in compliance with laws and regulations, the authorizations of the Board of Directors and the Bank's rules and regulations.

2. The truthfulness of financial report

The Bank's 2018 annual financial report has been audited by Ernst & Young in accordance with the International Financial Reporting Standards and a standard audit report with unqualified opinions has been issued. The financial report truly, objectively and accurately reflects the Bank's financial activities and operating results.

3. Related party transactions

The Board of Supervisors is not aware of any related party transactions of the Bank occurring during the Reporting Period which would damage the interests of shareholders and the Bank.

4. Internal control

During the Reporting Period, the Bank insisted on the value of putting internal control as its priority, implemented regulatory requirements, launched campaigns such as "Better Quality Year", "Further Rectifying the Market Chaos in the Banking Industry" and "Strengthening the Three Bases and Attaining the Four Adequacies", and continued to enhance and improve the internal control. No significant flaws in the completeness and reasonableness of the Bank's internal control were identified.

5. Risk management

During the Reporting Period, through implementing policies by classification, addressing both symptoms and root causes, and emphasizing accountability, the Bank focused on risk control in key areas, steadily promoted the building of comprehensive risk management system, enhanced risk management organizational structure, improved risk management system, optimized risk management process and upgraded risk management instruments. Various regulatory indicators of the Bank remain at a stable level. The overall risk exposure of the Bank was under control.

Chapter XI Report of the Board of Supervisors

6. Implementation of resolutions passed at general meetings

The Board of Supervisors had no objection to the reports and resolutions submitted by the Board of Directors to shareholders' general meetings in 2018 for review, and supervised the implementation of the resolutions adopted by general meetings. The Board of Supervisors was of the view that the Board of Directors had well implemented the relevant resolutions passed at general meetings.

By Order of the Board of Supervisors

Zhang Youqi

Chairman of the Board of Supervisors

27 March 2019

Chapter XII Financial Report Independent Auditor's Report



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To the Board of Directors of Huishang Bank Corporation Limited

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 170 to 312, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Chapter XII Financial Report Independent Auditor's Report

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of loans and advances to customers and financial investment at amortised cost</i>	
<p>IFRS 9 -Financial instrument (hereinafter referred to as "IFRS 9") was adopted by the Group on 1 January 2018.</p> <p>IFRS 9 requires that the impairment measurement for financial assets be changed from "incurred loss model" to "expected credit loss model". The Group uses several models and assumptions in the measurement of expected credit losses, for example:</p> <ul style="list-style-type: none">• Significant increase in credit risk — criteria selecting for judging significant increase in credit risk highly relies on judgement, it may lead to significant impact on expected credit loss of loans and financial investment with long duration of exposures.• Model methodology and related parameters — model used for estimating expected credit loss is complicated and contains many parameters inputs which may involve many judgements and assumptions.• Forward-looking information — use expert judgment to predict macroeconomics and consider the impact of different economic scenarios on expected credit losses;• Individual impairment assessment — To determine incurred credit loss, need to consider several factors, individual impairment assessment will rely on the estimation of expected cash flow.	<p>We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our review procedure for loans and financial investments at amortised cost. We assessed the debtors' repayment capacity and evaluated the Group's grading for loans and financial investments at amortised cost, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:</p>

Chapter XII Financial Report Independent Auditor's Report

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of loans and advances to customers and financial investment at amortised cost (continued)

Since impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at 31 December 2018, net loans and advances to customers amounted to RMB370.66 billion, representing 35.28% of the total assets; financial investment at amortised cost amounted to RMB292.36 billion, representing 27.83% of total assets; loan impairment amounted to RMB11.91 billion, and allowance for impairment losses on financial investment at amortised cost amounted to RMB7.88 billion), impairment of loans and advances and financial investment at amortised cost is considered a key audit matter.

Relevant disclosures are included in Note 23, Note 24, Note 51.1.5 and Note 51.1.6 to the consolidated financial statements.

1. Expected credit loss model:
 - Assessed the rationales of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk;
 - Assessed forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumption of multiple macroeconomic scenarios;
 - Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.
2. Design and operating effectiveness of key controls:
 - Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, impairment program computational logic, as well as inputs and outputs;
 - Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.

We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Chapter XII Financial Report Independent Auditor's Report

Key Audit Matter

How our audit addressed the key audit matter

Consolidation and assessment of structured entities

The Group holds interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns.

The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support.

As at 31 December 2018, the balance of unconsolidated wealth management products managed by the Group was RMB101.39 billion, and the amount of investments in unconsolidated structured entities invested by the Group was RMB329.01 billion. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation assessment of structured entities is considered a key audit matter.

Relevant disclosures are included in Note 46 to the consolidated financial statements.

We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity.

We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities.

We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Chapter XII Financial Report Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Chapter XII Financial Report

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Chapter XII Financial Report Independent Auditor's Report

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young

Certified Public Accountants

Hong Kong,
27 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

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

	Notes	2018	2017
Interest income	7	39,668,107	39,416,255
Interest expense	7	(21,701,242)	(19,219,718)
Net interest income		17,966,865	20,196,537
Fee and commission income	8	3,840,984	3,043,589
Fee and commission expense	8	(134,521)	(199,918)
Net fee and commission income		3,706,463	2,843,671
Net trading gains/(losses)	9	4,973,467	(439,738)
Net gains/(losses) on financial investments	10	105,685	(76,160)
Dividend income		880	640
Other operating income/(loss), net	11	197,249	(16,625)
Operating income		26,950,609	22,508,325
Operating expenses	12	(6,204,914)	(5,830,139)
Impairment losses on assets	15	(10,064,367)	(7,202,558)
Operating profit		10,681,328	9,475,628
Share of results of associates		139,577	137,136
Profit before income tax		10,820,905	9,612,764
Income tax expense	16	(1,960,532)	(1,801,016)
Profit for the year		8,860,373	7,811,748
Attributable to:			
Equity holders of the Bank		8,747,031	7,614,884
Non-controlling interests		113,342	196,864
		8,860,373	7,811,748
Earnings per share attributable to the ordinary shareholders of the Bank (expressed in RMB per share)			
Basic/Diluted	17	0.69	0.60

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

Consolidated Statement of Comprehensive Income

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

	Note	2018	2017
Profit for the year		8,860,373	7,811,748
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Net gains on investments in equity instruments designated at fair value through other comprehensive income	41	110,577	–
Less: associated impact of income tax	41	(27,644)	–
Subtotal		82,933	–
Items that may be reclassified subsequently to profit or loss			
– Net gains on investments in debt instruments measured at fair value through other comprehensive income	41	2,871,091	–
– Net fair value losses on available-for-sale financial assets	41	–	(999,000)
Less: associated impact of income tax	41	(717,773)	249,750
Subtotal		2,153,318	(749,250)
Other comprehensive income for the year, net of tax		2,236,251	(749,250)
Total comprehensive income for the year		11,096,624	7,062,498
Total comprehensive income attributable to:			
Equity holders of the Bank		10,983,282	6,865,634
Non-controlling interests		113,342	196,864
		11,096,624	7,062,498

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

Consolidated Statement of Financial Position

As at 31 December 2018

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

	Note	As at 31 December 2018	As at 31 December 2017
Assets			
Cash and balances with central bank	18	88,144,324	92,357,873
Deposits with banks and other financial institutions	19	7,964,464	9,699,833
Placements with banks and other financial institutions	20	5,022,470	3,553,288
Derivative financial assets	21	208,979	67,479
Financial assets held under resale agreements	22	26,286,656	36,027,487
Loans and advances to customers, net	23	370,661,381	305,208,545
Financial Investments			
– Financial assets at fair value through profit or loss	24	106,479,561	2,695,099
– Financial assets at fair value through other comprehensive income	24	105,805,594	–
– Financial assets at amortised cost	24	292,359,948	–
– Available-for-sale	24	–	143,305,890
– Held-to-maturity	24	–	61,128,401
– Debt instruments classified as receivables	24	–	211,647,260
Investment in associates	25	1,100,008	971,050
Property, plant and equipment	26	2,231,716	1,943,330
Deferred income tax assets	37	5,749,437	4,724,487
Finance lease receivables	27	35,624,476	26,269,575
Other assets	28	2,867,295	8,500,100
Total assets		1,050,506,309	908,099,697
Liabilities			
Borrowings from central bank		40,720,519	35,575,527
Deposits from banks and other financial institutions	30	117,696,068	95,814,599
Placements from banks and other financial institutions	31	28,778,584	25,427,912
Financial liabilities at fair value through profit or loss	32	87,598,791	–
Derivative financial liabilities	21	137,938	747,449
Financial assets sold under repurchase agreements	33	27,844,684	40,855,148
Deposits from customers	34	573,798,311	512,808,182
Taxes payable	35	3,242,863	2,822,630
Debt securities issued	38	91,443,925	115,180,357
Other liabilities	36	8,967,167	19,655,807
Total liabilities		980,228,850	848,887,611
Equity			
Share capital	39	12,154,801	11,049,819
Other equity instruments	39	5,990,090	5,990,090
Capital reserve	39	6,760,445	6,751,041
Surplus reserves	40	9,553,466	7,953,301
General reserves	40	9,117,707	7,722,527
Other comprehensive income	41	1,587,076	(869,997)
Retained earnings		23,048,940	19,106,524
Equity attributable to shareholders of the bank		68,212,525	57,703,305
Non-controlling interests		2,064,934	1,508,781
Total equity		70,277,459	59,212,086
Total equity and liabilities		1,050,506,309	908,099,697

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

Approved and authorized for issue by the Board of Directors on 27 March 2019.

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Head of Finance Department

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

	Equity attributable to shareholders of the Bank								
	Share capital Note 39	Other equity instruments Note 39	Capital reserve Note 39	Surplus reserves Note 40	General reserves Note 40	Other comprehensive income Note 41	Retained earnings	Non-controlling interests	Total equity
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086
Changes in accounting policy									
– the impact of IFRS 9 (2.1.2.2)	–	–	–	–	–	220,822	(51,019)	–	169,803
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(649,175)	19,055,505	1,508,781	59,381,889
(1) Comprehensive income									
Profit for the year	–	–	–	–	–	–	8,747,031	113,342	8,860,373
Other comprehensive income, net of tax	–	–	–	–	–	1,902,064	–	–	1,902,064
Asset impairment through other comprehensive benefits	–	–	–	–	–	334,187	–	–	334,187
Total comprehensive income for the year	–	–	–	–	–	2,236,251	8,747,031	113,342	11,096,624
(2) Profit distribution									
Dividends	–	–	–	–	–	–	(653,269)	(5,665)	(658,934)
Additional capital stock	1,104,982	–	–	–	–	–	(1,104,982)	–	–
Appropriation to surplus reserve	–	–	–	1,600,165	–	–	(1,600,165)	–	–
Appropriation to general reserve	–	–	–	–	1,395,180	–	(1,395,180)	–	–
(3) Changes in share capital									
Capital injection to a subsidiary	–	–	9,404	–	–	–	–	448,476	457,880
As at 31 December 2018	12,154,801	5,990,090	6,760,445	9,553,466	9,117,707	1,587,076	23,048,940	2,064,934	70,277,459
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318
(1) Comprehensive income									
Profit for the year	–	–	–	–	–	–	7,614,884	196,864	7,811,748
Other comprehensive income, net of tax	–	–	–	–	–	(749,250)	–	–	(749,250)
Total comprehensive income for the year	–	–	–	–	–	(749,250)	7,614,884	196,864	7,062,498
(2) Changes in share capital									
(3) Profit distribution									
Dividends	–	–	–	–	–	–	(1,033,730)	–	(1,033,730)
Appropriation to surplus reserve	–	–	–	1,417,004	–	–	(1,417,004)	–	–
Appropriation to general reserve	–	–	–	–	1,514,212	–	(1,514,212)	–	–
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

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

	2018	2017
Cash flows from operating activities:		
Profit before income tax	10,820,905	9,612,764
Adjustments:		
Impairment losses on assets	10,064,367	7,202,558
Recovery of written-off loans	504,161	215,746
Depreciation and amortization	435,444	439,525
Net (gains)/losses on disposals of property, plant and equipment	1,174	(10,865)
Net losses on de-recognition of investment securities	(105,685)	76,160
Fair value changes in financial assets at fair value through profit or loss and derivatives	(394,575)	1,040,056
Share of results of associates	(139,577)	(137,136)
Dividend income	(880)	(640)
Interest income from investment securities	(17,936,291)	(21,179,688)
Interest expense from debt securities issued	4,721,273	4,702,109
Net changes in operating assets:		
Net decrease/(increase) in balances with central bank	11,264,229	(1,509,049)
Net decrease in deposits and placements with banks and other financial institutions	45,850	12,743,708
Net decrease in financial assets at fair value through profit or loss	1,245,961	2,887,376
Net decrease in financial assets held under resale agreements	9,677,697	35,511,304
Net increase in loans and advances to customers	(68,755,712)	(41,796,265)
Net (increase)/decrease in finance lease receivables	(9,648,418)	8,304,913
Net increase in other assets	(4,214,891)	(91,836,837)
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	23,980,475	10,075,827
Net increase in financial liabilities at fair value through profit or loss	86,774,574	-
Net increase in borrowings from central bank	5,138,401	1,495,000
Net (decrease)/increase in financial assets sold under repurchase agreements	(13,430,810)	42,311,433
Net increase in deposits from customers	53,152,743	50,793,773
Net increase in other liabilities	1,803,334	19,986,412
Income taxes paid	(3,497,126)	(3,687,409)
Net cash inflow from operating activities	101,506,623	47,240,775

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

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

	2018	2017
Cash flows from investing activities:		
Dividends received	880	640
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	5,824	38,654
Purchase of property, plant and equipment, intangible assets and other long-term assets	(757,900)	(743,747)
Cash received from interest income on investment securities	18,094,480	21,241,156
Cash received from sale and redemption of investment securities	366,507,451	534,619,493
Increase in investments in associates	-	(304,000)
Purchase of investment securities	(449,015,807)	(621,803,481)
Net cash outflow from investing activities	(65,165,072)	(66,951,285)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	259,220,000	253,390,000
Cash received from investment	457,880	-
Dividends and interests paid on debt issued	(5,015,655)	(2,515,198)
Cash paid relating to debt repayment	(284,024,055)	(232,952,293)
Net cash (outflow)/inflow from financing activities	(29,361,830)	17,922,509
Impact on cash and cash equivalents resulted from exchange rate changes	(191,012)	293,976
Net increase/(decrease) in cash and cash equivalents	6,788,709	(1,494,025)
Cash and cash equivalents at beginning of year	27,280,446	28,774,471
Cash and cash equivalents at end of year (Note 47)	34,069,155	27,280,446

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

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“the PBOC”), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with the approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. As approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’ anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution licence B0162H234010001 from CBRC Anhui Branch and the business license of legal enterprise with unified social credit code No. 913400001489746613. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 31 December 2018, the registered and paid-in capital of the Bank was RMB12.16 billion.

The principal activities of the Bank and its subsidiaries (collectively, the “Group”) include Renminbi (“RMB”) and foreign currency deposits, loans, clearing and settlement services, asset custody services, finance leasing services, and the provision of services as approved by the respective regulators.

Information of the Bank’s subsidiaries:

Company name	Place of operation	Place of incorporation	Principal activity	Registered capital	Equity held
Jinzhai Huiyin Village and Township Bank Co., Ltd.	Jinzhai	Jinzhai	Financial services	80,000	41%
Wuwei Huiyin Village and Township Bank Co., Ltd.	Wuwei	Wuwei	Financial services	100,000	40%
Huiyin Financial Leasing Co.,Ltd.	Hefei	Hefei	Financial services	3,000,000	54%

- (a) The Bank invested 41% of the total capital contribution to establish Jinzhai Huiyin Village and Township Bank Co., Ltd. (“Jinzhai Huiyin”) on 28 June 2013. The Bank and the other three shareholders who invested a total 30% of the capital contribution signed the Acting in Concert Agreement. These shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operation policies. The Bank has control over Jinzhai Huiyin and consolidates it.

In May 2017, one of the three shareholders who signed the Acting in Concert Agreement transferred its stake to external shareholders, its Acting in Concert Agreement expired, the Bank and the rest of the two shareholders who signed the Acting in Concert Agreements are persons acting in concert, these shareholders agreed to act in concert with the Bank when voting for material decisions regarding financial and operating policies. The Bank has control over Jinzhai Huiyin, so the Bank consolidates Jinzhai Huiyin.

Notes to the Consolidated Financial Statements

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

1 GENERAL INFORMATION (Continued)

- (b) The Bank established Wuwei Huiyin Village and Township Bank Co., Ltd. ("Wuwei Huiyin") in 2010. The registered capital of Wuwei Huiyin is RMB0.1 billion. The Group invested RMB40 million, which is accounted for 40%. Wuwei Huiyin officially commenced its business on 8 August 2010 with the approval of the CBRC. Although the Bank has no absolute controlling interest in Wuwei Huiyin, the company's operating activities in four years after its incorporation indicated that the Bank has a dominant position and control over operating and financing activities of Wuwei Huiyin by taking into full account of various factors. The Bank consolidated Wuwei Huiyin from 31 December 2014.
- (c) The Bank invested 51% to establish Huiyin Financial Leasing Co., Ltd. on 29 April 2015. The Bank has control over Huiyin Financial Leasing Co., Ltd. and consolidates it. In March 2018, the Bank invested RMB687 million to participate in the capital increase and expansion of Huiyin Financial Leasing Co., Ltd., the registered capital of Huiyin Financial Leasing Co., Ltd. increased from RMB2 billion to RMB3 billion, and the Bank's shareholding ratio increased to 54%.

These consolidated financial statements have been approved by the Board of Directors on 27 March 2019.

2 BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the reporting period presented unless otherwise stated.

2.1 Basis of preparation and critical accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been adopted by the Group in the preparation of the financial statements throughout the reporting period.

Financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income (including derivative financial instruments) are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.1 On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

IFRS 9	<i>Financial Instruments</i>
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements to IFRSs 2014-2016 Cycle (issued in December 2016): IAS 28	<i>Investments in Associates and Joint Ventures</i>

IFRS 15 and Amendments establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9.

IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

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

Except for the adoption of IFRS 9, the adoption of the above criteria, amendments and explanations does not have a significant impact on the Group's operating results, financial condition and consolidated earnings.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project to replace IAS 39 *Financial Instruments* for annual periods on or after 1 January 2018.

In October 2017, the IASB issued amendments to IFRS 9 *Financial Instruments*. The amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 amendments from 1 January 2018.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (Refer to the 2017 annual report for the accounting policies related to financial instruments of the Group in 2017). Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018 in these consolidated financial statements. Differences arising from the adoption of IFRS 9 have been recognised directly in shareholders' equity as at 1 January 2018.

Classification and measurement

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

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

Characteristics of the contractual cash flows

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

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit loss model" ("ECL model") and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts. For specific information see note 51.1.1.

Hedge accounting

The new hedge accounting model is aimed to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to continue to apply the existing hedge accounting requirements in IAS 39. The Group chose to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018.

