

ANNUAL REPORT 2018

中原銀行股份有限公司
年度報告

OF ZHONGYUAN
BANK CO., LTD

REPORT



 **中原銀行股份有限公司**
ZHONGYUAN BANK CO., LTD.

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號 Stock Code: 6196

優先股股份代號 Preference Shares Stock Code: 4617

鼎立中原 融通四海

Rooting in central china, financing the four seas

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Chapter 1 Corporate Information

1. Basic Corporate Profile

Legal Name of the Company

中原銀行股份有限公司¹(abbreviated as 中原銀行)

English Name of the Company

ZHONGYUAN BANK CO., LTD.¹ (abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan province, the PRC

Headquarters in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan province, the PRC

Principal Business Place in Hong Kong

40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong

Board of Directors

Executive Directors:

Mr. DOU Rongxing (Chairman) ⁽¹⁾

Mr. WANG Jiong ⁽¹⁾

Mr. LI Yulin ⁽²⁾

Mr. WEI Jie ⁽²⁾

Non-Executive Directors:

Mr. LI Qiaocheng ⁽¹⁾

Mr. LI Xipeng ⁽¹⁾

Mr. MI Hongjun ⁽²⁾

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



Chapter 1 Corporate Information

Independent non-executive Directors:

Ms. PANG Hong ⁽¹⁾
Mr. LI Hongchang ⁽¹⁾
Mr. JIA Tingyu ⁽¹⁾
Mr. CHAN Ngai Sang Kenny ⁽¹⁾

Notes:

- (1) On March 16, 2018, the Bank held the first extraordinary general meeting of 2018, to re-elect each of Mr. DOU Rongxing and Mr. WANG Jiong as an executive Director, each of Mr. LI Qiaocheng and Mr. LI Xipeng as a non-executive Director, and each of Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as an independent non-executive Director of the second session of the Board. Ms. HU Xiangyun (胡相雲), an executive Director of the first session of the Board, did not offer herself for re-election at the first extraordinary general meeting of 2018 due to her retirement, and has retired as the vice chairman of the Board, an executive Director, the member of Strategy and Development Committee, the Related Party Transactions Control Committee and the Executive Committee under the Board with effect from March 16, 2018. For details, please refer to the announcements dated January 20, 2018 and March 16, 2018 and the circular dated February 22, 2018 of the Bank.
- (2) On March 16, 2018, the Bank held the first extraordinary general meeting of 2018, to appoint each of Mr. LI Yulin and Mr. WEI Jie as an executive Director, and Mr. MI Hongjun as a non-executive Director of the second session of the Board. The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun as Directors were approved by the banking regulatory authorities in the PRC on May 9, 2018. For details, please refer to the announcements dated January 20, 2018, March 16, 2018 and May 14, 2018 and the circular dated February 22, 2018 of the Bank.
- (3) Mr. HAO Jingtao, an executive Director of the first session of the Board, has resigned as an executive Director, the executive vice president, and a member of the Strategy and Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee under the Board of the Bank with effect from January 20, 2018. On March 6, 2018, Mr. HAO Jingtao was elected as an employee representative Supervisor by the meeting of employee representatives of the Bank. On March 28, 2019, Mr. HAO Jingtao was elected as the Chairman of the second session of Board of Supervisors of the Bank by the Board of Supervisors of the Bank. On January 17, 2019, Mr. ZHAO Ming, a shareholder representative Supervisor of the Bank, resigned as a shareholder representative Supervisor and a member of the Supervision Committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisors of the Bank and the proposed election was submitted to the general meeting of the Bank for approval. For details, please refer to the announcements dated December 26, 2017, January 20, 2018, March 6, 2018, January 17, 2019 and March 28, 2019 of the Bank.



Chapter 1 Corporate Information

Legal Representative

Mr. DOU Rongxing

Authorized Representatives

Mr. JIA Tingyu

Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke

Ms. LEUNG Wing Han Sharon

Unified Social Credit Code

9141000031741675X6

Financial Licence Institution Number

B0615H241010001

Auditors

PRC Auditors

KPMG Huazhen LLP

8/F, KPMG Tower E2, Oriental Plaza, 1 East Chang'an Avenue,
Dongcheng District, Beijing, PRC

International Auditors

KPMG

8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

Legal Advisors as to PRC Laws

King & Wood Mallesons

20/F, East Tower, World Financial Center,
1 Dongsanhuan Zhonglu, Chaoyang District,
Beijing, PRC



Chapter 1 Corporate Information

Legal Advisors as to Hong Kong Laws

Paul Hastings
21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong

Compliance Advisor

Central China International Capital Limited
Suite 3108, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