The impacts of transition to IFRS 9

Considering the impact of these standards on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 shareholders' equity at the adoption date, but will not restate comparative periods. The impact of the Group's adoption of IFRS 9 is disclosed as follows.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

	IAS 39 measurement		Re- classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets							
Cash and balances with central bank	L&R	92,357,873	-	-	-	92,357,873	AC
Deposits with banks and other financial institutions	L&R	9,699,833	-	(7,551)	-	9,692,282	AC
Placements with banks and other financial institutions	L&R	3,553,288	-	(4,932)	-	3,548,356	AC
Financial assets held under resale agreements	L&R	36,027,487	-	(105,103)	-	35,922,384	AC
Loans and advances to customers	L&R	305,208,545	-	463,890	(15,526)	305,656,909	AC+ FVOCI
To: Loans and advances to customers at FVOCI			15,015,442				FVOCI
From: Loans and advances to customers at AC			(15,015,442)				AC
Financial investment – debt instruments classified as receivables	L&R	211,647,260	(211,647,260)			N/A	AC

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	IAS 39 measurement		Re- classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
To: Financial assets at AC			151,770,117				AC
To: Financial assets at FVPL			59,877,143				FVPL
Financial investments – available-for-sale	AFS	143,305,890	(143,305,890)				N/A
To: Financial assets at AC			10,181,805				AC
To: Debt instruments at FVOCI			71,185,099				FVOCI
To: Equity instruments FVOCI			9,500				FVOCI
To: Financial assets at FVPL			61,929,486				FVPL
Financial investments – held-to-maturity	HTM	61,128,401	(61,128,401)				N/A
To: Financial assets at AC			61,128,401				AC
Financial investments – finance lease receivables	L&R	26,269,575	-			26,269,575	AC

Note:

L&R	Loans and receivables
AFS	Available for sale
HTM	Held to maturity
AC	Amortised cost
FVPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
ECL	Expected credit loss
N/A	Not applicable

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

	IAS 39 measurement		Re- classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets at amortised cost		N/A	223,080,324	452,923	–	223,533,247	AC
From: Financial investments – AFS			(10,181,806)	(217,020)			
From: Financial investments – HTM			(61,128,401)	(146,866)			
From: Financial investments – L&R			(151,770,117)	816,809			
Debt instruments at FVOCI		N/A	71,185,099	–	–	71,185,099	FVOCI
From: Financial investments – AFS			(71,185,099)				
Equity instruments at FVOCI		N/A	9,500	–	22,942	32,442	FVOCI
From: Financial investments – AFS (Equity instruments)			(9,500)				
Financial assets at FVPL	FVPL	2,695,099	121,806,628	–	(368,688)	124,133,039	FVPL
From: Financial investments – AFS	AFS		(61,929,486)		(260,237)		
From: Financial investments – L&R	L&R		(59,877,142)		(108,451)		
Derivative financial assets	FVPL	67,479	–	–	–	67,479	FVPL
Other financial assets		16,138,967	–	(1,642)	(56,601)	16,080,724	
Include: Deferred tax		4,724,487	–		(56,601)	4,667,886	
Total assets		908,099,697	–	797,585	(417,873)	908,479,409	

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

	IAS 39 measurement		Remeasurement		IFRS 9	
	Category	Amount	ECL	Other	Amount	Category
Borrowings from central bank	AC	35,575,527	-	-	35,575,527	AC
Deposits from banks and other financial institutions	AC	95,814,599	-	-	95,814,599	AC
Financial assets sold under repurchase agreements	AC	40,855,148	-	-	40,855,148	AC
Placements from banks and other financial institutions	AC	25,427,912	-	-	25,427,912	AC
Derivative financial liabilities	FVPL	747,449	-	-	747,449	FVPL
Deposits from customers	AC	512,808,182	-	-	512,808,182	AC
Debt securities issued	AC	115,180,357	-	-	115,180,357	AC
Provision – impairment allowance of credit commitments	AC	-	209,908	-	209,908	AC
Other liabilities	N/A	22,478,437	-	-	22,478,437	N/A
Total liabilities		848,887,611	209,908		849,097,519	

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.2 The impact of transition from IAS 39 to IFRS 9 on other comprehensive income and retained earnings is, as follows:

	Other comprehensive income and retained earnings
Other comprehensive income	
Closing balance under IAS 39 at 31 December 2017	(869,997)
Reclassification of investment securities from HTM and L&R to FVOCI	(15,527)
Reclassification of investment securities from AFS to FVOCI	22,942
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	287,014
Deferred tax in relation to the above	(73,607)
Opening balance under IFRS 9 at 1 January 2018	(649,175)
Retained earnings	
Closing balance under IAS 39 at 31 December 2017	34,782,352
Reclassification of investment securities from AFS to FVPL	(260,237)
Reclassification of investment securities from AFS to FVOCI	
Reclassification of investment securities from HTM and L&R to FVPL	(108,446)
Reclassification of investment securities from FVPL to AC	
Recognition of IFRS 9 ECLs	300,659
Deferred tax in relation to the above	17,006
Opening balance under IFRS 9 at 1 January 2018	34,731,334
Total change in equity due to adopting IFRS 9	169,804

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

2.1.2 IFRS 9 – Financial Instruments (Continued)

2.1.2.3 The impact of transition from IAS 39 to IFRS 9 on impairment balance is, as follows:

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 at 31 December 2017 to the ECL allowances under IFRS 9 at 1 January 2018:

Measurement Category	Loan loss	Re-	Re-	ECLs
	provision under IAS 39/IAS 37 at 31 December 2017			classification
L&R investment securities per IAS 39/ financial assets at AC under IFRS 9				
Placements with and loans to banks and other financial institutions	3	–	7,551	7,554
Financial assets held under resale agreements	–	–	105,103	105,103
Placements with banks and other financial institutions	–	–	4,932	4,932
Loans and advances to customers, net	9,291,230	–	(269,516)	9,021,714
Financial investments	4,585,482	–	(599,786)	3,985,696
HTM investment securities per IAS 39/ financial assets at AC under IFRS 9				
Financial investments	–	–	146,866	146,866
Loans and advances to customers per IAS 39/ financial assets at FVOCI under IFRS 9				
Loans and advances to customers, net	194,374	–	(169,012)	25,362
AFS investment securities per IAS 39/ financial assets at FVOCI under IFRS 9				
Financial investments	–	–	261,653	261,653
Credit commitments	–	–	209,908	209,908
Others	143,946	–	1,642	145,588
Finance lease receivables	551,096	–	–	551,096
Total	14,766,131	–	(300,659)	14,465,472

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

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

		Effective for annual periods beginning on or after
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IAS 19 Amendments	<i>Employment benefits</i>	1 January 2019
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRS 3 Amendments	<i>Definition of a business</i>	1 January 2020
IAS 1 and IAS 8 Amendments	<i>Definition of material</i>	1 January 2020
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
<i>Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)</i>		1 January 2019

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRS Interpretations Committee Interpretation No.4. According to IFRS 16, the classification of finance leases and operating leases are both replaced, requiring the lessee to recognize all the right-of-use assets and lease liabilities for all leases and recognize the depreciation and interest expense separately. The short-term leases and leases for which underlying the asset of low value are exempted from the IFRS 16, For the Lessors, the accounting treatment is substantially unchanged from the existing principle as in IAS 17.

The Group will choose to adopt IFRS 16 and retroactive adjustment exemption of comparative information since 1 January 2019. For the lease contracts which occur before the effective day of 1 January 2019, the Group will not do the reassessments, instead, the Group will treat these contracts using the practical expedient. As a lessee, the Group will also use the practical expedient which will not recognize the right-of-use assets and lease liabilities and will recognize profit or loss using the straight-line method during the lease term for short-term leases and leases for which the underlying asset is of low value.

Based on the current assessment, IFRS 16 have no significant impacts on the principal accounting policies.

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

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

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture.

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

2.1 Basis of preparation and critical accounting policies (Continued)

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

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*. The improvements will be adopted in January 2019. The amendments, which do not have any significant impacts on the principal accounting policies of the Group in 2018, will not be adopted right now.

The Group is assessing the impact of standards, amendments and interpretations on the consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.1 Subsidiaries (Continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income from subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that investments in subsidiaries are impaired. An impairment loss is recognised for the amount by which the investments in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investments in subsidiaries' fair value less costs to sell and value in use.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3.2 Associates

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates" includes goodwill.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.2 Associates (Continued)

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

3.3 Foreign currency translations

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

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

3.4 Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with the central bank, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments

3.5.1 Initial recognition and measurement

An entity shall recognise a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, an entity shall measure 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 directly attributable to the acquisition or issue of the financial asset or financial liability. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss.

The fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price, and if that 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 entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

3.5.2 Classification and subsequent measurement

3.5.2.1 Financial assets

An entity shall classify financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (a) the entity's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Business models

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model for the financial assets is 'other'. The entity's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how to generate cash flows in the past, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and how managers of the business are compensated.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identify whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

(1) Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include loans and advances to customers, cash and due from banks and other financial institutions, Placements with and loans to banks and other financial institutions and debt securities, and are subsequently measured at amortised cost.

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

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

(2) Financial assets at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include bills discounted and debt securities, and are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Expected credit losses of such financial assets shall be recognised in other comprehensive income. The impairment gain or loss shall not adjust the carrying amount of such financial assets and be recognised in profit or loss.

(3) Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets at fair value through profit or loss in accordance with IFRS.

Such financial assets that the Group hold mainly include debt securities and fund investments, and are subsequently measured at fair value. A gain or loss on a financial asset that is measured at fair value shall be recognised in profit or loss unless it is part of a hedging relationship. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.1 Financial assets (Continued)

(4) Equity instruments

The Group may, at initial recognition, irrevocably designate an equity instrument except trading equity instrument as financial asset measured at fair value through other comprehensive income when it meets the definition of equity instruments under IAS 32 *Financial Instruments: Presentation*. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement. Such equity instruments do not recognise impairment losses.

Only if the Group changes the business model for financial assets, the Group shall reclassify the affected financial assets. The reclassification shall be effective from the first day of the first reporting period after the change of its business model.

3.5.2.2 Financial liabilities

An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

- (a) financial liabilities at fair value through profit or loss. Such liabilities, including financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) Financial guarantee contracts and loan commitments which rates are lower than market's.

Such financial liabilities measured at amortised cost that the Group hold mainly include due to customers, placements from banks and other financial institutions and bonds issued and are subsequently measured at amortised cost.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.2 Financial liabilities (Continued)

Such financial liabilities at fair value through profit or loss that the Group hold mainly include short position in debt securities and bonds issued and are subsequently measured at fair value. A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- (a) it is part of a hedging relationship;
- (b) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income; When the financial liability is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

An entity shall not reclassify any financial liability.

3.5.2.3 Financial assets and financial liabilities held for trading

An entity shall classify financial assets or liabilities as financial assets or financial liabilities held for trading if one of the following conditions are met:

A financial asset or financial liability that:

- (a) is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- (b) on initial recognition, is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.2 Classification and subsequent measurement (Continued)

3.5.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

An entity may, at initial recognition, irrevocably designate a financial instrument as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel; or
- (c) if a contract contains one or more embedded derivatives unless the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or separation of the embedded derivative(s) is prohibited.

According to the above conditions, the financial assets and financial liabilities designated by the group mainly include debt securities, due to and placements from banks and other financial institutions and bonds issued valued at fair value.

3.5.3 Financial guarantees and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantees were given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the expenditure determined by the expected credit loss model that is required to settle any financial obligation arising at the financial reporting date, and any increase in the liability relating to guarantees is taken to the income statement.

Loan commitment is a commitment provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment losses on loan commitments are measured using the expected credit loss model. The Group discloses the impairment allowances for financial guarantee contracts and loan commitments in the contingent "Provision".

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.5 Financial instruments (Continued)

3.5.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

3.5.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

3.5.6 Impairment measurement for losses on assets

On the financial reporting date, the Group evaluates and confirms the relevant impairment provisions for financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts on the basis of anticipated credit losses. See Note 51.1 for specific information.

3.5.7 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.7 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset within the scope of this Standard, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not an asset within the scope of this Standard, the Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

3.8 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metal swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purposes, they are accounted for as derivative transactions.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.9 Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

The difference between purchase and sale price is recognised as “Interest expense” or “Interest income” in the income statement over the life of the agreements using the effective interest method.

3.10 Property, plant and equipment

Fixed assets refer to the tangible assets held by the Group for business management and whose useful life exceeds one fiscal year. Construction in progress refers to the houses, buildings, machinery and equipment that are under construction or being installed, and when they are ready for their intended use, they are transferred to the corresponding fixed assets.

(a) Cost of fixed assets

Fixed assets are initially measured at cost. The cost of purchased fixed assets includes the purchase price, related taxes and fees, and the costs attributable to the asset before the asset is ready for its intended use. The cost of self-constructed fixed assets consists of the necessary expenses incurred before the construction of the asset reaches its intended usable condition.

Subsequent expenses for fixed assets, including expenses related to the replacement of a component of fixed assets, are included in the cost of fixed assets when the conditions for recognition of fixed assets are met; at the same time, the carrying amount of the replaced portion is deducted. Expenditure related to the routine maintenance of fixed assets is recognized in profit or loss when incurred.

(b) Depreciation and impairment of fixed assets

The Group’s amount of the original asset’s estimated net residual value (if any) is depreciated on the straight-line method over the estimated useful lives of the assets and is recognized in profit or loss. For fixed assets that have been withdrawn for impairment, the accumulated amount of provision for impairment of fixed assets is deducted when depreciation is provided. Construction in progress is not depreciated.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.10 Property, plant and equipment (Continued)

(b) Depreciation and impairment of fixed assets (Continued)

The estimated useful lives, depreciation rates and estimated residual value rate of fixed assets are as follows:

	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Equipment	3-10 years	3%	9.70%-32.33%

The residual values and useful lives of assets are reviewed at least annually.

The impairment of the Group's fixed assets is treated in accordance with Note 3.14

(c) Disposal of fixed assets

The gain or loss arising from the retirement or disposal of the fixed assets is the difference between the net disposal proceeds and the carrying amount of the assets and is recognized in profit or loss on the date of retirement or disposal.

(d) Construction in progress

The cost of construction in progress is determined based on actual project expenditure, including all necessary engineering expenses incurred during construction and other related expenses.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

3.11 Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. The land use right is deducted from the accrued amount of the provision for impairment when it is amortized.

The impairment of the Group's land use rights is treated in accordance with Note 3.14.

3.12 Intangible assets

Intangible assets mainly include computer software, which is initially measured at cost. The Group's amount of the intangible asset's estimated net residual value (if any) is amortised on the straight-line method and recognised in profit or loss. When it is amortised, the intangible assets that have been withdrawn for impairment are deducted from the accumulated amount of impairment provision.

The impairment of the Group's intangible assets is treated as described in Note 3.14.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.13 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

3.14 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. The recoverable amount is estimated for assets with signs of impairment. If there are indications that an asset is impaired, but it is difficult to estimate the recoverable amount of the individual asset, the group will assess the recoverable amount based on cash-generating unit that the asset belongs to. The cash-generating unit is the smallest portfolio of assets that the Group can identify, and the cash flow generated is essentially independent of other assets or portfolio of assets.

The recoverable amount refers to the higher value between the fair value of the assets (or cash-generating unit, cash-generating unit group) minus the disposal expenses and the present value of the estimated future cash flow of the assets. When estimating the present value of future cash flows of the assets, the Group considers factors such as the estimated future cash flows, useful life spans and discount rates.

3.15 Employee benefits

(a) *Defined contribution plans and defined benefit plans*

In accordance with the policies of relevant state and local governments, employees in Mainland China participate in various defined contribution retirement schemes administered by local labour and social security bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local labour and social security bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Mainland China who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

(b) *Housing funds and other social security expenses*

Pursuant to local government regulations, all employees in Chinese Mainland participate in various local housing funds administered by local governments. Operations in Chinese Mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees.

(c) *Early retirement benefits*

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.16 Provisions

Provisions are recognised when the Group 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. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

3.17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3.18 Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

3.19 Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreements with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

3.20 Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.21 Interest income and expense

The “interest income” and “interest expense” in the Group’s income statement are the interest income and expense from financial assets using the effective interest rate method at amortised cost, financial assets at fair value with changes recognised through other comprehensive income and financial liabilities at amortised cost.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

For the financial assets acquired or originated with credit impairment, the Group calculates the interest income according to the amortized cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortized cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortized cost and the effect interest rate of the financial assets.

3.22 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued in accordance with the actual progress. For other services, fee and commission income are recognised when the transactions are completed.

3.23 Current and deferred income tax

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in equity. In these cases, tax is also directly recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.23 Current and deferred income tax (Continued)

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 consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of Property, plant and equipment, provisions for pension, retirement benefits and salary payables.

“Deferred income tax assets” are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.24 Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Other leases are accounted for as operating leases.

Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using the effective interest rate method.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivables from the lessee, the unguaranteed residual value and initial direct costs are recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method.

Operating leases

When the Group is a 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 Group is the lessor under an operating leases, the assets subject to the operating lease are accounted for as the Group'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 the lessees.

Notes to the Consolidated Financial Statements

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

3.25 Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - (viii) the entity, or any member of a group of which it is a party, provides key management personnel services to the Group or the parent of the Group.

3.26 Segment reporting

The Group determines the operating divisions based on the internal organizational structure, management requirements and internal reporting system, and determines the reporting divisions based on the operating divisions and discloses the information of the divisions.

Notes to the Consolidated Financial Statements

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Impairment loss on financial assets

The Group measures the impairment losses on all financial assets in accordance with IFRS 9 including many estimates and judgments in the process, especially in determining the amount of impairment losses, estimating future contractual cash flows, the value of collateral and judging the significant increase in credit risk. The Group is affected by various factors in the measurement of impairment, which will result in different levels of impairment provision.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs.

The accounting judgments and estimates used in the expected credit loss model include:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECLs
- Forward-looking information
- Modification of contractual cash flows

Impairment of non-financial assets

The Group reviews impairments of non-current assets at balance sheet date. Besides annual impairment tests, additional impairment tests will be carried out for intangible assets with indefinite operational life spans where exist indications of impairments. Other non-current assets are tested for impairment when there is an indication that the carrying amounts are not recoverable. When estimating the present value of future cash flows, management must estimate the future cash flows of the asset or asset group and select an appropriate discount rate to determine the present value of future cash flows.

Notes to the Consolidated Financial Statements

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Fair value of derivatives and other financial instruments

The Group establishes the fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible, these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

Early retirement benefit obligations

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognized immediately and, therefore, affect recognized expense in the year in which the differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee early retirement benefit obligations.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Notes to the Consolidated Financial Statements

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes account of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

5 TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value (tax payable is calculated by multiplying taxable sales revenue with applicable tax rate, then deducting input tax that can be credited of this period)	3%, 5%, 6%, 10%, 11%, 16%
City construction and maintenance tax	VAT payable	5%, 7%
Education surcharges	VAT payable	3%

Notes to the Consolidated Financial Statements

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

6 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 31 December 2018	As at 31 December 2017
Assets		
Cash and balances with central bank	87,764,181	91,946,124
Deposits with banks and other financial institutions	5,882,055	8,246,628
Placements with banks and other financial institutions	5,575,389	3,553,288
Derivative financial assets	208,979	67,479
Financial assets held under resale agreements	26,286,656	36,027,487
Loans and advances to customers	368,288,372	302,624,283
Financial Investments		
– Financial assets at fair value through profit or loss	106,479,561	2,695,099
– Financial assets at fair value through other comprehensive income	105,805,594	–
– Financial assets at amortised cost	292,359,948	–
– Available-for-sale	–	143,305,890
– Held-to-maturity	–	61,128,401
– Debt instruments classified as receivables	–	212,647,260
Investments in subsidiaries	1,809,133	1,122,313
Investments in associates	1,100,008	971,050
Property, plant and equipment	2,188,905	1,905,682
Deferred tax assets	5,623,236	4,665,991
Other assets	2,799,483	8,252,612
Total assets	1,012,171,500	879,159,587
Liabilities		
Borrowings from central bank	40,720,519	35,575,527
Deposits from banks and other financial institutions	117,929,527	95,956,890
Placements from banks and other financial institutions	813,684	5,042,912
Financial liabilities at fair value through profit or loss	87,598,791	–
Derivative financial liabilities	137,938	747,449
Financial assets sold under repurchase agreements	27,844,684	40,855,148
Deposits from customers	570,112,432	508,780,021
Taxes payable	3,106,099	2,736,093
Debt securities issued	91,443,925	115,180,357
Other liabilities	4,791,102	16,943,206
Total liabilities	944,498,701	821,817,603
Equity		
Share capital	12,154,801	11,049,819
Other equity instruments	5,990,090	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	9,553,466	7,953,301
General reserve	8,881,346	7,637,817
Other comprehensive Income	1,587,076	(869,997)
Retained earnings	22,754,979	18,829,913
Total equity	67,672,799	57,341,984
Total equity and liabilities	1,012,171,500	879,159,587

Wu Xuemin
Chairman

Zhang Renfu
President

Li Dawei
Head of Finance Department

Notes to the Consolidated Financial Statements

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

6 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984
Changes in accounting policies								
– Impact of adopting IFRS 9						220,822	(51,019)	169,803
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(649,175)	18,778,894	57,511,787
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	8,578,030	8,578,030
Other comprehensive income, net of tax	-	-	-	-	-	1,902,064	-	1,902,064
Asset impairment through other comprehensive benefits	-	-	-	-	-	334,187	-	334,187
Total comprehensive income for the year	-	-	-	-	-	2,236,251	8,578,030	10,814,281
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(653,269)	(653,269)
Additional capital stock	1,104,982	-	-	-	-	-	(1,104,982)	-
Appropriation to surplus reserve	-	-	-	1,600,165	-	-	(1,600,165)	-
Appropriation to general reserve	-	-	-	-	1,243,529	-	(1,243,529)	-
As at 31 December 2018	12,154,801	5,990,090	6,751,041	9,553,466	8,881,346	1,587,076	22,754,979	67,672,799
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,286,527	51,701,342
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	7,423,622	7,423,622
Other comprehensive income, net of tax	-	-	-	-	-	(749,250)	-	(749,250)
Total comprehensive income for the year	-	-	-	-	-	(749,250)	7,423,622	6,674,372
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,033,730)	(1,033,730)
Appropriation to surplus reserve	-	-	-	1,417,004	-	-	(1,417,004)	-
Appropriation to general reserve	-	-	-	-	1,429,502	-	(1,429,502)	-
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984

Notes to the Consolidated Financial Statements

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

7 NET INTEREST INCOME

	2018	2017
Interest income		
Balances with central bank	1,158,459	1,232,422
Deposits and placements with banks and other financial institutions	1,264,953	1,012,293
Loans and advances to customers	17,463,866	14,672,276
Investment securities ^(a)	17,936,291	21,179,688
Finance lease	1,844,538	1,319,576
Total	39,668,107	39,416,255
Unwinding of discount on allowance	48,266	57,259
Interest expense		
Borrowings from central bank ^(b)	(814,403)	(487,566)
Deposits and placements from banks and other financial institutions	(7,725,508)	(6,227,781)
Deposits from customers	(8,440,058)	(7,802,262)
Debt securities issued	(4,721,273)	(4,702,109)
Total	(21,701,242)	(19,219,718)
Net interest income	17,966,865	20,196,537

- (a) Included within "Interest income" was RMB21,037,636 thousand for financial assets that were not at fair value through profit or loss in 2017.
- (b) Borrowings from central bank include general borrowings from the PBOC, rediscounted bills held under resale agreements, closed anti-repo and lending facilities with the PBOC.