H Stock Code

1216

Preferred Stock Code

4617

Investor's Enquiry

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Chapter 1 Corporate Information

2. Company Profile

Zhongyuan Bank Co., Ltd, the only provincial corporate bank in Henan Province, was established on December 23, 2014 with its headquarters located in Zhengzhou City, the capital of Henan Province, PRC. As of the date of this annual report, the Bank is operating 18 branches and 2 direct sub-branches with a total of 457 outlets and over 13,000 staff. As a major promotor, it established 9 county banks and 1 consumer finance company in Henan Province, and was listed on the Main Board of the Hong Kong Stock Exchange on July 19, 2017.

Since its establishment, Zhongyuan Bank has positioned itself as “approaching citizens, serving small and micro enterprises, supporting agriculture, rural areas and farmers and promoting regional economic development (貼近市民、服務小微、支持三農、推動區域經濟發展)” in the market in accordance with the development goal of “developing Zhongyuan Bank into a leading commercial bank” advocated by Henan Provincial Committee and the provincial government, actively implemented the development strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking (傳統業務做特色, 創新業務找突破, 未來銀行求領先)”, and adhered to reforms and innovative development with every endeavor to support local economic construction and to serve the society, achieving good results in both operations and development. As of December 31, 2018, the total assets of the Bank amounted to RMB620,444 million, various deposits (excluding accrued interest) amounted to RMB346,189 million, and various loans (excluding accrued interest) amounted to RMB254.37 billion. The Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” for 4 consecutive years by Financial Times, and awarded “Best Listed Bank (最佳上市銀行)” and “Outstanding City Commercial Bank of the Year (年度卓越城市商業銀行)”. Zhongyuan Bank ranked 196th amongst the top 1000 banks in the world in terms of tier-one capital by The Banker (UK) in 2018 and the 31st among 135 PRC banks on this list.

In future, the Bank will proactively explore development paths of modern banks under a new environment of normal economic and financial conditions, adhere to the philosophy of technology cultivation, reforms and innovations, and people-oriented, in order to build itself as a modern joint stock commercial bank featured with clear and vivid elements and as a leading innovator in the PRC.



Chapter 1 Corporate Information

3. Major Awards in 2018

- (1) on January 8, 2018, the Bank was awarded “Best IPO of the Year (年度最佳IPO獎)” by China Financial Market (中國融資) in 2017.
- (2) on January 19, 2018, the Bank was awarded “Golden Cicada Award (金蟬獎)” – the financial science and technology innovation bank award for 2017 by China Times.
- (3) on January 26, 2018, the Bank was awarded “Best Innovation Award for Convenient Services (最佳便民服務創新獎)” in 2017 by Retail Banking.
- (4) on April 26, 2018, the Bank was awarded the honorary title of “May 1 Labor Medal in Henan Province (河南省五一勞動獎狀)” by Henan General Labor Union.
- (5) on June 2, 2018, the Bank launched “ONE 智投” product, which won “Ten Best Financial Products Innovation Award (十佳金融產品創新獎)” in retail business by The Banker for its innovative design concept and outstanding service experience.
- (6) on June 2, 2018, the Bank’s “Cash Management” product was awarded “Ten Best Financial Products Innovation Award” (十佳金融產品創新獎) by The Banker for its innovative design concept and outstanding service experience in corporate business.
- (7) on November 30, 2018, the Bank was awarded “Ten Best Banks in IRON-HORSE (鐵馬十佳銀行)” by Modern Bankers.
- (8) on December 5, 2018, the Bank was awarded “Golden Bauhinia Award (金紫荊獎) -Best Listed Company” of the China securities.
- (9) on December 5, 2018, Mr. Dou Rongxing, the chairman of the Board was recognized as the “Outstanding Contribution Entrepreneur on the 40th Anniversary of Reform and Opening Up (改革開放四十週年傑出貢獻企業家)” by the China Securities Golden Bauhinia Award.
- (10) on December 12, 2018, the Bank was recognized as “Ten Best City Commercial Banks” (年度十佳城市商業銀行) for 4 consecutive years by Financial Times.
- (11) on December 12, 2018, the Bank was awarded “Golden Lion Award (金獅獎) – Best Innovative Listed Company (最佳創新上市公司)”.