8 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Settlement and clearing fees	54,103	46,169
Guarantee and commitment fees	210,853	146,700
Investment banking fees	913,920	543,564
Custody fees	466,894	374,366
Bank card fees	629,269	501,672
Acquiring business fees	26,061	7,633
Agency commissions	1,080,899	1,139,922
Others	458,985	283,563
Total	3,840,984	3,043,589
Fee and commission expense	(134,521)	(199,918)
Net fee and commission income	3,706,463	2,843,671

Notes to the Consolidated Financial Statements

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

9 NET TRADING GAINS/(LOSSES)

	2018	2017
Net gains/(losses) from foreign exchange	162,143	(460,986)
Net gain from interest rate instruments	4,811,324	21,248
Total	4,973,467	(439,738)

Net gains/(losses) from financial investments mainly include gains arising from fair value changes of financial assets and liabilities at fair value through profit or loss.

10 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	2018	2017
Net gains from financial assets at fair value through profit or loss	22,844	–
Net gains from financial assets at fair value through other comprehensive income	94,779	–
Net losses from financial assets at amortised cost	(6,808)	–
Net losses from investment securities available for sale	–	(68,086)
Other	(5,130)	(8,074)
Total	105,685	(76,160)

All the net gains recognised from the derecognition of financial assets measured at amortised cost are resulted from trading for the year ended 31 December 2018.

11 OTHER OPERATING INCOME, NET

	2018	2017
Net losses on bills	(8,707)	(122,245)
Others	205,956	105,620
Total	197,249	(16,625)

12 OPERATING EXPENSES

	2018	2017
Staff cost (Note 13)	(3,557,304)	(3,233,368)
Business tax and surcharges	(217,774)	(156,473)
General operating and administrative expenses	(1,570,624)	(1,526,721)
Operating lease rental expenses	(374,762)	(351,448)
Depreciation (Note 26)	(282,662)	(300,333)
Amortization expenses for long-term prepaid expenses	(89,226)	(93,155)
Amortization expenses for intangible assets (Note 28(d))	(54,806)	(41,467)
Amortization expenses for land use rights (Note 28(c))	(8,750)	(4,570)
Auditors' remuneration	(4,125)	(7,130)
– Audit services	(3,800)	(6,830)
– Non-audit services	(325)	(300)
Others	(44,881)	(115,474)
Total	(6,204,914)	(5,830,139)

Notes to the Consolidated Financial Statements

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

13 STAFF COST

	2018	2017
Salaries, bonuses, allowances and subsidies	(2,511,639)	(2,407,962)
Pension costs	(435,776)	(347,663)
Labor union fee and staff education fee	(85,629)	(88,329)
Other social insurance and welfare costs	(524,260)	(389,414)
	(3,557,304)	(3,233,368)

(a) Five highest paid individuals

The five highest paid individuals of the Group are members of the bank, who are not the directors or supervisors listed in Note 14(a). Their emoluments are determined by and referred to current market level in the region where the bank is located. Details of the five highest paid individuals' emoluments are as follow:

	2018	2017
Salaries, allowances and benefits	6,909	6,118
Contribution to pension schemes	218	162
Discretionary bonuses	6,122	24,596
	13,249	30,876

The number of these individuals, other than supervisors and directors, whose emoluments fell within the following bands.

	2018	2017
RMB2,000,001 - RMB5,000,000	5	3
RMB5,000,001 - RMB10,000,000	-	1
RMB10,000,001 - RMB15,000,000	-	1
	5	5

No emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS

(a) Details of the Directors' and Supervisors' emoluments are as follows:

Name	2018				Total
	Fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Wu Xuemin ^{(2) (*)}	–	437	96	170	703
Zhang Renfu ^{(3)(7) (*)}	–	437	96	159	692
Ci Yaping ^(*)	–	368	84	136	588
Non-executive Directors					
Zhang Feifei ⁽⁵⁾	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽⁵⁾	–	–	–	–	–
Zhao Zongren	–	–	–	–	–
Qian Li	–	–	–	–	–
Lu Hui ⁽⁵⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁵⁾	–	–	–	–	–
Au Ngai, Daniel ⁽⁵⁾	156	–	–	–	156
Dai Genyou ⁽⁵⁾	156	–	–	–	156
Wang Shihao ⁽⁵⁾	156	–	–	–	156
Zhang Shenghuai ⁽⁵⁾	156	–	–	–	156
Fung Weiquan ⁽⁵⁾	–	–	–	–	–
Zhu Hongjun ⁽⁵⁾	144	–	–	–	144
Zhou Yana ⁽⁶⁾	100	–	–	–	100
Zhu Yicun ⁽⁷⁾	–	–	–	–	–
Wu Tian ⁽⁷⁾	–	–	–	–	–
Qian Dongsheng ⁽⁷⁾	–	–	–	–	–
Wang Wenjin ⁽⁷⁾	–	–	–	–	–
Dai Peikun ⁽⁷⁾	–	–	–	–	–
Yin Jianfeng ⁽⁷⁾	–	–	–	–	–
Huang Aiming ⁽⁷⁾	–	–	–	–	–
Liu Zhiqiang ⁽⁷⁾	–	–	–	–	–
Hu Jun ⁽⁷⁾	–	–	–	–	–
Supervisors					
Xu Chongding ⁽⁸⁾	–	4	117	–	121
Zhou Tong ⁽⁹⁾	–	–	–	–	–
Cheng Rulin ⁽¹⁰⁾	–	–	–	–	–
Cheng Junpei ⁽¹¹⁾	34	–	–	140	174
Li Ruifeng	–	–	–	–	–
Pan Shujuan	64	–	–	140	204
Yang Mianzhi	49	–	–	140	189
Zhang Youqi ^{(12) (*)}	–	393	84	133	610
Tang Chuan ^{(13) (*)}	–	999	50	288	1,337
Zhong Qiushi ⁽¹⁴⁾	–	606	35	98	739
Chen Rui ⁽¹⁵⁾	–	–	–	–	–
Hu Jing ⁽¹⁵⁾	–	–	–	–	–
Dong Xiaolin ⁽¹⁵⁾	27	–	–	–	27
Total	1,042	3,244	562	1,404	6,252

(*) The total compensation packages for executive directors and supervisors for the year ended 31 December 2018 including discretionary bonuses have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2018 financial statements. The compensation amounts have been fully disclosed for these directors and supervisors as at 31 December 2017.

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

Name	2017				Total
	Fees	Salaries, allowance and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Li Hongming ⁽¹⁾	–	459	70	63	592
Wu Xuemin	–	444	66	76	586
Xu Demei ⁽⁴⁾	–	74	188	–	262
Ci Yaping	–	370	63	57	490
Non-executive Directors					
Zhang Feifei	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng	–	–	–	–	–
Zhao Zongren	–	–	–	–	–
Qian Li	–	–	–	–	–
Lu Hui	–	–	–	–	–
Qiao Chuanfu	–	–	–	–	–
Au Ngai, Daniel	63	–	–	–	63
Dai Genyou	90	–	–	–	90
Wang Shihao	75	–	–	–	75
Zhang Shenghuai	87	–	–	–	87
Fung Weiquan	15	–	–	–	15
Zhu Hongjun	87	–	–	–	87
Supervisors					
Zhang Renfu	–	423	63	95	581
Xu Chongding	–	758	59	751	1,568
Zhou Tong	–	819	49	644	1,512
Cheng Rulin	–	–	–	–	–
Qian Xiaojun	–	–	–	–	–
Li Ruifeng	–	–	–	–	–
Cheng Junpei	79	–	–	–	79
Pan Shujuan	88	–	–	–	88
Yang Mianzhi	43	–	–	–	43
Total	627	3,347	558	1,686	6,218

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) **Details of the Directors' and Supervisors' emoluments are as follows:** (Continued)

- (1) Li Hongming ceased to be the chairman, an executive director, the chairman of the Development Strategy and Consumer Protection Committee and a member of Personnel Nomination and Remuneration Committee in December 2017.
- (2) Wu Xuemin has been elected to be the chairman, an executive director, the chairman of the Development Strategy and Consumer Protection Committee and a member of Personnel Nomination and Remuneration Committee on 12 December 2017.
- (3) Zhang Renfu resigned as the chairman of the board of supervisors, a member of the nomination committee of the board of supervisors and a member of the supervisory committee of the board of supervisors and the employee supervisor in July 2018.
- (4) Xu Demei ceased to be vice chairman, executive director and a member of the Related Transactions Control and Risk Management Committee in March 2017.
- (5) Zhang Feifei, Zhu Jiusheng, Lu Hui, Qiao Chuanfu, Au Ngai(Daniel), Dai Genyou, Wang Shihao, Zhang Shenghuai, Fung Weiquan and Zhu Hongjun ceased to be directors due to the change of the board of directors in December 2018.
- (6) Zhou Yana was elected to be a independent non-executive director effective from August 2018.
- (7) Huishang Bank held an extraordinary general meeting on 28th November 2018. The proposals submitted by the meeting regarding the reelection of the board of directors and the election of members of the fourth board of directors have been passed. Zhang Renfu, Zhu Yicun, Wu Tian, Qian Dongsheng, Wang Wenjin, Dai Peikun, Yin Jianfeng, Huang Aiming, Liu Zhiqiang and Hu Jun were elected to be new directors of fourth session of the Board of Directors.
- (8) Xu Chongding resigned as the employee supervisor and a member of the nomination committee of the board of supervisors on 15 June 2018.
- (9) Zhou Tong ceased to be the employee supervisor and a member of the nomination committee of the board of supervisors on 6 March 2018.
- (10) Cheng Rulin ceased to be shareholder supervisor due to the change of the board of supervisors in December 2018.
- (11) Cheng Junpei ceased to be the external supervisor due to the change of the board of supervisors in December 2018.
- (12) Zhang Youqi resigned as the vice president of the bank on 25 July 2018 due to the bank's internal job reallocation. The third Board of Supervisors of the Bank held 37th meetings on 27 July 2018 and elected Zhang Youqi as the chairman of board of supervisors of the third board of supervisors. The the fourth board of supervisors held the first meeting on 13 December 2018 and elected Zhang Youqi as the chairman of the board of supervisors of the fourth board of supervisors.

Notes to the Consolidated Financial Statements

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

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (Continued)

- (13) Tang Chuan was elected to be the employee supervisor of the third board of supervisors on 6 March 2018 in accordance with the democratic election procedure of the bank. This report only discloses the emolument of Tang Chuan as a supervisor.
- (14) Zhong Qiushi was elected to be the employee supervisor of the third board of supervisors on 15 June 2018 in accordance with the democratic election procedure of the bank. This report only discloses the emolument of Zhong Qiushi as a supervisor.
- (15) Huishang Bank held an extraordinary general meeting on 28 November 2018. The proposals submitted in the meeting regarding the reelection of the board of supervisors and the election of members of the fourth board of supervisors have been passed. Chen Rui and Hu Jing were elected as the new shareholder supervisors of the fourth board of supervisors. Dong Xiaolin was elected as the new external supervisor of the fourth board of supervisors. The emoluments in the report cover the actual emoluments of the members of the third board of supervisors and the new external supervisor Dong Xiaolin in 2018.

(b) Retirement benefits for directors and supervisors

For the year ended 31 December 2018, no retirement benefits were paid to the directors or supervisors by a defined benefit pension plan operated by the Group (2017: none).

(c) Termination benefits for directors and supervisors

For the year ended 31 December 2018, no early termination compensations were paid to the directors or supervisors by the Group (2017: none).

(d) Consideration provided to third parties

For the year ended 31 December 2018, no consideration was paid to third parties that previously hired the Group's current directors and supervisors (2017: none).

(e) Material interests in transactions, arrangements or contracts of directors and supervisors.

For the year ended 31 December 2018, the Group has not entered into any significant transactions, arrangements or contracts in which the directors and supervisors of the Group have material interests directly or indirectly in the Group's business (2017: none).

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

15 IMPAIRMENT LOSSES ON ASSETS

	2018	2017
Loans and advances		
– At amortised cost	(4,602,665)	–
– Stage 1	(456,320)	–
– Stage 2	(2,364,789)	–
– Stage 3	(1,781,556)	–
– At fair value through other comprehensive income	(93,977)	–
– Stage 1	(93,977)	–
Financial investments		
– Financial assets at amortised cost	(4,556,359)	–
– Financial assets at fair value through other comprehensive income	(351,606)	–
Credit commitments	(150,651)	–
Deposits with banks and other financial institutions	(7,075)	–
Placements with and loans to banks and other financial institutions	(17,319)	–
Financial assets held under resale agreements	28,151	–
Finance lease receivables (note 27)	(298,849)	–
Repossessed assets	(26,887)	–
Other assets	12,870	–
Total	(10,064,367)	–

	2018	2017
Loans and advances to customers		
– Collectively assessed	–	(2,163,542)
– Individually assessed	–	(2,099,569)
Debt instruments classified as receivables	–	(2,669,643)
Available-for-sale financial assets	–	159,257
Finance lease receivables	–	(234,447)
Repossessed assets	–	(150,200)
Other receivables	–	(15,465)
Other assets	–	(28,949)
Total	–	(7,202,558)

Notes to the Consolidated Financial Statements

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

16 INCOME TAX EXPENSE

	2018	2017
Current income tax		
– Chinese mainland income tax	(3,787,500)	(3,966,647)
Deferred tax (Note 37)	1,826,968	2,165,631
	(1,960,532)	(1,801,016)

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2018	2017
Profit before tax	10,820,905	9,612,764
Tax calculated at the applicable statutory tax rate of 25%	(2,705,226)	(2,403,191)
Tax effect arising from income not subject to tax ^(a)	923,356	657,983
Tax effect of items such as expenses not deductible for tax purposes ^(b)	(141,097)	(47,182)
Tax filing differences from previous year	4,113	(8,626)
Unrecognized impact of deductible temporary differences	(41,678)	–
Income tax expense	(1,960,532)	(1,801,016)

- (a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.
- (b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses deductible loss and undeductible written off loan in excess of the relevant deductible threshold under the relevant PRC tax regulations.
- (c) The subsidiary of the Group, Wuwei Huiyin Village and Township Bank Co., Ltd, incurred tax losses for the current year, and the Group cannot reasonably predict that the subsidiary will have sufficient taxable income to return to the tax loss in the future, so the deferred tax assets of the tax loss are not recognized.

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

17 EARNINGS PER SHARE (BASIC AND DILUTED)

- (a) Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

	2018	2017
Net profit attributable to shareholders of the Bank (in RMB thousands)	8,747,031	7,614,884
Proposed dividends for preference shares (in RMB thousands)	377,024	359,690
Weighted average number of ordinary shares in issue (in thousands)	12,154,801	12,154,801
Basic earnings per share (in RMB)	0.69	0.60

Equity information is in Note 39(a). The number of ordinary shares of the bank increased this year due to the distribution of stock dividends, which have no impact on the amount of owner's equity. So basic earnings per share of the bank for 2017 were recalculated on the basis of adjusted shares.

(b) **Diluted earnings per share**

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the year ended 31 December 2018 and ended 31 December 2017.

When calculating basic earnings per share for ordinary shares, the dividend of preference shares issued in the current year shall be deducted from the net profit attributable to the shareholders of the bank. In 2016, the bank issued non-cumulative preference shares. As at 31 December 2018, the declared dividend of Offshore Preference Shares amounted to USD54.27 million, equivalent to RMB377.02 million before tax. (As at 31 December 2017, the declared dividend of Offshore Preference Shares amounted to USD54.27 million, equivalent to RMB359.70 million before tax.)

The preference shares are potentially convertible to ordinary shares available. As of 31 December 2018, the trigger conditions for the conversion had not occurred, and the convertible features of preference shares had no impact on the calculation of basic and diluted earnings per share for year ended 31 December 2018.

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

18 CASH AND BALANCES WITH CENTRAL BANK

	As at 31 December 2018	As at 31 December 2017
Cash	1,109,950	1,292,408
Statutory reserves ^(a)	62,243,898	73,508,127
Surplus reserves ^(b)	24,754,888	17,557,338
Subtotal	88,108,736	92,357,873
Interest receivable	35,588	–
Total	88,144,324	92,357,873

- (a) The Group places statutory deposit reserves with the People's Bank of China ("the PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting year, the statutory deposit reserve rates of the bank were as follows:

	As at 31 December 2018	As at 31 December 2017
Statutory reserve rate for RMB deposits	11.0%	13.5%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

As at 31 December 2018, statutory reserve rates for Jinzhai Huiyin Village and Township Bank Co., Ltd. ("Jinzhai Huiyin") and Wuwei Huiyin Village and Township Bank Co., Ltd. ("Wuwei Huiyin") were 9% and 8% (31 December 2017: 8% and 9%).

- (b) Surplus deposit reserves maintained with the PBOC are mainly for clearing purposes.

19 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Banks in Chinese mainland	5,289,329	6,697,192
Other financial institutions in Chinese mainland	47,367	47,136
Banks in other countries and regions	2,615,924	2,955,508
	7,952,620	9,699,836
Interest receivable	26,473	–
Less: allowances for impairment losses	(14,629)	(3)
Total	7,964,464	9,699,833

Deposits with banks and other financial institutions were in State 1, and allowances for impairment losses were RMB14.63 million (1 January 2018: RMB7.55 million).

Notes to the Consolidated Financial Statements

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

20 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Banks in Chinese mainland	1,828,271	1,502,866
Other financial institutions in Chinese mainland	3,100,000	2,050,422
Other financial institutions in other countries and regions	100,000	–
	5,028,271	3,553,288
Interest receivable	16,450	–
Less: allowances for impairment losses	(22,251)	–
Total	5,022,470	3,553,288

Placements with banks and other financial institutions were in State 1, and allowance for impairment losses were RMB22.25 million (1 January 2018: RMB4.93 million).

21 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2018		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	730,732	3,365	(407)
– Currency swaps	6,349,245	156,699	(67,976)
– Interest rate swaps	14,790,000	48,915	(69,555)
Total	21,869,977	208,979	(137,938)

	As at 31 December 2017		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	54,596	60	–
– Currency swaps	15,595,701	46,563	(745,165)
– Interest rate swaps	1,950,000	20,856	(2,284)
Total	17,600,297	67,479	(747,449)

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

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December 2018	As at 31 December 2017
By collateral type:		
Debt securities	26,150,179	35,927,634
Bills	199,611	–
Precious metal	–	99,853
	26,349,790	36,027,487
Interest receivable	13,818	–
Less: allowances for impairment losses	(76,952)	–
Total	26,286,656	36,027,487

Financial assets held under resale agreements were in State 1, and allowances for impairment losses were RMB76.95 million, (1 January 2018: RMB105.10 million).