Chapter 1 Corporate Information

- (12) on December 12, 2018, the Bank was awarded “2018 Brand Construction Bank (2018年度品牌建設銀行)” by 21st Century Business Herald.
- (13) on December 12, 2018, the Bank was awarded “2018 Excellent City Commercial Bank (2018年度亞洲卓越城市商業銀行)” by 21st Century Business Herald.
- (14) on December 13, 2018, the Bank was awarded “Golden Wealth Management (金理財) – City Commercial Bank Wealth Management Excellence Award of the Year (年度城商行理財卓越獎)” by Shanghai Securities News.
- (15) on December 13, 2018, the Bank was awarded “2018 Best Online Banking User Experience Award of Regional Commercial Banks (2018年區域性商業銀行最佳網上銀行用戶體驗獎) by China Electronic Banks (《中國電子銀行》).



Chapter 2 Financial Summary

The financial information set forth in this annual report is prepared on a combined basis in accordance with the International Financial Reporting Standards (“IFRS”). Unless otherwise stated, such information is the data of the Bank and its subsidiaries (collectively the “Group”) denominated in RMB.

For the year ended December 31,						
	2018	2017	2018 vs 2017	2016	2015	2014
	<i>(in millions of RMB, except percentages, unless otherwise stated)</i>					
Operating results			Rate of change (%)			
Net interest income	13,744.2	12,201.3	12.6	11,203.3	10,548.1	9,068.9
Fee and commission income, net	1,280.2	769.6	66.3	449.1	134.9	96.7
Operating income	16,783.6	12,815.5	31.0	11,803.7	11,050.3	9,520.0
Operating expenses	(6,957.5)	(5,759.0)	20.8	(5,136.3)	(5,120.4)	(4,031.8)
Impairment losses on assets	(6,851.5)	(2,028.1)	237.8	(2,246.8)	(1,887.1)	(1,917.2)
Profit before tax	2,974.6	5,028.4	(40.8)	4,420.6	4,042.8	3,573.7
Net profit	2,365.3	3,905.7	(39.4)	3,360.1	3,012.4	2,668.3
Net profit attributable to equity shareholders of the Bank	2,414.6	3,838.7	(37.1)	3,359.1	2,991.4	N/A
Expressed in per share (in RMB)			Rate of change (%)			
Net assets per share attributable to equity shareholders of the Bank ¹	2.25	2.25	–	2.09	1.98	1.79
Earnings per share	0.12	0.21	(42.9)	0.20	0.19	N/A
Profitability indicators (%)			Change			
Return on average total assets ²	0.41	0.82	(0.41)	0.91	1.17	1.35
Return on average equity ³	5.43	9.57	(4.14)	9.75	9.81	11.67
Net interest spread ⁴	2.81	2.57	0.24	3.07	3.68	4.71
Net interest margin ⁵	2.83	2.76	0.07	3.26	3.96	4.97
Net fee and commission income to operating income	7.63	6.01	1.62	3.80	1.22	1.02
Cost-to-income ratio ⁶	40.59	44.00	(3.41)	41.21	39.73	35.77

Chapter 2 Financial Summary

	December 31, 2018	December 31, 2017	2018 vs 2017	December 31, 2016	December 31, 2015	December 31, 2014
<i>(in millions of RMB, except percentages, unless otherwise stated)</i>						
Capital adequacy ratio indicators (%)⁷			Change			
Calculated based on the Administrative Measures for the Capital of Commercial Banks						
Core tier-one capital adequacy ratio	9.44	12.15	(2.71)	11.24	14.77	16.98
Tier-one capital adequacy ratio	11.49	12.16	(0.67)	11.25	14.77	16.99
Capital adequacy ratio	14.37	13.15	1.22	12.37	16.14	18.57
Total equity to total assets	8.97	8.83	0.14	8.20	10.92	13.54
Asset quality indicators			Change			
Non-performing loan ratio ⁸	2.44	1.83	0.61	1.86	1.95	1.92
Allowance coverage ratio ⁹	156.11	197.50	(41.39)	207.09	210.48	219.32
Allowance to gross loan ratio ¹⁰	3.81	3.62	0.19	3.85	4.10	4.21
Other indicators (%)						
Loan-to-deposit ratio	73.48	64.85	8.63	67.20	67.97	67.52
Scale indicators			Rate of change (%)			
Total assets	620,444.3	521,989.8	18.9	433,071.4	305,890.7	206,947.8
Of which: net loans to customers	246,551.7	191,708.8	28.6	158,547.3	133,876.1	106,449.8
Total liabilities	564,766.5	475,899.2	18.7	397,572.8	272,472.7	178,936.6
Of which: deposits from customers	349,387.0	306,708.3	13.9	245,352.8	205,370.4	164,595.8
Share capital	20,075.0	20,075.0	-	16,625.0	16,625.0	15,420.5
Equity attributable to shareholders of the Bank	54,857.5	45,268.9	21.2	34,719.3	32,945.0	27,608.9
Non-controlling interests	820.3	821.7	(0.2)	779.3	473.0	402.3
Total equity	55,677.8	46,090.6	20.8	35,498.6	33,418.0	28,011.2