23 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 31 December 2018
Loans and advances measured at amortised cost	
– Corporate loans	223,163,204
– Personal loans	145,245,686
Subtotal	368,408,890
Loans and advances measured at fair value through other comprehensive income	
– Discounted bills	13,356,764
Subtotal	13,356,764
Total	381,765,654
Interest receivable	803,160
Total loans and advances	382,568,814
Less: allowance for loans at amortised cost	(11,907,433)
Loans and advances to customers, net	370,661,381
Allowance for loans at fair value through other comprehensive income	(119,339)

Notes to the Consolidated Financial Statements

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(a) Analysis of loans and advances to customers: (Continued)

	As at 31 December 2017
Corporate loans and advances	
– Corporate loans	187,110,793
– Discounted bills	15,209,815
Subtotal	202,320,608
Personal loans	
– Mortgage loans	84,738,585
– Revolving loans for individual business	6,483,121
– Others	21,151,835
Subtotal	112,373,541
Total	314,694,149
Less: allowance for impairment losses	
– Collectively assessed	(8,074,345)
– Individually assessed	(1,411,259)
Total allowance for impairment losses	(9,485,604)
Loans and advances to customers, net	305,208,545

(b) Loans and advances to customers are assessed as follows:

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 31 December 2018				
Total loans and advances to customers	362,192,170	15,593,960	3,979,524	381,765,654
Allowance for impairment losses-Loans and advances measured at amortised cost	(3,504,296)	(4,862,848)	(3,540,289)	(11,907,433)
As at 31 December 2017				
Total loans and advances to customers				Total 314,694,149
Allowance for impairment losses				(9,485,604)
Loans and advances to customers, net				305,208,545

Notes to the Consolidated Financial Statements

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Reconciliation of allowance for impairment losses measured at amortised cost:

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2018				9,485,604
Impact of adopting IFRS 9				(463,890)
Opening balance under IFRS 9	2,926,494	3,305,258	2,789,962	9,021,714
Impairment losses for the year	456,320	2,364,789	1,781,556	4,602,665
Reversal	–	–	–	–
Stage conversion				
Transfers to Stage 1	227,556	(212,803)	(14,753)	–
Transfers to Stage 2	(77,925)	88,697	(10,772)	–
Transfers to Stage 3	(28,149)	(683,093)	711,242	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Model/risk parameters adjustment	–	–	–	–
Write-off and transfer out	–	–	(2,172,841)	(2,172,841)
Recovery of loans and advances written off	–	–	504,161	504,161
Unwinding of discount on allowance	–	–	(48,266)	(48,266)
Exchange differences and others	–	–	–	–
As at 31 December 2018	3,504,296	4,862,848	3,540,289	11,907,433

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(1) Reconciliation of allowance for impairment losses measured at amortised cost: (Continued)

Corporate loans

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2018				7,091,068
Impact of adopting IFRS 9				(47,350)
Opening balance under IFRS 9	1,545,801	3,063,618	2,434,299	7,043,718
Addition	381,572	2,268,429	1,356,740	4,006,741
Reversal	–	–	(36,965)	(36,965)
Stage conversion				
Transfers to Stage 1	136,992	(136,992)	–	–
Transfers to Stage 2	(74,801)	84,509	(9,708)	–
Transfers to Stage 3	(24,566)	(616,350)	640,916	–
Write-off and transfer out	–	–	(1,795,715)	(1,795,715)
Recovery of loans and advances written off	–	–	390,937	390,937
As at 31 December 2018	1,964,998	4,663,214	2,980,504	9,608,716

Personal loans and advances

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2018				2,394,536
Impact of adopting IFRS 9				(416,540)
Opening balance under IFRS 9	1,380,693	241,640	355,663	1,977,996
Addition	74,748	96,360	424,816	595,924
Reversal	–	–	(11,301)	(11,301)
Stage conversion				
Transfers to Stage 1	90,564	(75,811)	(14,753)	–
Transfers to Stage 2	(3,124)	4,188	(1,064)	–
Transfers to Stage 3	(3,583)	(66,743)	70,326	–
Write-off and transfer out	–	–	(377,126)	(377,126)
Recovery of loans and advances written off	–	–	113,224	113,224
As at 31 December 2018	1,539,298	199,634	559,785	2,298,717

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

23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

- (2) Reconciliation of allowance for impairment losses measured at fair value through other comprehensive income:

	Year ended 31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
	(12-month ECL)	(Lifetime ECL)	(Lifetime ECL – impaired)	
As at 1 January 2018				–
Impact of adopting IFRS 9				25,362
Opening balance under IFRS 9	25,362	–	–	25,362
Impairment losses for the year	93,977	–	–	93,977
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Model/risk parameters adjustment	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
Unwinding of discount on allowance	–	–	–	–
Exchange differences and others	–	–	–	–
As at 31 December 2018	119,339	–	–	119,339

	Year ended 31 December 2017	
	Corporate loans	Personal loans
Balance at beginning of the year	6,013,332	2,021,175
Impairment allowance charged	3,425,022	838,089
Unwinding of discount on allowance	(50,770)	(6,489)
Recoveries	140,263	75,483
Write-off and transfer out	(2,436,779)	(533,722)
Balance at end of the year	7,091,068	2,394,536

In this year, the domestic branch adjusted the five-level classification and customer rating of customer loans and advances, and the loan principal of stage 1 was transferred to stage 2 and stage 3 of RMB7,113 million, the loan principal from stage 2 to stage 3 is RMB1,276 million, the principal of the loan transferred from stage 2 to stage 1 is RMB2,269 million. The principal of the loan transferred from stage 3 to stage 1 and stage 2 is not significant.

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24 INVESTMENT SECURITIES

	As at 31 December 2018	As at 31 December 2017
Financial assets at fair value through profit or loss		
Listed outside Hong Kong		
– Government bonds	868,255	174,431
– Other debt securities	499,835	1,587,454
– Interbank certificates of deposits	159,180	933,214
Subtotal	1,527,270	2,695,099
Unlisted		
– Beneficial rights in trust and asset management plans	74,697,756	–
– Non-guaranteed wealth management products managed by other banks	28,909,989	–
Subtotal	103,607,745	–
Interest receivable	1,344,546	–
Total	106,479,561	2,695,099

As at 31 December 2018 and 31 December 2017, there was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

	As at 31 December 2018	As at 31 December 2017
Financial assets at fair value through other comprehensive income		
Debt securities		
Listed outside Hong Kong		
– Debt securities	85,906,546	–
– Interbank certificates of deposits	18,415,455	–
Subtotal	104,322,001	–
Equity securities		
Unlisted		
– Equity investment	143,019	–
Subtotal	143,019	–
Interest receivable	1,340,574	–
Total	105,805,594	–

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

24 INVESTMENT SECURITIES (Continued)

	As at 31 December 2018 Unaudited	As at 31 December 2017 Audited
Financial assets at amortised cost		
Listed outside Hong Kong		
– Debt securities	63,077,874	–
Unlisted		
– Beneficial rights in trust and asset management plans	233,068,480	–
Subtotal	296,146,354	–
Interest receivable	4,092,442	–
Allowance for impairment losses	(7,878,848)	–
Financial assets at amortised cost, net	292,359,948	–
	As at 31 December 2018	As at 31 December 2017
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	–	57,067,186
– Interbank certificates of deposit	–	14,117,912
Unlisted		
– Beneficial rights in trust and asset management plans	–	62,415,359
– Non-guaranteed wealth management products managed by other banks	–	10,000,000
– Equity investments	–	9,500
Subtotal	–	143,609,957
Allowance for impairment losses	–	(304,067)
Available-for-sale financial assets, net	–	143,305,890
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	–	61,128,401
Subtotal	–	61,128,401
Debt instruments classified as receivables		
Unlisted		
– Beneficial rights in trust and asset management plans	–	207,944,902
– Guaranteed wealth management products managed by other banks	–	7,850,000
– Debt securities	–	133,772
Subtotal	–	215,928,674
Allowance for impairment losses	–	(4,281,414)
Debt instruments classified as receivables, net	–	211,647,260

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

24 INVESTMENT SECURITIES (Continued)

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

- (1) Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organized by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. and (c) products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The details of unconsolidated structured entities invested by the Group are set out in Note 46.

Investment securities analyzed by issuer are as follows:

	As at 31 December 2018	As at 31 December 2017
Financial assets at FVTPL		
By issuers		
– Government	868,255	174,431
– Banks and other financial institutions	104,167,224	1,994,935
– Legal entities	99,536	525,733
Interest receivable	1,344,546	–
Total	106,479,561	2,695,099
Financial assets at FVOCI		
Debt instruments		
By issuers		
– Government	52,410,960	–
– Banks and other financial institutions	37,303,896	–
– Legal entities	14,607,145	–
Subtotal	104,322,001	–
Equity instruments	143,019	–
Subtotal	143,019	–
Interest receivable	1,340,574	–
Total	105,805,594	–

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24 INVESTMENT SECURITIES (Continued)

(1) (Continued)

Investment securities analyzed by issuer are as follows: (continued)

	As at 31 December 2018	As at 31 December 2017
Financial assets at AC		
By issuers		
– Government	45,943,320	–
– Banks and other financial institutions	241,568,969	–
– Legal entities	8,634,065	–
Subtotal	296,146,354	–
Interest receivable	4,092,442	–
Less: Allowance for impairment losses	(7,878,848)	–
Financial assets at AC, net	292,359,948	–
Available-for-sale financial assets		
By issuers		
– Government	–	29,322,883
– Banks and other financial institutions	–	102,453,916
– Legal entities	–	11,823,658
Subtotal	–	143,600,457
Equities investment	–	9,500
Total	–	143,609,957
Allowance for impairment losses	–	(304,067)
Available-for-sale financial assets, net	–	143,305,890
Held-to-maturity investments		
By issuers		
– Government	–	48,782,096
– Banks and other financial institutions	–	6,579,001
– Legal entities	–	5,767,304
Held-to-maturity investments, net	–	61,128,401
Debt instruments classified as receivables		
By issuers		
– Government	–	133,772
– Banks and other financial institutions	–	215,794,902
Total	–	215,928,674
Allowance for impairment losses	–	(4,281,414)
Debt instruments classified as receivables, net	–	211,647,260

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

25 INVESTMENTS IN ASSOCIATES

Investments in associates of the Group comprising of ordinary shares of unlisted companies are as follows:

As at 31 December 2018

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	36,932,770	31,432,734	1,657,913	697,886	20%

As at 31 December 2017

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	32,708,000	27,852,751	1,564,938	684,910	20%

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at beginning of the year	971,050	538,646
Additions	–	304,000
Cash dividends received	(10,620)	(8,732)
Share of results, net of tax	139,578	137,136
Balance at end of the year	1,100,008	971,050

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with a registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the authorised registered capital of Chery Huiyin Motor Finance Service Co., Ltd. was increased to RMB1 billion. As at 31 December 2014, the Group's share in this associate was RMB200 million or 20%. On 30 September 2014, this company has completed its shareholding reform, and renamed as Chery Huiyin Motor Finance Service Corporation Limited. In December 2017, the three shareholders of the Company subscribed for 500 million shares in the company with capital injection of RMB1.52 billion, in proportion to their respective shareholding ratio. After the capital increase, the registered capital of the Company increased from RMB1 billion to RMB1.5 billion. After the capital increase, the Group's share in this associate was RMB300 million or 20%.

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

26 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2018	1,515,308	67,294	1,482,040	610,952	3,675,594
Additions	65,526	–	173,105	366,908	605,539
Transfers in/(out)	72,102	–	1,849	(93,895)	(19,944)
Disposals	(8,414)	(5,333)	(62,127)	–	(75,874)
Other transfers out	–	–	–	(7,403)	(7,403)
As at 31 December 2018	1,644,522	61,961	1,594,867	876,562	4,177,912
Accumulated depreciation					
As at 1 January 2018	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Depreciation charge	(78,309)	(4,626)	(199,727)	–	(282,662)
Disposals	7,862	5,173	55,695	–	68,730
As at 31 December 2018	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Net book value	785,349	6,501	563,304	876,562	2,231,716

	Buildings	Motor vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2017	1,506,184	66,915	1,321,197	280,629	3,174,925
Additions	9,124	2,876	182,028	360,553	554,581
Transfers in/(out)	–	–	3,938	(30,124)	(26,186)
Disposals	–	(2,497)	(25,123)	–	(27,620)
Other transfers out	–	–	–	(106)	(106)
As at 31 December 2017	1,515,308	67,294	1,482,040	610,952	3,675,594
Accumulated depreciation					
As at 1 January 2017	(616,499)	(52,135)	(787,049)	–	(1,455,683)
Depreciation charge	(172,227)	(5,626)	(122,480)	–	(300,333)
Disposals	–	1,754	21,998	–	23,752
As at 31 December 2017	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Net book value	726,582	11,287	594,509	610,952	1,943,330

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Consolidated Financial Statements

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

27 FINANCE LEASE RECEIVABLES

The changes in the preparation for the devaluation of financing lease is as follows:

As at 31 December 2018	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	13,445,640	19,431,976	7,739,122	40,616,738
Unrealized revenue	(1,908,426)	(496,893)	(2,023,171)	(4,428,490)
Allowance	(240,522)	(396,220)	(213,203)	(849,945)
Interest receivable of finance lease receivables	286,173	–	–	286,173
Net	11,582,865	18,538,863	5,502,748	35,624,476

As at 31 December 2017	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	9,780,047	14,137,818	6,032,935	29,950,800
Unrealized revenue	(515,497)	(342,831)	(2,271,801)	(3,130,129)
Allowance	(7,895)	(534,327)	(8,874)	(551,096)
Net	9,256,655	13,260,660	3,752,260	26,269,575

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2018				551,096
Impact of adopting IFRS 9				–
Opening balance under IFRS 9	311,121	118,057	121,918	551,096
Addition (Note 29)	(195,184)	(22,958)	516,991	298,849
Stage conversion				
Transfers to Stage 1	179,422	(95,572)	(83,850)	–
Transfers to Stage 2	(6,160)	6,160	–	–
Transfers to Stage 3	(37,222)	–	37,222	–
As at 31 December 2018	251,977	5,687	592,281	849,945

The Group's finance lease receivables are all managed by its subsidiary, Huishang Bank Financial Leasing Co., Ltd. For the year ended 31 December 2018, the principal of the Group's top five finance lease receivables and the related allowance were RMB2,288,638 thousand and RMB45,086 thousand, respectively, which accounted for 5.63% and 4.85% of the total balance, respectively (31 December 2017: the principal of the Group's top five finance lease receivables and the related allowance were RMB1,783,452 thousand and RMB30,514 thousand, respectively, which accounted for 5.95% and 5.54% of the total balance, respectively).

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28 OTHER ASSETS

	As at 31 December 2018	As at 31 December 2017
Interest receivable (a)	45,020	5,907,415
Other receivables (b)	980,691	830,986
Less: impairment allowance (e)	(96,958)	(114,997)
Funds to be settled	839,691	873,282
Long-term prepaid expenses	255,862	237,114
Land use rights (c)	148,840	157,590
Foreclosed assets	441,872	399,902
Less: impairment allowance	(177,125)	(150,238)
Intangible assets (d)	181,089	164,015
Others	249,527	223,980
Less: impairment allowance (e)	(1,214)	(28,949)
Total	2,867,295	8,500,100

(a) Interest receivable

	As at 31 December 2018	As at 31 December 2017
Investment securities and financial assets at fair value through profit or loss	18,977	4,977,660
Loans and advances to customers	24,651	696,658
Placements with and loans and advances to banks, other financial institutions and central bank	1,392	50,614
Finance lease	-	182,483
Total	45,020	5,907,415

Pursuant to "Notice of amendment to the format of financial statements of financial enterprises in 2018" issued by the Ministry of Finance, the interest receivable disclosed by the Group during the year was interest receivable on the relevant financial instruments that are due but not received at the balance sheet date, and interest on financial instruments based on the effective interest rate method is included in the book.

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

28 OTHER ASSETS (Continued)

(b) Other receivables

The Group's other receivables are analysed by age as follows:

As at 31 December 2018	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	753,309	179,252	48,130	980,691
Allowance for impairment losses	(8,221)	(44,982)	(43,755)	(96,958)
Net	745,088	134,270	4,375	883,733

As at 31 December 2017	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	643,934	176,719	10,333	830,986
Allowance for impairment losses	(62,733)	(43,164)	(9,100)	(114,997)
Net	581,201	133,555	1,233	715,989

(c) Land use rights

	Year ended 31 December 2018	Year ended 31 December 2017
Cost		
Balance at beginning of the year	170,863	171,835
Additions	–	25,600
Disposals	–	(26,572)
Balance at end of the year	170,863	170,863
Accumulated amortization		
Balance at beginning of the year	(13,273)	(11,354)
Additions	(8,750)	(4,570)
Disposals	–	2,651
Balance at end of the year	(22,023)	(13,273)
Net book value		
At end of the year	148,840	157,590

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28 OTHER ASSETS (Continued)

(d) Intangible assets

Intangible assets of the Group are mainly computer software.

	Year ended 31 December 2018	Year ended 31 December 2017
Cost		
Balance at beginning of the year	380,164	284,345
Additions	51,936	69,633
Transfers in	19,944	26,186
Disposals	(5,426)	–
Balance at end of the year	446,618	380,164
Accumulated amortization		
Balance at beginning of the year	(216,149)	(174,682)
Additions	(54,806)	(41,467)
Disposals	5,426	–
Balance at end of the year	(265,529)	(216,149)
Net book value		
At end of the year	181,089	164,015

- (e) The carrying amounts of other receivables in other assets in Stage 1, 2 and 3 were RMB753.31 million, RMB179.25 million, RMB48.13 million (1 January 2018: RMB462.79 million, RMB396.79 million, RMB10.31 million), and the allowance for impairment losses in Stage 1, 2 and 3 were RMB8.22 million, RMB44.98 million and RMB43.76 million (1 January 2018: RMB4.97 million, RMB131.10 million and RMB9.52 million).

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29 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES)

	As at 1 January 2018 (After standard conversion)	Additions	Recovery	Write-off	As at 31 December 2018
Deposits with banks and other financial institutions	(7,554)	(7,075)	-	-	(14,629)
Placements with banks and other financial institutions	(4,932)	(17,319)	-	-	(22,251)
Financial assets held under resale agreements	(105,103)	28,151	-	-	(76,952)
Financial assets at amortised cost	(4,132,558)	(4,556,359)	-	810,069	(7,878,848)
Finance lease receivables	(551,096)	(298,849)	-	-	(849,945)
Foreclosed assets	(150,238)	(26,887)	-	-	(177,125)
Other assets-bad debts	(145,588)	12,870	-	34,546	(98,172)
Total	(5,097,069)	(4,865,468)	-	844,615	(9,117,922)

	As at 1 January 2017	Additions	Recovery	Write-off	As at 31 December 2017
Deposits with banks and other financial institutions	(3)	-	-	-	(3)
Foreclosed assets	(38)	(150,200)	-	-	(150,238)
Financial assets available-for-sale	(892,508)	159,257	-	429,184	(304,067)
Financial assets					
Debt instruments classified as					
receivables	(1,611,771)	(2,669,643)	-	-	(4,281,414)
Finance lease receivables	(316,649)	(234,447)	-	-	(551,096)
Other receivables	(97,804)	(15,465)	(1,728)	-	(114,997)
Other assets-bad debts	-	(28,949)	-	-	(28,949)
Total	(2,918,773)	(2,939,447)	(1,728)	429,184	(5,430,764)

Notes to the Consolidated Financial Statements

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

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Banks in Chinese mainland	21,870,183	29,368,839
Other financial institutions in Chinese mainland	94,794,329	66,445,760
Interest payable	1,031,556	–
Total	117,696,068	95,814,599

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Banks in Chinese mainland	28,558,474	25,427,912
Interest payable	220,110	–
Total	28,778,584	25,427,912

32 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018	As at 31 December 2017
Interbank certificates of deposit issued	86,218,858	–
Precious metal contracts	555,716	–
Interest payable	824,217	–
Total	87,598,791	–

As at 31 December 2018, the face value of Interbank certificates of deposit issued at fair value through profit or loss amounted to RMB88.36 billion. As at 31 December 2018, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders.

33 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2018	As at 31 December 2017
Securities sold under repurchase agreements	23,295,368	32,326,471
Bills sold under repurchase agreements	–	4,200,681
Precious metals sold under repurchase agreements	4,128,970	4,327,996
Interest payable	420,346	–
Total	27,844,684	40,855,148

Notes to the Consolidated Financial Statements

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34 DEPOSITS FROM CUSTOMERS

	As at 31 December 2018	As at 31 December 2017
Demand deposits		
— Corporate deposits	256,454,390	224,343,699
— Personal deposits	57,701,171	48,939,116
Time deposits		
— Corporate deposits	133,975,554	144,566,563
— Personal deposits	90,361,078	74,352,685
Pledged deposits held as collateral	27,073,461	20,025,327
Other deposits	395,270	580,792
Interest payable	7,837,387	—
Total	573,798,311	512,808,182

35 TAXES PAYABLE

	As at 31 December 2018	As at 31 December 2017
Corporate income tax	2,793,452	2,503,080
Value-added tax	371,659	245,459
Business tax and surcharges	52,964	32,355
Others	24,788	41,736
Total	3,242,863	2,822,630

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

36 OTHER LIABILITIES

	As at 31 December 2018	As at 31 December 2017
Interest payable (a)	–	9,271,288
Dividends payable (b)	126,527	187,139
Unearned rent and deposits under lease Arrangements (c)	2,528,094	2,427,635
Funds to be settled	442,261	1,858,279
Asset securitization	451,835	2,529,965
Salary and welfare payable (d)	1,809,482	1,706,324
Entrusted services	219,654	340,225
Long term suspension of customer deposits	133	53,015
Provision	603,193	238,099
– Allowance for litigation losses (Note 43)	230,372	230,372
– Provision for impairment of credit commitments (e)	360,559	–
Project funds payable	36,352	37,462
Others	2,749,636	1,006,376
Total	8,967,167	19,655,807

(a) Interest payable

	As at 31 December 2018	As at 31 December 2017
Deposits from customers	–	7,003,405
Deposits and placements from banks and other financial institutions	–	1,625,425
Debt securities issued	–	642,458
Total	–	9,271,288

Interest payable disclosed by the group in the current year are those for which the relevant financial instrument has expired but has not been paid on the balance sheet date, Interest on financial instruments, based on the real interest rate method, is included in the book Balance of the corresponding financial instrument.

(b) Dividends payable

As at 30 June 2018, the general meetings of shareholders were held and it was decided to distribute cash dividends to all shareholders. Details are listed in note 42.

(c) Unearned rent and deposits under lease arrangements

As at 31 December 2018, the Group's unearned rent and deposits under lease arrangements are all contributed by its subsidiary, Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income on finance leases.

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36 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable

	As at 31 December 2018	As at 31 December 2017
Short-term employee benefits	1,754,461	1,630,649
Termination benefits	10,637	18,314
Defined contribution plans	44,384	57,361
Total	1,809,482	1,706,324

Short-term employee benefits

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Wages, bonuses, allowances and subsidies	1,289,370	2,517,796	(2,409,034)	1,398,132
Employee benefits	213	180,304	(180,517)	–
Social insurance	810	167,060	(166,954)	916
Including:				
Medical insurance	161	159,706	(159,037)	830
Occupational injury insurance	35	2,126	(2,125)	36
Maternity insurance	614	5,228	(5,792)	50
Housing fund	1,223	171,210	(170,149)	2,284
Labour union fee and staff education fee	25,220	85,629	(71,488)	39,361
Other short-term employee benefits	313,813	14	(59)	313,768
Total	1,630,649	3,122,013	(2,998,201)	1,754,461

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017
Wages, bonuses, allowances and subsidies	1,163,894	2,407,962	(2,282,486)	1,289,370
Employee benefits	–	148,586	(148,373)	213
Social insurance	850	89,521	(89,561)	810
Including:				
Medical insurance	779	80,685	(81,303)	161
Occupational injury insurance	36	2,327	(2,328)	35
Maternity insurance	35	6,509	(5,930)	614
Housing fund	3,079	144,963	(146,819)	1,223
Labour union fee and staff education fee	20,189	88,329	(83,298)	25,220
Other short-term employee benefits	313,813	–	–	313,813
Total	1,501,825	2,879,361	(2,750,537)	1,630,649

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

36 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Basic pension insurance	7,235	242,384	(243,469)	6,150
Unemployment Insurance	396	5,672	(5,831)	237
Annuity scheme	10,683	193,392	(199,825)	4,250
Total	18,314	441,448	(449,125)	10,637

Defined contribution plans

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017
Basic pension insurance	6,444	173,972	(173,181)	7,235
Unemployment Insurance	271	6,344	(6,219)	396
Annuity scheme	14,062	173,691	(177,070)	10,683
Total	20,777	354,007	(356,470)	18,314

	As at 31 December 2018	As at 31 December 2017
Early retirement benefits	44,384	57,361

(e) Expected liabilities – Provision for impairment of credit commitments

	As at 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January				–
Impact of adopting IFRS 9				209,908
Opening balance under IFRS 9	205,486	3,531	891	209,908
Addition	86,895	64,529	(773)	150,651
Stage conversion				
Transfers to Stage 1	68,277	(67,534)	(743)	–
Transfers to Stage 2	(8)	8	–	–
Transfers to Stage 3	–	–	–	–
As at 31 December	292,381	68,060	118	360,559

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37 DEFERRED INCOME TAXES

Deferred 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 related to income taxes levied by the same taxation authority. The movements in the deferred income tax account are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at beginning of the year	4,724,487	2,309,106
The impacts of transition to IFRS 9		
– Effect on the income statement	17,006	–
– Effect on other comprehensive income	(73,607)	–
Charged to the income statement	1,826,968	2,165,631
Credited to other comprehensive income	(745,417)	249,750
Balance at end of the year	5,749,437	4,724,487

Items included in deferred tax assets and liabilities are as follows:

	As at 31 December 2018	As at 31 December 2017
Deferred tax assets		
Impairment allowance for assets	5,430,243	3,688,417
Salary and welfare payable	429,254	386,399
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	–	185,353
Fair value changes of available for sale financial assets	–	289,999
Impairment of financial assets measured by fair value and whose changes are included in other comprehensive income	153,315	–
Impairment of loans and advances to customers based on fair value and changes in other comprehensive income	29,835	–
Credit commitment impairment	90,140	–
Others	177,638	174,319
Total	6,310,425	4,724,487

Notes to the Consolidated Financial Statements

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

37 DEFERRED INCOME TAXES (Continued)

	As at 31 December 2018	As at 31 December 2017
Deferred income tax liabilities		
Valuation of financial instruments and derivative financial instruments at fair value through profit or loss	(31,962)	–
Fair value changes of financial assets at fair value through other comprehensive income	(345,603)	–
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	(273)	–
Impairment of financial assets measured by fair value and whose changes are included in other comprehensive income	(153,315)	–
Impairment of customer loans and advances based on fair value and changes in other comprehensive income	(29,835)	–
Subtotal	(560,988)	–
Net	5,749,437	4,724,487

Deferred taxes recorded in the income statements for the year comprise the following temporary differences:

	2018	2017
Impairment allowance for assets	1,840,150	1,771,273
Salary and welfare payable	42,855	48,448
Fair value changes of financial instruments and derivative financial instruments at fair value through profit or loss	(309,487)	270,638
Fair value changes of financial investments assets at fair value through other comprehensive income	87,902	–
Fair value changes of loans and advances to customer made at fair value and whose changes are included in other comprehensive income	72,088	–
Credit commitment impairment	90,140	–
Others	3,320	75,272
Total	1,826,968	2,165,631

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38 DEBT SECURITIES ISSUED

	As at 31 December 2018	As at 31 December 2017
11 Subordinated debts with fixed rate ^(a)	3,994,608	3,994,067
13 Financial bonds for SMEs ^(b)	–	2,199,018
15 Financial bonds 01 ^(c)	–	3,499,480
15 Financial bonds 02 ^(d)	499,867	499,785
15 Tier 2 capital bonds ^(e)	7,990,012	7,988,736
15 Financial bonds 03 ^(f)	–	3,499,322
15 Financial bonds 04 ^(g)	499,857	499,775
16 Financial bonds 01 ^(h)	6,999,800	6,999,462
16 Financial bonds 02 ⁽ⁱ⁾	2,999,773	2,999,688
17 Green financial bonds ^(j)	999,901	999,843
18 Green financial bonds ^(k)	3,999,966	–
Interbank certificates of deposit issued ^(l)	62,891,889	82,001,181
Interest payable	568,252	–
Total	91,443,925	115,180,357

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 on China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they have been qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 21 March 2013 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (c) The Group issued RMB3.5 billion of financial bonds on 30 July 2015 on the China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.
- (d) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (e) The Group issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 on the China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.
- (f) The Group issued RMB3.5 billion of financial bonds on 24 September 2015 on the China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.90%, paid annually.
- (g) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.

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38 DEBT SECURITIES ISSUED (Continued)

- (h) The Group issued RMB7 billion of financial bonds on 12 August 2016 on the China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (i) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (j) The Group issued RMB1 billion of financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.
- (k) The Group issued RMB4 billion of financial bonds on 29 May 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.5%, paid annually.
- (l) The Group issued 151 interbank certificates of deposit at discount with a total face value of RMB170.86 billion with maturity ranging from one month to one year. As at 31 December 2018, the face value of the undue interbank certificates of deposit issued was RMB64.12 billion.

As at 31 December 2018, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

39 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

(1) Share capital

The Bank's share capital is comprised of fully paid ordinary shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 31 December 2018	As at 31 December 2017
Number of authorized shares fully paid in issue (in thousands)	12,154,801	11,049,819

According to the annual profit distribution plan for 2017 reviewed and adopted at the 2017 annual general meeting held on 30 June 2018. 1 share for every 10 shares and RMB0.25 for every 10 shares shall be sent to all shareholders based on the total shares of 11,049,819,283. The Bank announced the issuance of stock dividends and cash dividends on 2 July 2018. Registration of new shares from the stock dividends was completed on 29 August 2018 and a capital verification report was issued on 31 August 2018 by Ernst & Young (Certified Public Accountants).

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

39 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(2) Other equity instruments

Preference shares outstanding as at 31 December 2018 and 31 December 2017

Preference shares	Issue date	Classification	Initial		Quantity (million)	Original		Maturity date	Conversion conditions
			interest rate	Issue price		currency (USD)	(RMB)		
31 December 2018 Offshore Preference Shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: issuance fee							(38,098)		
Carrying amount							5,990,090		

Changes in preference shares outstanding

	1 January 2018		Increase		31 December 2018	
	Amount	Carrying value	Amount	Carrying value	Amount	Carrying value
	(million shares)	(RMB million)	(million shares)	(RMB million)	(million shares)	(RMB million)
Offshore Preference Shares	44.4	5,990,090	-	-	44.4	5,990,090

	1 January 2017		Increase		31 December 2017	
	Amount	Carrying value	Amount	Carrying value	Amount	Carrying value
	(million shares)	(RMB million)	(million shares)	(RMB million)	(million shares)	(RMB million)
Offshore Preference Shares	44.4	5,990,090	-	-	44.4	5,990,090

The key terms are as follows:

(1) Dividend

The initial annual dividend rate is 5.50% and is subsequently adjustment of per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due and payable. Dividend payment method is non-cumulative. The dividend distribution of Offshore Preference Shares amounting to USD54.27 million (USD48.84 million payable to preference share holders at the coupon rate of 5.5% net of USD5.42 million of withholding tax at the rate of 10%), equivalent to approximately RMB377.02 million, was approved and the dividend was distributed on 10 November 2018.

Notes to the Consolidated Financial Statements

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

39 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(2) Other equity instruments (Continued)

The key terms are as follows: (Continued)

(2) Redemption

The Bank may, subject to obtaining CBIRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for the Offshore Preference Shares shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

(3) Compulsory conversion of preference shares

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some of the Offshore Preference Shares into such number of H Shares.

Offshore preference shares issued by the Bank are classified as equity instruments and listed in equity of the balance sheet. The capital raised by the aforesaid overseas preference shares is used to supplement other first class capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

	As at 31 December 2018	As at 31 December 2017
1. Total equity attributable to equity holders of the Bank	68,212,525	57,703,305
(1) Equity attributable to ordinary equity holders of the Bank	62,222,435	51,713,215
(2) Equity attributable to other equity holders of the Bank	5,990,090	5,990,090
2. Total equity attributable to non-controlling interests	2,064,934	1,508,781

(3) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- (i) share premium arising from the issuance of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations.

Notes to the Consolidated Financial Statements

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

39 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(3) Capital reserve (Continued)

Capital surplus can be utilized for the issuance of stock dividends or increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 31 December 2018	As at 31 December 2017
Share premium	6,760,445	6,751,041

The Bank adjusted the capital reserve equity premium for the difference between the long-term equity investment in Huishang Bank Financial Leasing Co., Ltd. and its share of net assets at date of acquisition, based on its increase in shareholding.

40 SURPLUS RESERVES AND GENERAL AND REGULATORY RESERVES

	Surplus reserves ^(a)	General reserves ^(b)
As at 1 January 2017	6,536,297	6,208,315
Appropriation to surplus reserves	1,417,004	–
Appropriation to general reserves	–	1,514,212
As at 31 December 2017	7,953,301	7,722,527
Appropriation to surplus reserves	1,600,165	–
Appropriation to general reserves	–	1,395,180
As at 31 December 2018	9,553,466	9,117,707

(a) Surplus reserves

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in the statutory consolidated financial statements to the non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Under the approval of the shareholders' meeting.

As at 31 December 2018 and 31 December 2017, the Bank's statutory surplus reserve balances were RMB5,414.97 million and RMB4,557.17 million. The others were discretionary surplus reserve.

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirements") issued by the Ministry of Finance on 20 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012.

Notes to the Consolidated Financial Statements

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

41 OTHER COMPREHENSIVE INCOME

	Fair value change of equity instruments at FVOCI		Fair value change of debt instruments at FVOCI		Impairment change of debt instruments at FVOCI		Fair value gains/(losses) on available for sale financial assets		Total
	Amount before tax	income tax impact	Amount before tax	income tax impact	Amount before tax	income tax impact	Profit before tax	income tax impact	
	As at 1 January 2017	-	-	-	-	-	-	(160,996)	
Changes in amount for the previous year	-	-	-	-	-	-	(999,000)	249,750	(749,250)
As at 31 December 2017	-	-	-	-	-	-	(1,159,996)	289,999	(869,997)
Impact of adopting IFRS 9	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	1,159,996	(289,999)	220,822
As at 1 January 2018	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	-	-	(649,175)
Changes in amount for the year	110,577	(27,644)	2,425,508	(606,377)	445,583	(111,396)	-	-	2,236,251
As at 31 December 2018	133,519	(33,380)	1,249,985	(312,496)	732,598	(183,150)	-	-	1,587,076

42 DIVIDENDS

(a) Dividends for ordinary shares

	Year ended 31 December 2018	Year ended 31 December 2017
Dividends declared for the year	276,245	674,039
Dividends per ordinary share (in RMB Yuan)	0.025	0.061
Dividends paid during the year	336,857	687,298

The final dividend of RMB0.25 per share in respect of the year ended 31 December 2017 has been approved by the shareholders in a general meeting.

Under the "Company Law of the PRC" and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory consolidated financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Allocations to the discretionary reserve with approval from the general meetings of shareholders. These reserves form part of the shareholders' equity.

In accordance with the relevant regulations, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the PRC Generally Accepted Accounting Principles and (ii) the retained profits determined in accordance with IFRS.

Notes to the Consolidated Financial Statements

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

42 DIVIDENDS (Continued)

(b) Dividends for preference shares

Based on the shareholders' resolution and approval, a board of directors meeting was convened on 24 August 2018 to approve the dividend distribution for offshore preference shares. Each offshore preference share shall entitle the holder thereof to receive non-accumulative dividends which have not been otherwise cancelled (the "Dividends") payable annually in arrears. Based on the relevant provisions, dividends amounting to USD54.267 million was declared (USD48.84 million payable to preference shares holders based on a coupon rate of 5.5% net of withholding tax of USD5.42 million at the rate of 10%). The dividend amounting to RMB377,024 thousand (inclusive of tax) was distributed on 10 November 2018.

The preference shares are potentially convertible to ordinary shares. As at 31 December 2018, the triggering conditions for the conversion of Preference Shares did not take place, and the convertibility of the preference shares did not affect the calculation of basic and diluted earnings per share for the year ended 31 December 2018.

43 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments:

	As at 31 December 2018	As at 31 December 2017
Bank acceptance	29,745,001	27,513,009
Letters of credit issued	9,079,553	7,860,919
Letters of guarantee issued	18,896,430	10,699,447
Loan commitments	5,571,942	1,732,384
Unused credit card lines	21,143,614	14,490,272
Total	84,436,540	62,296,031
Impairment allowance for credit commitments (Note 36)	360,559	–

(b) Capital commitments

	As at 31 December 2018	As at 31 December 2017
Contracted but not provided for	220,404	315,204

Notes to the Consolidated Financial Statements

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

43 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 31 December 2018	As at 31 December 2017
Within 1 year	315,039	285,219
Within 1 year to 5 years	675,127	718,124
Later than 5 years	172,627	246,387
Total	1,162,793	1,249,730

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2018 and 31 December 2017, the nominal values of treasury bonds the Group was obligated to redeem prior to maturity were RMB3.27 billion and RMB2.88 billion respectively.

(e) Legal proceedings

During the reporting year, the Group was involved as defendants in certain lawsuits arising from its normal business operations. At 31 December 2018, provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2017: RMB0.23 billion). Based on legal advice, the management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

Notes to the Consolidated Financial Statements

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

44 COLLATERAL

(a) Pledged assets

Assets are pledged as collateral under repurchase agreements as well as borrowing from central bank and for treasury deposits with other banks and the Ministry of Finance.

	As at 31 December 2018	As at 31 December 2017
Available-for-sale financial assets	–	25,317,750
Held-to-maturity investments	–	13,464,394
Discounted bills	–	4,221,575
Fair value changes of financial assets at fair value through other comprehensive income	29,752,590	–
Financial assets at amortised cost	22,883,870	–
Fair value changes of financial assets at fair value through profit or loss	2,040,000	–
Total	54,676,460	43,003,719

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2018 was RMB27.8 billion (as at 31 December 2017: RMB40.9 billion) as set out in Note 33. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize amounted to zero as at 31 December 2018 (as at 31 December 2017: zero).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

(b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in connection with the purchase of assets under resale agreements. Certain of the collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB7.00 billion as at 31 December 2018 (31 December 2017: RMB20.6 billion). The Group has accepted collateral that can be re-pledged and the Group has the right to return with a carrying amount of zero as at 31 December 2018 (31 December 2017: zero).

Notes to the Consolidated Financial Statements

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

45 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 31 December 2018	As at 31 December 2017
Financial guarantees and credit related commitments	30,615,812	24,496,468

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC 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 related commitments.

46 STRUCTURED ENTITIES

a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products (“WMP”) issued and managed by the Bank. The Group had not provided any guarantee or undertaking with regard to principal or returns for these products. Wealth management products were mainly invested in money market instruments, bonds and loan assets, etc. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Returns would be allocated to investors based on the performance of the assets. The Group receives management fee as the manager of these wealth management products. As at 31 December 2018 and 31 December 2017, total wealth commission income the Group received were RMB893.27 million and RMB739.87 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they were not consolidated.

As at 31 December 2018, the carrying value of the off-balance sheet wealth management the Group issued and managed was RMB101.39 billion (31 December 2017: RMB86.31 billion). As at 31 December 2018 the Group’s maximum exposure to these unconsolidated structured entities is zero (31 December 2017: zero).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group’s risk or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2018, no loss was incurred by the WMP vehicles relating to the Group’s interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products, the trust fund and asset management plan schemes issued and managed by other independent third parties during the year ended 31 December 2018 and 31 December 2017. The Group classifies these assets into “debt instruments classified as receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities during the year ended 31 December 2018 and 31 December 2017.

Notes to the Consolidated Financial Statements

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

46 STRUCTURED ENTITIES (Continued)

b) Unconsolidated structured entities invested by the Group (Continued)

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

At 31 December 2018	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	28,909,989	28,909,989
– Trust fund and asset management plan	74,697,756	74,697,756
Financial assets at amortised cost		
– Trust fund and asset management plan	225,399,420	225,399,420
<hr/>		
At 31 December 2017	Carrying Value	Maximum Exposure to Loss
Debt instruments classified as receivables		
– Guaranteed wealth management products	7,850,000	7,850,000
– Trust fund and asset management plan	203,663,488	203,663,488
Available-for-sale financial assets		
– Non-guaranteed wealth management products	10,000,000	10,000,000
– Trust fund and asset management plan	62,111,292	62,111,292

The information of total size of the unconsolidated structured entities listed above is not readily available.

c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and the beneficial rights in trust and asset management plans which the Group exercises investment decisions.