Chapter 2 Financial Summary

- 1 Calculated by dividing equity attributable to shareholders of the parent company after deduction of other equity instruments at the end of the reporting period by the total number of ordinary shares at the end of reporting period.
- 2 Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- 3 Calculated based on the “Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for the period.
- 4 Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest bearing liabilities.
- 5 Calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets.
- 6 Calculated by dividing operating expenses after deduction of business tax and surcharges by operating income.
- 7 The Administrative Measures for the Capital of Commercial Banks was issued on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- 8 Calculated by dividing total non-performing loans and advances by gross loans to customers.
- 9 Calculated by dividing allowance for impairment losses on loans and advances by total non-performing loans.
- 10 Calculated by dividing allowance for impairment losses on loans and advances by gross loans and advances to customers.



Chapter 3 Chairman's Statement



The year of 2018 was the fourth year since the establishment of the Zhongyuan Bank. Four years elapsed in the snap of a finger, we continued to adhere to and carry forward our core commission into the future. Cherishing the significant achievements in the past, such as the completion of reorganization and transformation, share issue, consolidation and penetration throughout the province and completion of listing in Hong Kong, the modest Zhongyuan Bankers always forge ahead with determination to blaze new trails with a pioneering spirit instead of bounded by the status quo. Facing the complex and changing market environment and the increasingly critical industrial competition, the determined Zhongyuan Bankers always persist in fostering strategic confidence and volition to stand fast to their objectives instead of backing down in fear or flinch. Through clear positioning and trend-adapting reform, along with innovation and transformation and enhancement of quality and efficiency, we will keep moving forward on the path pursuing steady and rapid development under the wave of changing times.

In 2018, the second session of the Board of Zhongyuan Bank began to perform their duties upon the expiration of the term of office of the first session of the Board, which marking the accomplishment of the leadership transition with all works being smoothly handover. Staying true to its core commission, the new session of the Board maintained the tradition of performing its obligation in a faithful and diligent manner, played its roles in strategic decision-making and facilitated the continuous optimization and improvement of all works within the Bank. In the past year, we advanced with the times to unceasingly consummate the governance structure. We incorporated the leadership of the Communist Party into our Articles of Association, thereby guaranteed that the Party Committee acts as



Chapter 3 Chairman's Statement

the political nucleus in our major decision-makings. We facilitated the effective function of the Board, the Supervisory Committee, the management and other administrative bodies to further improve the corporate governance mechanism with lineated duties and balanced operation. Besides, we proceeded slowly but gain steady promotion in business scale. In 2018, the on-balance sheet assets of our Bank amounted to RMB620,444 million, increased by RMB98,455 million or 18.9% as compared to the beginning of the year. Balance of various deposits (excluding accrued interest) was RMB346,189 million, representing an increase of RMB39,481 million or 12.9%. Total balance of various loans (excluding accrued interest) amounted to RMB254,370 million, representing an increase of RMB55,467 million or 27.9%. Our Bank realized net operating income of RMB16,784 million, representing an year-on-year increase of RMB3,968 million or 31.0%, and recorded an income from service charge and commission of RMB1,280 million. We made comprehensive plans to complete capital replenishment against a downward trend in the market. Upon the completion of the IPO of the H Shares, the Bank continued to exert its strength in the capital market of the mainland China and Hong Kong, continuously and effectively replenish its capital in a dynamical and diversified manner. We successfully issued RMB10.00 billion Tier 2 capital instruments and USD1,395 million Offshore Preference Shares at a relatively low issue rate as compared with those issued during the same period, demonstrating a strong brand influence and capital competitiveness while significantly enhancing capital strength and improving profitability and anti-risk capabilities. We innovated and transformed to unremittingly inspire business vitality. A main development line themed comprehensively digital transformation has been established to embrace financial technology proactively and to build an agile bank at full stretch. We took the lead in implementing a tribal agile transformation in the retail line, which, closely followed by corporate line, breaking down the original pyramid organizational structure, establishing a series of flexible and flat working groups, completing the iteration in fleetness with small step and fast pace, precisely addressing the pain points of the customers. We promoted our online-oriented work in an orderly way, and accomplished the landing of the pattern of “online employees, online products, online customers and online management”. The construction of the organizational framework of data governance of the Bank was launched, which brought into full play the internal and external big data resources and boosted the digital-driving forces in an all-round manner. We took on the commitment and promise to serve the local economy with high quality. By responding to the national strategy of the “Belt and Road” initiative and “the rise of Central China” in an energetic stance, we made effective contribution to the local economic development with quality financial services by taking the initiative in the participation in the regional key projects such as the “construction of the East new urban area, the West new urban area and the South new areas of Zhengzhou and the Zhengzhou Airport Economy Zone” (三區一城) and the “Hundred Cities Construction and Quality Improvement Program” (百城建設提質工程). We fully implemented the strategy of “Internetization and Ruralization of Banking Services (上網下鄉)” and, on the basis of the distribution of the rural financial market supported by internet technology, we created a new standard of “indoor service and in-village withdrawal” for rural financial services. With strengthened mechanism, innovated product portfolio and widened channels, we earnestly solved the problem for small and micro enterprises in finding difficult and costly to obtain financing.