The Group did not provide liquidity support to these consolidated structured entities during the year ended 31 December 2018 and the year ended 31 December 2017.

Notes to the Consolidated Financial Statements

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

47 CASH AND CASH EQUIVALENTS

- (a) For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	As at 31 December 2018	As at 31 December 2017
Cash	1,109,950	1,292,408
Surplus reserve with central bank	24,754,888	17,557,338
Deposits with banks and other financial institutions	8,204,317	8,430,700
Total	34,069,155	27,280,446

- (b) **Changes in liabilities arising from financing activities**

	Debt securities issued	Interest payable of debt securities issued	Dividends payable
At 1 January 2018	115,180,357	642,458	187,139
Proceeds from issuance of debt securities	259,220,000	-	-
Interest paid on debt issued	-	(4,296,108)	-
Cash paid relating to debt repayments	(284,024,055)	-	-
Dividends paid on debt issued	-	-	(719,545)
Interest expense	499,371	4,221,902	-
Dividends declared	-	-	658,933
At 31 December 2018	90,875,673	568,252	126,527

Dividends paid on debt issued and declared dividends include dividends amounting to RMB5.66 million to the non-controlling interests by Jinzhai Huiyin Village and Township Bank Co., Ltd. ("Jinzhai Huiyin")

48 CREDIT ASSETS SECURITIZATION TRANSACTIONS

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group may hold part of its investment in the transfer of such credit assets, thereby retaining some of the risks and rewards for the transferred credit assets, and the Group will analyse and determine whether to terminate the recognition of the assets in accordance with the degree of retention of risk and remuneration.

As at 31 December 2018, loans with an original carrying amount of RMB0.22 billion (2017: RMB2.86 billion) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2018, the carrying amount of assets that the Group continued to recognise was RMB0.01 billion (2017: RMB0.71 billion).

Notes to the Consolidated Financial Statements

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

49 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below lists the major related legal entities of the Group with a shareholding ratio greater than 5% in 2018:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise Investment Management, Merger and Acquisition	16.12%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Feifei	4,375,000	Financing and Investment Management of Energy Construction	10.89%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Financial Holding Group Co., Ltd.	Major shareholder	Hefei, Anhui	Li Gong	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Qian Li	10,766,000	Financing guarantee	6.83%

The table below listed major related legal entities of the Group with a shareholding ratio greater than 5% in 2017:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise Investment Management, Merger and Acquisition	14.86%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Feifei	4,375,000	Financing and Investment Management of Energy Construction	10.90%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Holdings (Group) Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Ziliang	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Qian Li	10,766,000	Financing guarantee	6.83%

Note: Anhui Guoyuan Holdings (Group) Co., Ltd. was renamed as Anhui Guoyuan Financial Holding Group Co., Ltd. on 18 July 2018.

Notes to the Consolidated Financial Statements

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

49 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

a) Transactions with major shareholders and balances

As at balance sheet dates stated below, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers	1,426,000	2,283,000
Financial assets	–	17,446
Placements from banks and other financial institutions	40,482	355,402
Deposits from customers	1,223,105	1,110,002
Bank acceptance	1,412	7,884
Letters of guarantee issued	1,042	1,965
Letters of credit issued	125,000	–
Total	2,817,041	3,775,699

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers	3.63%-4.35%	3.63%-3.96%
Placements from banks and other financial institutions	0.72%-3.5%	0.30%-4.90%
Deposits from customers	0.72%-2.1%	0.30%-1.61%

As for the years stated below, the interest income and expense of loans and deposits and management fee of asset management plans with respect to major shareholders are as follows:

	2018	2017
Interest income	105,911	98,127
Interest expense	3,170	6,910
Management fee of asset management plans	9,470	10,576

Notes to the Consolidated Financial Statements

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

49 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

b) Transactions with other related parties and balances

As at the balance sheet date stated below, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 31 December 2018	As at 31 December 2017
Placements with and loans to banks and other financial institutions	400,000	–
Loans and advances to customers	1,817,082	652,073
Financial assets	4,597,530	721,894
Placements from banks and other financial institutions	1,554,714	258,775
Deposits from customers	1,240,013	551,370
Bank acceptance	69,292	2,676
Letters of guarantee issued	21,034	8,580
Letters of credit issued	48,838	–
Total	9,748,503	2,195,368

	As at 31 December 2018	As at 31 December 2017
Placements with and loans to banks and other financial institutions	6.70%	/
Loans and advances to customers	3.81%-4.55%	3.63%-6.24%
Placements from banks and other financial institutions	0.72%-1.08%	0.72%-1.09%
Deposits from customers	0.3%-5.23%	0.30%-1.61%

As for the years stated below, the interest income and expense of loans and deposits with respect to other related parties are as follows:

	2018	2017
Interest income	95,866	29,990
Interest expense	101,083	4,274

c) Emoluments for directors, supervisors and senior management

	2018	2017
Emoluments for directors, supervisors and senior management	21,021	14,848

Notes to the Consolidated Financial Statements

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50 SEGMENT ANALYSIS

The Group manages the business from both the business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

Corporate banking

- Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

- Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

- Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

- Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in the PRC and the opens branches in Anhui Province and the Yangtze River Delta area. When listing information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to the Consolidated Financial Statements

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

50 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	14,242,126	6,074,740	17,506,704	1,844,537	39,668,107
Net interest expense to external customers	(5,486,037)	(2,954,020)	(13,020,779)	(240,406)	(21,701,242)
Intersegment net interest income/ (expense)	3,105,364	658,750	(3,764,114)	–	–
Net interest income	11,861,453	3,779,470	721,811	1,604,131	17,966,865
Net fee and commission income	947,903	621,842	2,043,375	93,343	3,706,463
Net trading gains	–	–	4,973,467	–	4,973,467
Net gains from investment securities	–	–	105,685	–	105,685
Dividend income	–	–	880	–	880
Other operating income	–	–	(1,788)	199,037	197,249
Operating expenses	(2,748,462)	(2,650,430)	(198,101)	(607,921)	(6,204,914)
– Depreciation and amortization	(192,058)	(190,999)	(9,833)	(42,554)	(435,444)
Impairment losses on assets	(4,522,066)	(595,924)	(4,122,290)	(824,087)	(10,064,367)
Share of profits of associates	–	–	–	139,577	139,577
Profit before income tax	5,538,828	1,154,958	3,523,039	604,080	10,820,905
Capital expenditure	334,282	332,439	17,114	74,065	757,900

	As at 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	285,269,524	170,945,107	587,046,841	1,495,400	1,044,756,872
<i>Including: investments in associates</i>	–	–	–	1,100,008	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(431,131,521)	(150,355,272)	(398,017,492)	(724,565)	(980,228,850)
Off-balance sheet credit commitments	63,308,476	21,128,064	–	–	84,436,540

Notes to the Consolidated Financial Statements

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

50 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	10,703,234	3,969,043	23,424,402	1,319,576	39,416,255
Net interest expense to external customers	(5,078,488)	(1,781,094)	(11,417,456)	(942,680)	(19,219,718)
Intersegment net interest income/(expense)	3,928,849	1,006,298	(4,935,147)	–	–
Net interest income	9,553,595	3,194,247	7,071,799	376,896	20,196,537
Net fee and commission income	1,779,230	541,569	323,247	199,625	2,843,671
Net trading gains	–	–	(439,738)	–	(439,738)
Net gains from investment					
Securities	–	–	(76,160)	–	(76,160)
Dividends	–	–	640	–	640
Other operating income	–	–	(114,314)	97,689	(16,625)
Operating expenses	(2,451,660)	(1,908,912)	(1,119,872)	(349,695)	(5,830,139)
– Depreciation and amortization	(210,778)	(199,208)	(12,247)	(17,292)	(439,525)
Impairment losses on assets	(3,794,649)	(853,109)	(2,510,386)	(44,414)	(7,202,558)
Share of profits of associates	–	–	–	137,136	137,136
Profit before income tax	5,086,516	973,795	3,135,216	417,237	9,612,764
Capital expenditure	378,982	314,781	20,724	29,260	743,747

	As at 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	265,527,606	130,793,376	505,777,497	1,276,731	903,375,210
<i>Including: investments in associates</i>	–	–	–	971,050	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(400,549,661)	(126,085,619)	(321,277,442)	(974,889)	(848,887,611)
Off-balance sheet credit commitments	47,846,499	14,449,532	–	–	62,296,031

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

50 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	13,883,838	1,586,724	24,197,545	–	39,668,107
Net interest expense to external customers	(7,595,435)	(868,050)	(13,237,757)	–	(21,701,242)
Intersegment net interest income/(expense)	3,500,626	263,488	(3,764,114)	–	–
Net interest income	9,789,029	982,162	7,195,674	–	17,966,865
Net fee and commission income	1,297,262	148,259	2,260,942	–	3,706,463
Net trading gains	1,740,713	198,939	3,033,815	–	4,973,467
Net gains from investment securities	36,990	4,227	64,468	–	105,685
Dividend income	308	35	537	–	880
Other operating income	69,037	7,890	120,322	–	197,249
Operating expenses	(2,171,721)	(248,196)	(3,784,997)	–	(6,204,914)
– Depreciation and amortization	(152,405)	(17,418)	(265,621)	–	(435,444)
Impairment losses on assets	(3,522,528)	(402,575)	(6,139,264)	–	(10,064,367)
Share of profits of associates	–	–	139,577	–	139,577
Profit before income tax	7,239,090	690,741	2,891,074	–	10,820,905
Capital expenditure	265,265	30,317	462,318	–	757,900

	As at 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	607,003,744	40,745,520	438,832,730	(41,825,122)	1,044,756,872
<i>Including: investments in associates</i>	–	–	1,100,008	–	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(572,096,235)	(38,228,925)	(411,728,812)	41,825,122	(980,228,850)
Off-balance sheet credit commitments	50,387,253	8,053,016	25,996,271	–	84,436,540

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

50 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	15,559,962	1,938,768	21,917,525	–	39,416,255
Net interest expense to external customers	(6,515,215)	(1,151,287)	(11,553,216)	–	(19,219,718)
Intersegment net interest income/(expense)	4,339,652	330,960	(4,670,612)	–	–
Net interest income	13,384,399	1,118,441	5,693,697	–	20,196,537
Net fee and commission income	1,002,857	73,620	1,767,194	–	2,843,671
Net trading gains	63,721	595	(504,054)	–	(439,738)
Net gains from investment securities	–	–	(76,160)	–	(76,160)
Dividends	–	–	640	–	640
Other operating income	(20)	(2,139)	(14,466)	–	(16,625)
Operating expenses	(3,472,383)	(262,533)	(2,095,223)	–	(5,830,139)
– Depreciation and amortization	(307,242)	(5,549)	(126,734)	–	(439,525)
Impairment losses on assets	(4,769,302)	(381,736)	(2,051,520)	–	(7,202,558)
Share of profits of associates	–	–	137,136	–	137,136
Profit before income tax	6,209,272	546,248	2,857,244	–	9,612,764
Capital expenditure	519,902	9,391	214,454	–	743,747

	As at 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	570,818,855	59,807,817	491,834,396	(219,085,858)	903,375,210
<i>Including: investments in associates</i>	–	–	971,050	–	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(324,099,318)	(55,448,874)	(688,425,277)	219,085,858	(848,887,611)
Off-balance sheet credit commitments	33,579,238	6,545,144	22,171,649	–	62,296,031

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is the responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

51.1 Credit risk

51.1.1 Credit risk measurement

Measurement of ECLs

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to the present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECLs by three stages:

- Stage 1: Financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECLs of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECLs over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECLs for the lifetime of the financial instruments.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Measurement of ECLs (Continued)

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECLs over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance for the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

The Group shall measure ECLs on a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic condition

When measuring ECLs, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of occurrence of a credit loss is very low.

The Group conducted an assessment of ECLs according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECLs
- Forward-looking information
- Modification of contractual cash flows

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in the remaining lifetime probability of default is considered to be significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal or interest) are more than 30 days and no more than 90 days past due

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters for ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets based on 12-month ECLs or Lifetime ECLs. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Parameters for ECL measurement (Continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss on risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECLs both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this process, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in the derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of the modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL), when the assets have met specific criteria after a period of observation. As at 31 December 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

(i) Loans and advances and off-balance sheet commitments

The Group has developed five-category classification system for credit assets to measure and manage the quality of the Group's credit assets in accordance with the CBRC's guidelines for the classification of loan risks. The five-category classification system and the guidelines for loan risk classification require that credit assets, both within and off the balance sheet, be divided into pass, special mention, sub-standard, doubtful and loss, of which the latter three types of loans are considered non-performing loans.

The core definition of credit asset classification in the guidelines for the classification of loan risks is:

Pass: Borrowers are able to perform the contract without sufficient reason to suspect that the loan principal and interest cannot be repaid in full and on time.

Special Mention: Although borrowers are currently able to repay loan interest, there are a number of factors that may adversely affect repayment.

Sub-standard: There is a clear problem with the borrower's repayment ability that they can not repay the loan interest in full relying solely on their normal income. Even if the guarantee is executed, it may also cause a certain loss.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.1 Credit risk measurement (Continued)

Modification of contractual cash flows (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Doubtful: The borrower is unable to repay the loan principal and interest in full, and even if the guarantee is executed, it will certainly cause a great loss.

Loss: After all possible measures or all necessary legal proceedings have been taken, the principal and interest remain uncollectible or can only be recovered in very few parts.

(ii) Debt securities and other bills

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) Deposits with banks and other financial institutions, Placements with banks and other financial institutions and Financial assets held under resale agreements

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(iv) Other financial assets classified as measured at amortized costs

Other financial assets classified as measured at amortized cost include interbank financial products, fund trust schemes and asset management schemes issued by bank financial institutions. The group implements a rating access system for cooperating trust companies, securities companies and fund companies, and conducts regular follow-up risk management.

51.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.2 Risk limit control and mitigation policies (Continued)

(i) *Credit risk mitigation policies*

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collateral, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts, etc.

The fair value of collateral should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipts	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

(ii) *Credit-related off-balance sheet commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, the group carries the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December 2018	As at 31 December 2017
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with central bank	87,034,374	91,065,465
Deposits with banks and other financial institutions	7,964,464	9,699,833
Placements with banks and other financial institutions	5,022,470	3,553,288
Derivative financial assets	208,979	67,479
Financial assets held under resale agreements	26,286,656	36,027,487
Loans and advances to customers	370,661,381	305,208,545
Investment securities – financial assets at fair value through profit or loss	106,479,561	2,695,099
Investment securities – financial assets at fair value through other comprehensive income	105,805,594	–
Investment securities – financial assets at amortised cost	292,359,948	–
Investment securities – available-for-sale	–	143,305,890
Investment securities – held-to-maturity	–	61,128,401
Investment securities – debt instruments classified as receivables	–	211,647,260
Finance lease receivables	35,624,476	26,269,575
Other financial assets	1,768,444	7,496,686
	1,039,216,347	898,165,008
Credit risk exposures in relation to off-balance sheet items are as follows:		
Bank acceptance	29,745,001	27,513,009
Letters of credit	9,079,553	7,860,919
Letters of guarantee	18,896,430	10,699,447
Loan commitments	5,571,942	1,732,384
Unused credit card lines	21,143,614	14,490,272
	84,436,540	62,296,031

The above table represents the worst-case scenario of credit risk exposure to the Group at 31 December 2018 and 31 December 2017, without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As mentioned above, 35.68% of on-balance-sheet exposure is attributable to loans and advances to customers (31 December 2017: 33.98%).

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Management is confident in its ability to continue to control and sustain the Group's minimal exposure to credit risk from its loans and advances portfolio based on the following:

- 97.43% of the loans and advances are categorized as Pass in the five-category system (31 December 2017: 97.53%);
- Collateralized loans and mortgage loans, which represent the largest group in the corporate and retail portfolio respectively, are secured by collateral;
- 98.48% of the loans and advances are considered to be neither past due nor impaired (31 December 2017: 97.33%)

51.1.4 Deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements

Placements with banks and other financial institutions and financial assets held under resale agreements are neither overdue nor impaired. Their credit risk can be evaluated based on the credibility of the counterparties.

	As at 31 December 2018	As at 31 December 2017
Commercial banks in Chinese mainland	31,901,047	42,429,199
Other financial institutions in Chinese mainland	4,665,438	3,895,904
Commercial banks outside Chinese mainland	2,707,105	2,955,505
	39,273,590	49,280,608

51.1.5 Loans and advances to customers

Loans and advances three-staging exposure

- (1) Loans and advances to customers by five-tier loan classification and three-staging analysed as follows:

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
Pass	362,192,170	9,766,752	-	371,958,922
Special-mention	-	5,827,208	-	5,827,208
Loss	-	-	3,979,524	3,979,524
Total	362,192,170	15,593,960	3,979,524	381,765,654

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

- (a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	52,020,203	13	48,783,124	15
Manufacturing	44,886,121	11	43,127,921	14
Public utilities	67,223,479	17	48,757,518	15
Real estate	16,427,847	4	11,895,332	3
Construction	19,306,663	5	14,722,807	4
Transportation	6,434,281	2	5,923,858	2
Energy and chemistry	10,076,064	3	5,888,697	2
Catering and travelling	1,292,070	1	1,536,054	1
Education and media	803,723	1	1,071,775	1
Financial services	3,773,490	1	4,114,863	1
Others	919,263	1	1,288,844	1
Discounted bills	13,356,764	3	15,209,815	6
Subtotal	236,519,968	62	202,320,608	65
Personal loans and advances				
Mortgages	84,977,150	22	71,558,646	23
Revolving loans for private business	6,363,990	2	6,483,122	1
Others	53,904,546	14	34,331,773	11
Subtotal	145,245,686	38	112,373,541	35
Total loans and advances to customers, before impairment allowance	381,765,654	100	314,694,149	100

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type as follows:

	As at 31 December 2018	As at 31 December 2017
Unsecured	64,924,944	40,465,891
Guaranteed	60,224,033	59,224,305
Collateralized	162,818,536	148,639,980
Pledged	93,798,141	66,363,973
Total loans and advances to customers	381,765,654	314,694,149

(c) Analysis of loans and advances to customers by geographical area

	As at 31 December 2018			As at 31 December 2017		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	341,429,935	89.43%	1.13%	291,182,838	92.53%	1.05%
Pan Yangtze River Delta	40,335,719	10.57%	0.32%	23,511,311	7.47%	1.01%
Total loans and advances to customers	381,765,654	100%	1.04%	314,694,149	100%	1.05%

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

(d) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December 2018		As at 31 December 2017	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	232,177,556	143,795,478	196,776,091	111,124,878
Overdue but not impaired (f)	1,098,424	714,672	2,863,194	630,046
Impaired (g)	3,243,988	735,536	2,681,323	618,617
Total	236,519,968	145,245,686	202,320,608	112,373,541
Less: collectively assessed impairment allowance	-	-	(5,679,809)	(2,394,536)
Individually assessed impairment allowance	(9,608,716)	(2,298,717)	(1,411,259)	-
Total impairment allowance	(9,608,716)	(2,298,717)	(7,091,068)	(2,394,536)
Net	226,911,252	142,946,969	195,229,540	109,979,005

(e) Loans and advances neither past due nor impaired

As at 31 December 2018

Neither overdue nor impaired	Five-category classification		
	Pass	Special-mention	Total
Corporate loans			
– Commercial loans	204,537,704	14,283,088	218,820,792
– Discounted bills	13,356,764	-	13,356,764
Subtotal	217,894,468	14,283,088	232,177,556
Personal loans and advances	143,741,308	54,170	143,795,478
Total	361,635,776	14,337,258	375,973,034

As at 31 December 2017

Neither overdue nor impaired	Five-category classification		
	Pass	Special-mention	Total
Corporate loans			
– Commercial loans	178,701,038	2,865,238	181,566,276
– Discounted bills	15,209,815	-	15,209,815
Subtotal	193,910,853	2,865,238	196,776,091
Personal loans and advances	111,103,479	21,399	111,124,878
Total	305,014,332	2,886,637	307,900,969

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

(f) Loans and advances overdue but not impaired

Analysis of loans and advances overdue but not impaired by overdue days:

As at 31 December 2018

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	598,039	383,589	64,796	52,000	1,098,424
Personal loans and advances	431,023	206,305	76,454	890	714,672
Total	1,029,062	589,894	141,250	52,890	1,813,096

As at 31 December 2017

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	443,096	1,168,762	138,393	1,112,943	2,863,194
Personal loans and advances	293,867	111,487	120,312	104,380	630,046
Total	736,963	1,280,249	258,705	1,217,323	3,493,240

The Group is of the view that these past due loans can be recovered by the operating income from borrowers, the payment from guarantors or disposal of collateral and are therefore not impaired.