In 2019, Zhongyuan Bank will continue to exert its advantages and make up for the shortcomings, remain true to its original aspiration and strive to fulfill its mission and practically undertake its responsibility and commitment as a provincial legal person bank.



Chapter 3 Chairman's Statement

Persist in the continuous improvement of operating efficiency. We will strengthen the guiding role of resource allocation and assessment mechanism, and continue to optimize asset structure following the principle of “efficiency, quality and scale”. We will further improve value creation capability, risk prevention and control capability and comprehensive competitiveness, to effectively reduce operating costs and increase profits.

Persist in the digital transformation unswervingly. We will gradually implement the transformation work throughout the Bank from top to bottom by means of active exploration and in-depth research, vigorously cultivate agile thinking pattern and working methods, and promote the transformation of the Bank into a “data-based bank” and “technology-based bank” with agile culture dissemination and financial technology empowerment.

Persist in serving the real economy effectively. We will further integrate the development strategy of the province into our business and continue to implement the specific measures of the Central Committee of the CPC and the State Council on serving private enterprises and the private economy, and further improve the efficiency and quality of serving the real economy. At the same time, we will keep on relying on the strategic layout of “Internetization and Ruralization of Banking Services”, actively support the credit demand for household consumption upgrades, and continuously improve the coverage, availability and convenience of inclusive finance.

Persist in the reinforcement of risk awareness. In the face of the new situations, new problems and new challenges in risk field, we will take on our responsibilities and commitment in directing all the employees of the Bank to stand fast to the bottom-line thinking and enhance risk awareness, thus making preparation with improved risk prevention and control capability and perfected risk prevention and control mechanism to ensure the sustainable and continued healthy development of operation and management.

Victory is ensured when people gather their strengths; success is secured when people put their heads together. In 2019, all colleagues of Zhongyuan Bank will stick together to advance vigorously and carry forward the spirit of living up to our responsibilities continuously. We will persist in reform and innovation and technological empowerment, constantly impel digital transformation and set up all-dimensional layout for financial technological development, exerting unremitting efforts to build up “future banking” pattern.



DOU Rongxing
Chairperson of the Board



Chapter 4 President's Statement



No matter how time would fade, we stick to our original aspiration, and the four years of cultivation have led to fruitful achievements.

In 2018, all colleagues of Zhongyuan Bank worked hard to overcome obstacles and made great achievements with the size of customer base reaching new height. The recorded net operating income was RMB16,784 million, representing an year-on-year increase of 31.0%; the total assets at the end of the year amounted to RMB620,444 million, representing an increase of 18.9% as compared to the end of the previous year; the balance of deposits (excluding accrued interest) amounted to RMB346,189 million, representing an increase of 12.9% as compared to the end of the previous year; the balance of loans (excluding accrued interest) amounted to RMB254.37 billion, representing an increase of 27.9% as compared to the end of the previous year. The double-digit growth maintained in the major indicators showcased that Zhongyuan Bank has been developed with an accelerated speed. What is more worthy of attention is that agile transformation has tapped its potential, technological innovation has brought about development, and customers have made their choices with trust. The customer number of retail banking of the Bank reached 12.38 million, the total customer number of the Company reached 193,000 and the customer number of mobile phone banking exceeded 3.96 million, with the monthly active users ranked one of the best among its peers.