As at 31 December 2018, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB470,910 thousand (31 December 2017: RMB4,012,645 thousand). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB722,863 thousand (31 December 2017 RMB1,355,400 thousand).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of the related collateral held by the Group as security, is as follows:

	As at 31 December 2018	As at 31 December 2017
Corporate loans	3,243,988	2,681,323
Personal loans and advances	735,536	618,617
Total	3,979,524	3,299,940
Fair value of collateral		
Corporate loans	3,269,315	2,311,581
Personal loans and advances	562,163	558,101
Total	3,831,478	2,869,682

The fair value of collateral is estimated based on the latest external valuations available, considering the liquidity of the current collateral and the market conditions.

(h) Renegotiated loans and advances

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As at 31 December 2018, the carrying value of the renegotiated loans held by the Group amounted to RMB254 million (31 December 2017: RMB795 million).

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.5 Loans and advances to customers (Continued)

- (i) Overdue loans and advances by overdue days and collateral type

As at 31 December 2018					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	157,515	157,041	83,525	97	398,178
Guaranteed	771,255	930,433	109,934	50,086	1,861,708
Collateralized	1,046,667	1,822,606	268,685	232,189	3,370,147
Pledged	20,000	4,697	–	–	24,697
Total	1,995,437	2,914,777	462,144	282,372	5,654,730

As at 31 December 2017					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	83,178	123,653	76,477	–	283,308
Guaranteed	1,752,083	782,049	681,899	15	3,216,046
Collateralized	757,834	1,318,091	851,708	317,065	3,244,698
Pledged	44,380	98	4,650	–	49,128
Total	2,637,475	2,223,891	1,614,734	317,080	6,793,180

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.6 Debt securities

The table below presents an analysis of financial investments at amortised cost (excluding interest receivable) by independent credit rating agencies:

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	30,792,285	159,915	–	30,952,200
AA- to AA+	2,242,103	–	–	2,242,103
Unrated ^(a)	253,210,725	8,115,925	1,625,401	262,952,051
Total	286,245,113	8,275,840	1,625,401	296,146,354
Allowance for impairment losses	(2,820,801)	(3,551,717)	(1,506,330)	(7,878,848)
Net balance	283,424,312	4,724,123	119,071	288,267,506

The movements of debt securities at amortised cost are as follows:

	As at 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2018				4,281,414
Impact of adopting IFRS 9				(148,856)
Opening balance under IFRS 9	1,435,076	895,882	1,801,600	4,132,558
Addition	1,398,174	2,643,386	514,799	4,556,359
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(12,449)	12,449	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	(810,069)	(810,069)
Recovery of loans and advances written off	–	–	–	–
At 31 December 2018	2,820,801	3,551,717	1,506,330	7,878,848

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.6 Debt securities (Continued)

The table below presents an analysis of financial investments at fair value through other comprehensive income (excluding interest receivable) by independent credit rating agencies:

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	23,370,352	497,384	–	23,867,736
AA- to AA+	5,000,916	402,283	–	5,403,199
Unrated	74,991,066	–	60,000	75,051,066
Total	103,362,334	899,667	60,000	104,322,001
Allowance for impairment losses	(269,824)	(288,721)	(54,714)	(613,259)
Net balance	103,092,510	610,946	5,286	103,708,742

The movements of debt securities at FVOCI are as follows:

	As at 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2018				304,067
Impact of adopting IFRS 9				(42,414)
Opening balance under IFRS 9	128,514	133,139	–	261,653
Addition	141,538	155,354	54,714	351,606
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(228)	228	–	–
Transfers to Stage 3	–	–	–	–
At 31 December 2018	269,824	288,721	54,714	613,259

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.6 Debt securities (Continued)

The table below presents an analysis of financial investments at fair value through profit or loss (excluding interest receivable) by independent credit rating agencies:

As at 31 December 2018	Financial assets at fair value through profit or loss (d)
AAA	246,953
AA- to AA+	149,515
A- to A+	–
Unrated ^(a)	104,738,548
Total	105,135,016

The table below presents an analysis of debt securities by independent credit rating agencies:

As at 31 December 2017	Financial assets at fair value through profit or loss ^(a)	Available- for- sale ^(b)	Held-to- maturity ^(a)	Debt instruments classified as receivables ^(c)	Total
RMB securities					
AAA	360,188	14,187,373	31,552,317	–	46,099,878
AA- to AA+	48,377	4,238,828	658,756	–	4,945,961
A- to A+	109,393	268,789	1,014,456	–	1,392,638
Unrated ^(a)	2,177,141	124,914,967	27,902,872	215,928,674	370,923,654
Total	2,695,099	143,609,957	61,128,401	215,928,674	423,362,131
Allowance for impairment					
losses	–	(304,067)	–	(4,281,414)	(4,585,481)
Net balance	2,695,099	143,305,890	61,128,401	211,647,260	418,776,650

(a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by the Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.6 Debt securities (Continued)

- (b) The unrated available-for-sale financial assets held by the Group mainly represent investments and trading securities issued by the MOF, policy banks, other financial institutions, asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed wealth management products. The Bank sets credit risk limit to the counterparty banks and third party companies to mitigate the risk associated therewith.
- (c) Debt instruments classified as receivables mainly include principal-guaranteed wealth management products issued by other banks and other fixed-income financial instruments.
- (d) The unrated financial assets at fair value through profit or loss held by the Group mainly represent investments and trading securities issued by the MOF, policy banks, other financial institutions, and securities of asset management schemes, trust plan products and issuing the principal-guaranteed wealth management products issued by other financial institutions, guaranteed by third-party guarantors or secured by collateral.

51.1.7 Foreclosed collateral

	As at 31 December 2018	As at 31 December 2017
Property and land use rights	278,270	267,550
Others	163,602	132,352
Total	441,872	399,902
Allowance for impairment losses (Note 29)	(177,125)	(150,238)
Net balance	264,747	249,664

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified within other assets at the balance sheet date.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 31 December 2018	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with central bank	87,034,374	–	–	87,034,374
Deposits with banks and other financial institutions	5,258,603	664,104	2,041,757	7,964,464
Placements with banks and other financial institutions	4,922,470	–	100,000	5,022,470
Derivative financial assets	208,979	–	–	208,979
Financial assets held under resale agreements	26,286,656	–	–	26,286,656
Loans and advances to customers	370,661,381	–	–	370,661,381
Financial investments				
– financial assets at fair value through profit or loss	106,479,561	–	–	106,479,561
Financial investments				
– financial assets at fair value through other comprehensive income	105,805,594	–	–	105,805,594
Financial investments				
– financial assets at amortised cost	287,634,169	4,725,779	–	292,359,948
Finance lease receivables	35,624,476	–	–	35,624,476
Other financial assets	1,768,444	–	–	1,768,444
Total	1,031,684,707	5,389,883	2,141,757	1,039,216,347

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

51.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2017	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with central bank	91,065,465	–	–	91,065,465
Deposits with banks and other financial institutions	6,744,329	27,972	2,927,532	9,699,833
Placements with banks and other financial institutions	3,553,288	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	2,695,099
Derivative financial assets	67,479	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	36,027,487
Loans and advances to customers	305,208,545	–	–	305,208,545
Investment securities				
– available-for-sale	143,305,890	–	–	143,305,890
Investment securities				
– held-to-maturity	61,128,401	–	–	61,128,401
Investment securities				
– debt instruments classified as receivables	211,647,260	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	26,269,575
Other financial assets	7,496,686	–	–	7,496,686
	895,209,504	27,972	2,927,532	898,165,008

51.2 Market risk

51.2.1 Overview

The Group has 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 prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Group's market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.1 Overview (Continued)

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by the Financial Planning Department while market risks resulting from trading activities at the Bank level and non-trading activities of the Financial Market Department are monitored and controlled by the Financial Market Department. The Group also establishes a daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyze market risk changes and quota execution before reporting to the Risk Management Department and management on a regular basis.

51.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

51.2.3 Interest rate risk

The interest rate risk refers to the risk of the adverse fluctuation which has negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to interest rate risk through its lending, deposits and funding activities.

The Group conducts its business in Chinese mainland in accordance with the interest rate system set up by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-bearing loans and deposits in the same direction but not in parallel.

The PBOC established the RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.3 Interest rate risk (Continued)

The table below summarizes the Group's exposure to interest rate risk. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central bank	87,034,374	-	-	-	-	1,109,950	88,144,324
Deposits with banks and other financial institutions	7,140,278	110,000	714,186	-	-	-	7,964,464
Placements with banks and other financial institutions	1,410,794	1,597,653	2,014,023	-	-	-	5,022,470
Derivative financial assets	-	-	-	-	-	208,979	208,979
Financial assets held under resale agreements	26,286,656	-	-	-	-	-	26,286,656
Loans and advances to customers	132,356,187	200,178,306	21,390,225	16,283,181	453,482	-	370,661,381
Financial Investments							
- financial assets at fair value through profit or loss	22,441,813	31,370,831	42,602,885	9,307,648	756,384	-	106,479,561
- financial assets at fair value through other comprehensive income	1,808,211	2,374,438	18,352,096	54,142,632	28,985,198	143,019	105,805,594
- financial assets at amortised cost	6,750,653	4,833,614	38,030,177	181,234,150	61,511,354	-	292,359,948
Finance lease receivables	29,514,881	1,422,043	2,750,434	1,909,681	27,437	-	35,624,476
Other financial assets	-	-	-	-	-	1,768,444	1,768,444
Total assets	314,743,847	241,886,885	125,854,026	262,877,292	91,733,855	3,230,392	1,040,326,297

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.3 Interest rate risk (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Borrowings from central bank	(16,546,805)	(4,203,236)	(19,970,478)	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(17,831,836)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	-	(117,696,068)
Financial liabilities at fair value through profit or loss	(1,422,039)	(29,605,230)	(56,571,522)	-	-	-	(87,598,791)
Placements from banks and other financial institutions	(718,583)	(8,486,682)	(19,573,319)	-	-	-	(28,778,584)
Derivative financial liabilities	-	-	-	-	-	(137,938)	(137,938)
Financial assets sold under repurchase agreements	(23,992,854)	(543,900)	(3,307,930)	-	-	-	(27,844,684)
Deposits from customers	(362,683,518)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	-	(573,798,311)
Debt securities issued	(7,732,386)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	-	(91,443,925)
Other financial liabilities	-	-	-	-	-	(1,116,081)	(1,116,081)
Total liabilities	(430,928,021)	(107,461,985)	(312,871,446)	(99,700,456)	(16,918,974)	(1,254,019)	(969,134,901)
Total interest rate sensitivity gap	(116,184,174)	134,424,900	(187,017,420)	163,176,836	74,814,881	1,976,373	71,191,396

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.3 Interest rate risk (Continued)

As at 31 December 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central bank	91,065,465	-	-	-	-	1,292,408	92,357,873
Deposits with banks and other financial institutions	7,494,144	1,968,036	237,653	-	-	-	9,699,833
Placements with banks and other financial institutions	-	2,053,664	1,499,624	-	-	-	3,553,288
Financial assets at fair value through profit or loss	319,505	793,586	521,511	1,050,354	10,143	-	2,695,099
Derivative financial assets	-	-	-	-	-	67,479	67,479
Financial assets held under resale agreements	35,927,634	-	99,853	-	-	-	36,027,487
Loans and advances to customers	88,510,478	24,416,683	119,031,333	57,989,624	15,260,427	-	305,208,545
Investment securities							
– available-for-sale	13,017,581	25,290,707	38,123,956	50,879,415	15,984,731	9,500	143,305,890
– held-to-maturity	799,977	630,134	5,047,080	32,864,828	21,786,382	-	61,128,401
– debt instruments classified as receivables	17,969,734	18,292,780	42,282,027	123,206,219	9,896,500	-	211,647,260
Finance lease receivables	21,175,677	1,234,723	1,910,210	1,948,965	-	-	26,269,575
Other financial assets	-	-	-	-	-	7,496,686	7,496,686
Total assets	276,280,195	74,680,313	208,753,247	267,939,405	62,938,183	8,866,073	899,457,416
Liabilities							
Borrowings from central bank	(21,335,527)	(240,000)	(4,500,000)	(9,500,000)	-	-	(35,575,527)
Deposits from banks and other financial institutions	(25,088,857)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	(95,814,599)
Placements from banks and other financial institutions	-	(10,888,078)	(14,285,000)	(254,834)	-	-	(25,427,912)
Derivative financial liabilities	-	-	-	-	-	(747,449)	(747,449)
Financial assets sold under repurchase agreements	(36,527,152)	-	(4,327,996)	-	-	-	(40,855,148)
Deposits from customers	(316,823,968)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	(512,808,182)
Debt securities issued	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	(115,180,357)
Other financial liabilities	-	-	-	-	-	(16,480,407)	(16,480,407)
Total liabilities	(425,924,337)	(95,292,256)	(168,399,886)	(123,981,037)	(12,064,209)	(17,227,856)	(842,889,581)
Total interest rate sensitivity gap	(149,644,142)	(20,611,943)	40,353,361	143,958,368	50,873,974	(8,361,783)	56,567,835

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the majority of Group's interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the balance sheet date stated below with 100 basis points changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 31 December 2018	As at 31 December 2017
100 bps up along the yield curve	1,737,089	1,164,430
100 bps down along the yield curve	(1,737,089)	(1,164,430)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial asset, whose fair value changes are recorded as an element of other comprehensive income (bond investments available for sale in 2017). The potential impact is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
100 bps up	(2,751,254)	(1,406,879)
100 bps down	2,913,496	1,493,916

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.3 Interest rate risk (Continued)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

51.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for controlling the currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.4 Currency risk (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 31 December 2018					
Assets					
Cash and balances with central bank	87,778,426	353,559	57	12,282	88,144,324
Deposits with banks and other financial institutions	4,891,579	1,343,256	86,787	1,642,842	7,964,464
Placements with banks and other financial institutions	2,650,361	2,336,272	20,384	15,453	5,022,470
Derivative financial assets	48,915	157,862	228	1,974	208,979
Financial assets held under resale agreements	26,286,656	-	-	-	26,286,656
Loans and advances to customers	369,460,563	1,189,344	11,474	-	370,661,381
Financial investments					
- financial assets at fair value through profit or loss	106,479,561	-	-	-	106,479,561
- financial assets at fair value through other comprehensive income	105,805,594	-	-	-	105,805,594
- financial assets at amortised cost	287,366,006	4,993,942	-	-	292,359,948
Finance lease receivables	35,624,476	-	-	-	35,624,476
Other financial assets	1,768,444	-	-	-	1,768,444
Total assets	1,028,160,581	10,374,235	118,930	1,672,551	1,040,326,297
Liabilities					
Borrowings from central bank	(40,720,519)	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(117,426,175)	(28,585)	-	(241,308)	(117,696,068)
Financial liabilities at fair value through profit or loss	(87,598,791)	-	-	-	(87,598,791)
Placements from banks and other financial institutions	(28,463,173)	(315,411)	-	-	(28,778,584)
Derivative financial liabilities	(69,555)	(51,650)	(67)	(16,666)	(137,938)
Financial assets sold under repurchase agreements	(27,844,684)	-	-	-	(27,844,684)
Deposits from customers	(565,774,117)	(6,366,296)	(16,752)	(1,641,146)	(573,798,311)
Debt securities issued	(91,443,925)	-	-	-	(91,443,925)
Other financial liabilities	(1,115,884)	(194)	(3)	-	(1,116,081)
Total liabilities	(960,456,823)	(6,762,136)	(16,822)	(1,899,120)	(969,134,901)
Net on-balance sheet financial position	67,703,758	3,612,099	102,108	(226,569)	71,191,396
Financial guarantees and credit commitments	63,475,642	14,721,349	389,295	5,850,254	84,436,540

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2017					
Assets					
Cash and balances with the central bank	92,172,406	184,043	163	1,261	92,357,873
Deposits with banks and other financial institutions	6,536,809	2,997,571	83,198	82,255	9,699,833
Placements with banks and other financial institutions	2,050,422	1,502,866	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	–	2,695,099
Derivative financial assets	20,856	46,623	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	–	36,027,487
Loans and advances to customers	304,227,694	968,354	12,497	–	305,208,545
Investment securities					
– available-for-sale	140,038,790	3,267,100	–	–	143,305,890
– held-to-maturity	61,128,401	–	–	–	61,128,401
– debt instruments classified as receivables	211,647,260	–	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	–	26,269,575
Other financial assets	7,382,900	112,635	–	1,151	7,496,686
Total assets	890,197,699	9,079,192	95,858	84,667	899,457,416
Liabilities					
Borrowings from central bank	(35,575,527)	–	–	–	(35,575,527)
Deposits from banks and other financial institutions	(81,659,916)	(14,154,547)	–	(136)	(95,814,599)
Placements from banks and other financial institutions	(24,308,732)	(1,119,180)	–	–	(25,427,912)
Derivative financial liabilities	(2,284)	(745,165)	–	–	(747,449)
Financial assets sold under repurchase agreements	(40,855,148)	–	–	–	(40,855,148)
Deposits from customers	(509,382,964)	(3,351,566)	(18,275)	(55,377)	(512,808,182)
Debt securities issued	(115,180,357)	–	–	–	(115,180,357)
Other financial liabilities	(16,197,101)	(283,297)	(2)	(7)	(16,480,407)
Total liabilities	(823,162,029)	(19,653,755)	(18,277)	(55,520)	(842,889,581)
Net on-balance sheet financial position	67,035,670	(10,574,563)	77,581	29,147	56,567,835
Financial guarantees and credit commitments	48,372,983	6,075,420	4,511,860	3,335,768	62,296,031

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

51.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 31 December 2018	As at 31 December 2017
1% of appreciation of foreign exchange against RMB	26,157	(78,509)
1% of depreciation of foreign exchange against RMB	(26,157)	78,509

During the sensitivity analysis, the Group adopts the following assumptions when determining the business conditions and financial index, regardless of:

- Analysis is based on static gap on the balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

51.3 Liquidity risk

51.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatches is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between the maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are both key factors when evaluating its exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and other calls on cash-settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.2 Cash flow of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from central bank	(16,626,142)	(4,337,440)	(20,583,187)	-	-	(41,546,769)
Deposits from banks and other financial institutions	(18,051,814)	(36,580,330)	(46,658,180)	(19,751,080)	(1,631,939)	(122,673,343)
Financial liabilities at fair value through profit or loss	(1,422,593)	(29,798,250)	(57,737,532)	-	-	(88,958,375)
Placements from banks and other financial institutions	(1,218,583)	(8,693,364)	(19,574,304)	-	-	(29,486,251)
Financial assets sold under repurchase agreements	(23,998,325)	(545,173)	(3,331,220)	-	-	(27,874,718)
Deposits from customers	(355,099,401)	(28,842,022)	(116,167,205)	(83,576,624)	(4,450,014)	(588,135,266)
Debt securities issued	(7,748,338)	(10,565,271)	(56,861,085)	(18,098,800)	(14,548,800)	(107,822,294)
Other financial liabilities	(1,116,081)	-	-	-	-	(1,116,081)
Total liabilities(contractual maturity)	(425,281,277)	(119,361,850)	(320,912,713)	(121,426,504)	(20,630,753)	(1,007,613,097)
Assets						
Cash and balances with central bank	88,144,324	-	-	-	-	88,144,324
Deposits with banks and other financial institutions	7,150,132	110,048	727,193	-	-	7,987,373
Placements with banks and other financial institutions	1,412,273	1,622,373	2,055,495	-	-	5,090,141
Financial assets held under resale agreements	26,296,450	-	-	-	-	26,296,450
Loans and advances to customers	23,817,890	24,808,731	115,052,761	82,938,789	238,575,703	485,193,874
Financial investments						
- financial assets at fair value through profit or loss	27,008,903	37,011,058	46,859,148	19,251,583	8,383,690	138,514,382
- financial assets at fair value through other comprehensive income	8,517,148	2,464,288	19,271,804	61,063,136	29,574,931	120,891,307
- financial assets at amortised cost	10,890,241	7,468,937	48,947,837	210,849,734	68,624,973	346,781,722
Finance lease receivables	150,746	1,150,182	2,393,477	9,890,097	26,861,764	40,446,266
Other financial assets	1,768,444	-	-	-	-	1,768,444
Financial assets held for managing liquidity risk (contractual maturity)	195,156,551	74,635,617	235,307,715	383,993,339	372,021,061	1,261,114,283
Net liquidity	(230,124,726)	(44,726,233)	(85,604,998)	262,566,835	351,390,308	253,501,186

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from central bank	(21,358,158)	(240,609)	(4,638,867)	(9,664,844)	–	(35,902,478)
Deposits from banks and other financial institutions	(25,141,460)	(38,401,833)	(18,883,661)	(16,501,658)	(236,909)	(99,165,521)
Placements from banks and other financial institutions	–	(10,947,679)	(14,461,519)	(262,357)	–	(25,671,555)
Financial assets sold under repurchase agreements	(36,546,053)	–	(4,412,017)	–	–	(40,958,070)
Deposits from customers	(316,868,083)	(31,878,893)	(79,797,930)	(91,220,949)	(14,913)	(519,780,768)
Debt securities issued	(26,210,000)	(14,609,000)	(52,737,452)	(15,509,800)	(14,173,600)	(123,239,852)
Other financial liabilities	(7,209,119)	–	–	–	–	(7,209,119)
Total liabilities (contractual maturity)	(433,332,873)	(96,078,014)	(174,931,446)	(133,159,608)	(14,425,422)	(851,927,363)
Assets						
Cash and balances with central bank	92,357,873	–	–	–	–	92,357,873
Deposits with banks and other financial institutions	7,496,317	1,978,620	240,555	–	–	9,715,492
Placements with banks and other financial institutions	–	2,074,553	1,546,275	–	–	3,620,828
Financial assets at fair value through profit or loss	326,930	826,810	568,821	1,176,116	16,388	2,915,065
Financial assets held under resale agreements	35,958,105	–	99,853	–	–	36,057,958
Loans and advances to customers	19,730,369	25,978,769	90,933,001	44,680,007	129,702,901	311,025,047
Investment securities						
– available-for-sale	13,377,702	26,527,154	40,645,996	61,027,109	17,916,524	159,494,485
– held-to-maturity	905,522	1,230,009	6,587,665	39,517,438	23,417,857	71,658,491
– debt instruments classified as receivables	19,040,511	20,958,130	48,730,771	131,056,492	11,667,171	231,453,075
Finance lease receivables	3,257,844	1,882,652	4,639,552	19,491,943	255,270	29,527,261
Other financial assets	1,589,271	–	–	–	–	1,589,271
Financial assets held for managing liquidity risk (contractual maturity)	194,040,444	81,456,697	193,992,489	296,949,105	182,976,111	949,414,846
Net liquidity	(239,292,429)	(14,621,317)	19,061,043	163,789,497	168,550,689	97,487,483

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.3 Cash flow of derivative financial instruments

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at 31 December 2018 and 31 December 2017 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2018						
Foreign exchange derivatives						
– Outflow	(851,660)	(63,633)	(6,211,844)	–	–	(7,127,137)
– Inflow	838,047	63,691	6,330,980	–	–	7,232,718
	(13,613)	58	119,136	–	–	105,581
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2017						
Foreign exchange derivatives						
– Outflow	(349,979)	(6,300,940)	(8,971,814)	–	–	(15,622,733)
– Inflow	327,541	5,891,017	8,594,848	–	–	14,813,406
	(22,438)	(409,923)	(376,966)	–	–	(809,327)

Derivative financial instruments with net delivery

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2018						
Interest rate derivatives	(889)	(1,326)	(16,289)	(5,287)	3,489	(20,302)
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2017						
Interest rate derivatives	–	9,400	3,415	4,666	–	17,481

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51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

As at 31 December 2018	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with central bank	25,284,873	35,588	-	-	-	-	-	62,823,863	88,144,324
Deposits with banks and other financial institutions	5,485,734	1,654,545	109,999	714,186	-	-	-	-	7,964,464
Placements with banks and other financial institutions	-	1,410,794	1,597,653	2,014,023	-	-	-	-	5,022,470
Derivative financial assets	-	3,547	2,056	159,844	43,532	-	-	-	208,979
Financial assets held under resale agreements	-	26,286,656	-	-	-	-	-	-	26,286,656
Loans and advances to customers	-	23,333,088	22,442,827	106,022,905	50,466,747	166,674,294	1,721,520	-	370,661,381
Financial investments									
- financial assets at fair value through profit or loss	-	20,192,253	31,370,831	42,602,885	9,307,648	756,384	2,249,560	-	106,479,561
- financial assets at fair value through other comprehensive income	-	8,297,505	1,600,412	16,355,052	56,913,701	22,495,905	-	143,019	105,805,594
- financial assets at amortised cost	-	8,778,844	4,793,817	37,832,711	179,314,477	61,511,354	128,745	-	292,359,948
Finance lease receivables	-	29,146,735	1,422,043	2,750,434	1,909,681	395,583	-	-	35,624,476
Other financial assets	1,484,880	11,591	16,338	46,005	131,374	77,337	919	-	1,768,444
Total assets	32,255,487	119,151,146	63,355,976	208,498,045	298,087,160	251,910,857	4,100,744	62,966,882	1,040,326,297
Borrowings from central bank	(16,540,214)	(6,591)	(4,203,236)	(19,970,478)	-	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(17,032,599)	(798,237)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	(1,000)	-	(117,696,068)
Financial liabilities at fair value through profit or loss	-	(1,422,039)	(29,605,230)	(56,571,522)	-	-	-	-	(87,598,791)
Placements from banks and other financial institutions	-	(718,583)	(8,486,682)	(19,573,319)	-	-	-	-	(28,778,584)
Derivative financial liabilities	-	(17,806)	(4,434)	(71,697)	(44,001)	-	-	-	(137,938)
Financial assets sold under repurchase agreements	-	(23,992,854)	(543,900)	(3,307,930)	-	-	-	-	(27,844,684)
Deposits from customers	(354,846,131)	(7,837,387)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	-	-	(573,798,311)
Debt securities issued	-	(7,732,386)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	-	-	(91,443,925)
Other financial liabilities	-	(1,116,081)	-	-	-	-	-	-	(1,116,081)
Total liabilities	(388,418,944)	(43,641,964)	(107,466,419)	(312,943,143)	(99,744,457)	(16,918,974)	(1,000)	-	(969,134,901)
Net liquidity gap	(356,163,457)	75,509,182	(44,110,443)	(104,445,098)	198,342,703	234,991,883	4,099,744	62,966,882	71,191,396

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.4 Maturity analysis (Continued)

As at 31 December 2017	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	92,357,873	-	-	-	-	-	-	-	92,357,873
Deposits with banks and other financial institutions	1,387,299	6,106,844	1,968,036	237,654	-	-	-	-	9,699,833
Placements with banks and other financial institutions	-	-	2,053,664	1,499,624	-	-	-	-	3,553,288
Financial assets at fair value through profit or loss	-	319,505	793,586	521,511	1,050,354	10,143	-	-	2,695,099
Derivative financial assets	-	6	3,255	55,880	8,338	-	-	-	67,479
Financial assets held under resale agreements	-	35,927,634	-	99,853	-	-	-	-	36,027,487
Loans and advances to customers	-	19,022,306	23,967,970	89,447,903	43,642,458	126,163,830	2,964,078	-	305,208,545
Investment securities									
- available-for-sale	-	13,547,671	20,703,547	38,916,539	55,217,409	14,804,721	106,503	9,500	143,305,890
- held-to-maturity	-	799,977	630,134	5,047,080	32,864,828	21,786,382	-	-	61,128,401
- debt instruments classified as receivables	-	34,310,661	19,159,118	33,673,458	113,386,423	10,936,600	181,000	-	211,647,260
Finance lease receivables	-	21,175,677	1,234,723	1,910,210	1,948,965	-	-	-	26,269,575
Other financial assets	395,148	1,912,433	2,017,787	1,512,511	1,079,355	565,033	14,419	-	7,496,686
Total assets	94,140,320	133,122,714	72,531,820	172,922,223	249,198,130	174,266,709	3,266,000	9,500	899,457,416
Borrowing from central bank	-	(21,335,527)	(240,000)	(4,500,000)	(9,500,000)	-	-	-	(35,575,527)
Deposits from banks and other financial institutions	(3,368,919)	(21,719,938)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	-	(95,814,599)
Placements from banks and other financial institutions	-	-	(10,913,078)	(14,260,000)	(254,834)	-	-	-	(25,427,912)
Derivative financial liabilities	-	(22,171)	(397,176)	(325,870)	(2,232)	-	-	-	(747,449)
Financial assets sold under repurchase agreements	-	(36,527,152)	-	(4,327,996)	-	-	-	-	(40,855,148)
Deposits from customers	(290,774,260)	(26,049,708)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	-	(512,808,182)
Debt securities issued	-	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	-	(115,180,357)
Other financial liabilities	(583,126)	(8,039,988)	(964,601)	(3,863,205)	(2,430,115)	(599,372)	-	-	(16,480,407)
Total liabilities	(294,726,305)	(139,843,317)	(96,679,033)	(172,563,961)	(126,413,384)	(12,663,581)	-	-	(842,889,581)
Net liquidity gap	(200,585,985)	(6,720,603)	(24,147,213)	358,262	122,784,746	161,603,128	3,266,000	9,500	56,567,835

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.3 Liquidity risk (Continued)

51.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amounts of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds provided for guarantees and letters of credit are commonly lower than other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amounts for credit commitments do not represent the actual funds required.

As at 31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	29,745,001	–	–	29,745,001
Letters of credit	7,672,948	1,406,605	–	9,079,553
Letters of guarantee	13,301,817	5,119,562	475,051	18,896,430
Loan commitments	5,466,942	105,000	–	5,571,942
Unused credit card lines	217,443	20,890,661	35,510	21,143,614
Total	56,404,151	27,521,828	510,561	84,436,540

As at 31 December 2017	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	27,513,009	–	–	27,513,009
Letters of credit	7,408,942	451,977	–	7,860,919
Letters of guarantee	9,024,411	1,228,222	446,814	10,699,447
Loan commitments	1,702,384	30,000	–	1,732,384
Unused credit card lines	146,008	14,343,019	1,245	14,490,272
Total	45,794,754	16,053,218	448,059	62,296,031

51.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in the interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.4 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt investments with significant unobservable inputs.

(b) Financial instruments not measured at fair value

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

- (i) Balances with central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value approximates to the fair value.

- (ii) *Loans and advances to customers*

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value approximates to the fair value.

- (iii) *Deposits from customers*

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers approximates to the fair value.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(iv) Finance lease receivables

The balance of finance lease receivables is calculated based on the effective interest rate method. Since the actual interest rate of a financial leasing is timely adjusted to the interest rates that the PBOC stipulates, the carrying value approximates to the fair value.

The table below summarizes the carrying amounts and the fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet date.

	As at 31 December 2018				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	292,359,948	–	292,951,020	–	292,951,020
Financial Liabilities					
Debt securities issued	(91,443,925)	–	(91,727,315)	–	(91,727,315)
	As at 31 December 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	61,128,401	–	59,264,266	–	59,264,266
Investment securities					
– Debt instruments classified as receivables	211,647,260	–	211,538,809	–	211,538,809
Financial Liabilities					
Debt securities issued	(115,180,357)	–	(113,167,271)	–	(113,167,271)

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

- (i) Financial assets at amortised cost (Debt instruments classified as receivables and held-to-maturity investments as at 31 December 2017)

Financial assets at amortised cost (Held-to-maturity investments as at 31 December 2017) whose fair value is based on quoted market prices are included in level 1. As for financial assets at amortised cost (Debt instruments classified as receivables as at 31 December 2017), when such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

- (ii) Debt securities in issued

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets is not significant.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,368,090	–	1,368,090
– Interbank certificates of deposit	–	159,180	–	159,180
– Asset management schemes by securities firms or trust companies	–	74,697,756	–	74,697,756
– Wealth management products	–	28,909,989	–	28,909,989
Derivative financial assets	–	208,979	–	208,979
Financial assets at fair value through other comprehensive income				
– Debt securities	–	85,906,546	–	85,906,546
– Interbank certificates of deposit	–	18,415,455	–	18,415,455
– Equity securities	–	143,019	–	143,019
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	13,356,764	–	13,356,764
Total assets	–	223,165,778	–	223,165,778
Financial liabilities at fair value through profit or loss	–	(87,598,791)	–	(87,598,791)
Derivative financial liabilities	–	(137,938)	–	(137,938)
Total liabilities	–	(87,736,729)	–	(87,736,729)

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,761,885	–	1,761,885
– Interbank certificates of deposit	–	933,214	–	933,214
Derivative financial assets	–	67,479	–	67,479
Available-for-sale				
– Debt securities	–	57,067,186	–	57,067,186
– Interbank certificates of deposit	–	14,117,912	–	14,117,912
– Equity securities	–	9,500	–	9,500
– Asset management schemes by securities firms or trust companies	–	62,111,292	–	62,111,292
– Wealth management products	–	10,000,000	–	10,000,000
Total assets	–	146,068,468	–	146,068,468
Derivative financial liabilities	–	(747,449)	–	(747,449)
Total liabilities	–	(747,449)	–	(747,449)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (trading financial assets and available-for-sale financial assets as at 31 December 2017) and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair values are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with the Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management is also aimed to stimulate the expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, limit management for example, to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes the modification of dividend distribution plan, raising new capital and issuance of new bonds.

Started on 1 January 2013, the Group implemented "The Trial Measures for Capital Management of Commercial Banks" which promulgated by the CBRC on 7 June 2012.

The table below summarizes the Capital Adequacy Ratios of the Group as at 31 December 2018:

		As at 31 December 2018	As at 31 December 2017
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.37%	8.48%
Tier-one Capital Adequacy Ratio	(a)	9.18%	9.46%
Capital Adequacy Ratio	(a)	11.65%	12.19%
Common Equity Tier-one Capital	(b)	63,528,664	52,795,964
Common shares		12,154,801	11,049,819
Capital reserve		8,347,521	5,881,045
Surplus reserve and General reserve		18,671,173	15,675,829
Undistributed profits		23,048,940	19,106,524
Eligible portion of minority interests		1,306,229	1,082,747
Deductible Items from Common Equity Tier-one Capital	(c)	(181,089)	(164,015)
Net Common Equity Tier-one Capital		63,347,575	52,631,949
Additional Tier-one Capital	(d)	6,164,254	6,134,456
Net Tier-one Capital		69,511,829	58,766,405
Tier-two capital	(e)	18,683,136	16,904,817
Tier 2 capital instruments issued and related premium		9,600,000	10,000,000
Excess loan loss provisions		8,737,384	6,616,084
Eligible portion of minority interests		345,752	288,733
Net Capital		88,194,965	75,671,222
Risk-weighted Assets	(f)	756,950,968	620,978,790

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.5 Capital management (Continued)

Pursuant to the “Capital Rules for Commercial Banks (Provisional)”:

- (a) The scope of consolidation related to the calculation of the Group’s Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.
- (b) The Group’s Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation).
- (c) The Group’s Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (d) The Group’s Additional Tier-one Capital includes preference shares and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group’s Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

Notes to the Consolidated Financial Statements

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

51 FINANCIAL RISK MANAGEMENT (Continued)

51.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the consolidated financial statements either.

	As at 31 December 2018	As at 31 December 2017
Entrusted loans	88,271,304	126,523,602
Entrusted wealth management products	101,387,710	86,306,980

52 SUBSEQUENT EVENTS

Profit distribution:

In accordance with the resolution of the third meeting of the forth session of the Board of Directors held on 27 March 2019, the profit distribution plan of the Bank for the year ended 31 December 2018 (subject to approval by the shareholders' meeting) is as follows:

- (i) An appropriation of 10% of profit for the year 2018 amounting to RMB857.80 million to the statutory surplus reserve;
- (ii) An appropriation of 10% of profit for the year 2018 amounting to RMB857.80 million to the discretionary surplus reserve;
- (iii) An appropriation of RMB1,910.05 million to the general reserve;
- (iv) Cash dividends of RMB0.56 per 10 shares (RMB680.50 million in total). The Bank will issue special dividends based on the progress of its A-share IPO filings and policy adjustments. 15% of the Bank's audited net profit for 2018 are earmarked for distribution as special dividends. At that time, the Bank will separately effect the necessary approval procedures for this special dividend plan.

As of the date of this report, the Group has no other significant subsequent events except for the events stated above.

Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December 2018	As at 31 December 2017
RMB current assets to RMB current liabilities	37.19%	44.29%
Foreign currency current assets to foreign currency current liabilities	92.06%	71.93%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 31 December 2018				
Spot assets	10,374,235	118,930	1,672,551	12,165,716
Spot liabilities	(6,762,136)	(16,822)	(1,899,120)	(8,678,078)
Forward purchases	5,052,082	36,548	438,000	5,526,630
Forward sales	(1,524,257)	(35,729)	(193,262)	(1,753,248)
Net long/(short) position	7,139,924	102,927	18,169	7,261,020
As at 31 December 2017				
Spot assets	9,032,569	95,858	84,667	9,213,094
Spot liabilities	(18,908,590)	(18,277)	(55,520)	(18,982,387)
Forward purchases	14,793,997	–	–	14,793,997
Forward sales	(19,134)	–	–	(19,134)
Net long/(short) position	4,898,842	77,581	29,147	5,005,570

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Chinese Mainland, and regards all the claims on third parties outside Chinese Mainland as cross border claims.

International claims include balances with central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

Appendix I – Unaudited Supplementary Financial Information

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

3 INTERNATIONAL CLAIMS (Continued)

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Non-bank private institutions	Total
As at 31 December 2018			
Asia Pacific excluding Chinese mainland	2,325,297	4,822,580	7,147,877
– Hong Kong	664,104	–	664,104
Europe	2,539	–	2,539
North and South America	376,516	–	376,516
Oceania	1,509	–	1,509
Total	2,705,861	4,822,580	7,528,441
As at 31 December 2017			
Asia Pacific excluding Chinese mainland	4,769,827	980,851	5,750,678
– Hong Kong	2,927,532	–	2,927,532
Europe	6,819	–	6,819
North and South America	246,468	–	246,468
Oceania	934	–	934
Total	5,024,048	980,851	6,004,899

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 31 December 2018	As at 31 December 2017
Total loans and advances to customers which have been overdue:		
Within 3 months	1,995,437	2,637,474
Within 3 to 6 months	1,945,488	1,249,335
Within 6 to 12 months	969,289	974,557
Over 12 months	744,516	1,931,814
	5,654,730	6,793,180
By percentage:		
Within 3 months	35.29%	38.83%
Within 3 to 6 months	34.40%	18.39%
Within 6 to 12 months	17.14%	14.35%
Over 12 months	13.17%	28.43%
	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
As at 31 December 2018			
Overdue loans and advances to customers	5,494,543	160,187	5,654,730
Individually assessed	(3,758,818)	(150,511)	(3,909,329)
Collectively assessed	-	-	-
	Anhui Province	Jiangsu Province	Total
As at 31 December 2017			
Overdue loans and advances to customers	5,154,914	1,638,266	6,793,180
Individually assessed	(868,767)	(152,221)	(1,020,988)
Collectively assessed	(1,502,439)	(455,147)	(1,957,586)

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collateral against overdue loans and advances to customers:

	As at 31 December 2018	As at 31 December 2017
Fair value of collateral		
Corporate loans	3,740,225	4,857,996
Personal loans and advances	1,285,026	1,400,543
	5,025,251	6,258,539

4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
As at 31 December 2018			
Identified impaired loans and advances for which allowance is:			
Individually assessed	3,849,680	129,844	3,979,524
Collectively assessed	(3,416,506)	(123,783)	(3,540,289)
	–	–	–
As at 31 December 2017			
Identified impaired loans and advances for which allowance is:			
Individually assessed	3,062,738	237,202	3,299,940
Collectively assessed	(588,601)	(93,246)	(681,847)
	(1,931,710)	(63,027)	(1,994,737)



徽商銀行股份有限公司
Huishang Bank Corporation Limited