Chapter 4 President's Statement

In this year, capital replenishment brought in new momentum and the brand image stepped up to a new level. Following the successful issue of the RMB10.00 billion Tier 2 capital instruments, the Bank set a historical record of the largest amount in a single tranche, and the issue of USD1,395,000,000 Offshore Preference Shares even outshined other city commercial banks that are listed on the Hong Kong Stock Exchange, which further consolidated the foundation for development. The Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” by Financial News (金融時報) for the four consecutive years and was awarded the titles of “Best Listed Bank” (最佳上市銀行), “Outstanding City Commercial Bank of the Year” (年度卓越城商行) and “Top Ten IRON-HORSE Bank” (鐵馬十佳銀行). Zhongyuan Bank ranked 196th amongst the top 1,000 banks in the world in terms of tier-one capital by The Banker(銀行家) (UK) in 2018 and the 31st among 135 PRC banks on this list.

In this year, amid the ups and downs in the treacherous and unpredictable financial market, the Bank adhered to its core values and forge ahead against all odds. In addition to vigorously supporting the real economy, actively integrating into the construction of the “Belt and Road”, it also contributed to the development of “Three Zones and One Cluster (三區一群)” and boosted the “Hundred Cities Construction and Quality Improvement Program”, sparing no effort in acting as the participant and the constructor with respect to the economic development of Henan Province. By bringing forth new ideas in corporate services and launching the products such as the “Corporate Perpetual Loans (企業永續貸)”, “Technology Loans (科技貸)”, “tax receipt loans (稅單貸)” and “Government Procurement Loans (政採貸)”, the Bank empowered the small and micro enterprises in development via big data, thus alleviated the problems of “difficult in obtaining financing” (融資難), “costly in obtaining financing” (融資貴) and “tardiness in obtaining financing”(融資慢), rendering itself as a reliable partners of private enterprises for their development and expansion. Focusing on preventing and defusing financial risks, the Bank continuously strengthened the compliance construction of internal control and improved the overall risk management system, took lead in the mutual support of regional banks in terms of liquidity and acted as a practitioner and guardian of financial security. Additionally, great efforts were made to facilitate the implementation of the “Banking Services Ruralization” strategy. Through the establishment of the rural revitalization funds and the assistance in poverty alleviation, the Bank accomplished the key step in providing financial services in the rural areas, therefore becoming the creator and guardian of the good life of the people in Central China.

In this year, the digital transformation of Zhongyuan Bank was fully launched. With the financial technology standing as the cornerstone of value, the customer experience became the touchstone of development. Pilot agile reform in it's organizational structure, complete transformation in the retail business and the breakthrough in the business lines of the Company have led to the separation and rebuild of departments, so as to construct agile tribes and apt units. The tactical grouping and work delineation and coordination of employees have broken the barriers between departments and greatly release the development potential with adaptive modes. Technological and agile factors were blended in the production innovation. We issued the first net-value wealth management



Chapter 4 President's Statement

product in Henan as a response to the new requirements in property management, the minimum subscription amounts of which being set at RMB10,000, which adapted to the trend of inclusive finance. The introduction of online car loans helped people to travel faster and easier. As we continued to launch in-vogue products in the credit card line, the scale of credit card issuance exceeded one million, setting a record with respect to the amount of public credit card issuance in the initial year among domestic banks.

The high-spirited advancement in past year witnesses the self-confidence and courage in the face of difficulties; the four years of sheer endeavor engraves restless exploration in the path of development. In the face of the complicated domestic and international economic and financial situation, Zhongyuan Bank has achieved a series of achievements with its unsettled spirit and unswerving determination. This is inseparable from the strong support of customers, investors and people from all walks of life. I would like to take this opportunity to express my sincere thanks to those who have long been committed to and supported the development of Zhongyuan Bank.

Always stay true to why we started and adapt to new change every day as the time flies. The year of 2019, being the year of 70th anniversary of the founding of new China, is a crucial year for building a moderately prosperous society in all respects and for the realization of the first centenary goal. Only by commemorating the reform with innovation and developing with transformation can we write a new chapter of the time. In the face of increasing economic complexities and market competition, Zhongyuan Bank will, taking the faith in the old Chinese saying of “those who try their best may finally success; those who walk tirelessly may finally reach their destination; and those who think studiously may finally realize their dreams” (為者常成、行者常至、思者常達) and traversing the mist of uncertainty with enthusiasm, thoroughly promote the strategy of “Internetization and Ruralization of Banking Services”, engage in an all-out push to implement digital transformation and make quality financial services avail for the brilliant development of Zhongyuan Bank!



WANG Jiong
President



Chapter 5 Management Discussion and Analysis

1. PAST ECONOMY AND FINANCIAL ENVIRONMENT AND FUTURE PROSPECTS

During the Reporting Period, the global economy maintained its moderate growth with a slowdown in momentum, and its overall growth rate remained the same as that of last year. Major developed economic entities experienced relatively strong growth with signs of slowdown. Driven by factors such as tax reduction and infrastructure investment, the economy in United States maintained rapid growth with steady rise in the manufacturing industry, improvement in the labor market and expansion of private consumption. The growth of European economy remain steady but had slowed down. The German and French economies continued to play the leading and engine role of the Eurozone. The Greek economy accelerated its recovery pace after a long-term recession. However, as affected by the delay in reaching the Brexit agreement and the development of budget deficit problem in Italy, the financial market confidence was unstable, the consumer confidence index also fell sharply, and the growth of household consumption expenditure slowed down. The Japanese economy grew in a moderate manner with the recurrence of downturn. Emerging economies as a whole were still in an accelerated period of growth. The negative impact of the “trade war” on the global economy was gradually becoming apparent, and the uncertainties trade frictions and policy will be the significant risks in future.

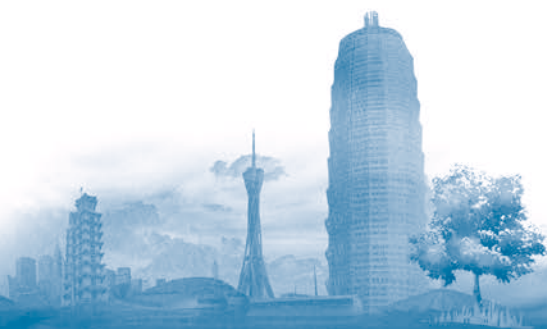
During the Reporting Period, the Chinese economy continued to maintain stable as a whole with steady progress. The main expected objectives of social development were well completed with a good beginning in the three critical missions, further advancement of supply-side structural reforms, greater efforts in the reform and opening up, and the enhancement of economic development momentum. The GDP for the year was RMB90,030,900 million, representing an increase of 6.6% over last year, contributing 30% of the increase in global economic growth. Resident income and consumption grew in a steady pace with the national per capita disposable income for the year was RMB28,228, representing an increase of 8.7% over last year. The national per capita consumption expenditure for the year was RMB19,853, representing an increase of 8.4% over last year, and the growth rate was 1.3 percentage points higher than that of last year. Investment growth showed a trend of stabilization amidst a slowdown with the fixed asset investment (excluding farmers) of RMB63,563,600 million, representing an increase of 5.9% over last year. The total volume of imports and exports hit a record high and the trade structure was continuously optimized. The total import and export volume of goods for the year was RMB30,505,000 million, representing an increase of 9.7% over last year. The total trade volume exceeded RMB30 trillion for the first time, hitting a historical high.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the economy of Henan Province maintained stable as a whole and showed steady progress with continuous optimization in its economic structure, replacement of old drivers with new drivers, and steady improvement in quality and benefit. The provincial GDP was RMB4.805586 trillion, representing an increase of 7.6%, which was 1.0 percentage point higher than the national average level, with its growth rate ranking 11th in the country. The fixed asset investment (excluding farmers) was stable with slowing growth, representing an increase of 8.1% over last year, which was 2.2 percentage points higher than the national average level. The infrastructure investment maintained rapid growth, representing an increase of 18.5% over last year. The market sales were basically stable with the total retail sales of consumer goods of RMB2,059,474 million, representing an increase of 10.3% over last year, which was 1.3 percentage points higher than the national average level.

During the Reporting Period, the Central Bank pursued steady monetary policies and adopted a series of counter-cyclical adjustment measures in a forward-looking manner according to the changes of the situation, which better grasped the balance between supporting the real economy and internal and external equilibrium, providing a suitable monetary and financial environment for supply-side structural reforms and high-quality development, and promoting a virtuous circle of economy and finance. The liquidity remained reasonably abundant with the balance of broad money (M2) amounted to RMB182.67 trillion, representing an increase of 8.1%, the growth rate and the macro leverage ratio remained stable. With a significant decline in off-balance sheet financing as a result of strong regulation, the scale of public financing increased by RMB19.26 trillion, representing a decrease of RMB3.14 trillion as compared with the same period of last year. As rapid growth in loans, and strong financial support for the real economy, the balance of RMB and foreign currency loans of financial institutions was RMB141.75 trillion, representing an increase of 12.9% over last year. The overall stable and more elastic trend of RMB exchange rate increased the role of “automatic stabilizers” in regulating macroeconomics and international payments. It is expected that in 2019, deleveraging will be turned into leverage stabilization, the Central Bank will continue to implement a prudent monetary policy with a balanced liquidity to continue to make extra efforts in supporting the real economy.



Chapter 5 Management Discussion and Analysis

2. OVERALL OPERATION OVERVIEW

In 2018, faced with the complicated economic situation and fierce market environment, the Bank has always adhered to the core value of “stability, innovation, motivation and efficiency (穩健、創新、進取、高效)” and thoroughly implemented “Three Major Strategies (三大戰略)” of “featuring products in traditional business, accomplishing breakthrough in innovative business and taking first-mover advantage in developing future banking (傳統業務做特色·創新業務找突破·未來銀行求領先)”, actively promoted the layout of “Internet and Rural Banking Services (上網下鄉)”, implemented the requirements of financial regulatory, adhered to reform and innovative development, and fully supported local economic construction, served the people’s livelihood, which has achieved good operation results and development results with increasing brand influence.

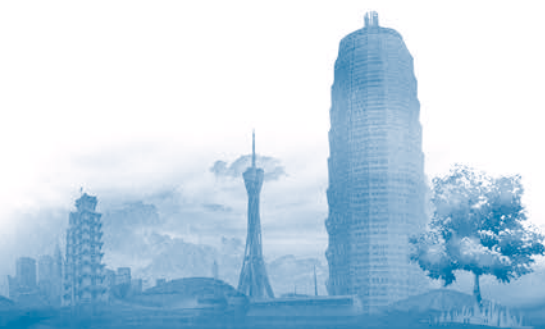
The steady growth in the business scale and continuous enhancement in development foundation. The scale of assets and liabilities achieved steady growth. As of December 31, 2018, the Bank’s total assets increased by RMB98,455 million or 18.9% to approximately RMB620,444 million from the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB346,189 million, representing an increase of RMB39,481 million or 12.9% as compared to the beginning of the year, which was 4.6 percentage points higher than the average growth in Henan province. The total loans (excluding accrued interest) amounted to RMB254,370 million, representing an increase of RMB55,467 million, or 27.9% as compared to the beginning of the year, which was 12.9 percentage points higher than the average growth in Henan province. In addition, the development foundation was continued to be enhanced. Firstly, capital replenishment made important progress. The Bank successfully issued RMB10.00 billion Tier 2 capital instruments and USD1,395 million preference shares, as such, the capital strength was further enhanced, and the development foundation continued to be stable. As of December 31, 2018, the capital adequacy ratio of the Bank was 14.37%, representing an increase of 1.22 percentage points over last year. Secondly, the business qualifications were constantly improved. The Bank obtained qualifications such as first-class dealer in open market, a member of government bond underwriting syndicates, Central Treasury cash tender, basic derivatives, and B-Class lead underwriter for non-financial corporate debt financing instruments. Thirdly, the Bank’s customer base continued to be enlarged. As of December 31, 2018, the total number of corporate clients of the Bank reached 193,000, representing an increase of 17,000 as compared to the beginning of the year. As of December 31, 2018, the corporate deposit balance (excluding accrued interest) amounted to RMB198,481 million, representing an increase of RMB16,524 million, or 9.1% as compared to the beginning of the year. The total corporate loan (excluding accrued interest) amounted to RMB149,199 million, representing an



Chapter 5 Management Discussion and Analysis

increase of RMB24,228 million, or 19.4% as compared to the beginning of the year. The total number of retail customers of the Bank reached 12,380,000, representing an increase of 2,020,000 as compared to the beginning of the year. As of December 31, 2018, the balance of personal deposits (excluding accrued interest) amounted to RMB147,708 million, representing an increase of RMB22,957 million or 18.4% as compared to the beginning of the year. The total personal loans (excluding accrued interest) amounted to RMB105,171 million, representing an increase of RMB31,239 million or 42.3% as compared to the beginning of the year. The market share increment ranked first in Henan Province and provided a solid foundation for the future sustainable development of the Bank.

The effective growth in the economic efficiencies and remarkable progress in quality and efficiency enhancement. The Bank further implemented the strategy of “quality improvement, efficiency enhancement and sustainable development”, actively carried out activities to increase revenue and reduce expenditure, effectively improving the economic efficiencies. Firstly, the Bank continuously optimized the structure of assets and liabilities as well as revenue, expanded the service channel and the income sources. The total amount of high-yielding loans and structured finance accounted for 54.9% to the total assets, representing 1.6 percentage points higher as compared to the beginning of the year; high-cost interbank liabilities (including interbank certificates of deposit) accounted for 31.8% to total liabilities, representing a decrease of 1.9 percentage points as compared to the beginning of the year. It obtained a non-interest income of RMB3,039 million, which accounted for 18.1% to net operating income, representing an increase of 13.3 percentage points over last year, of which, the Bank recorded net fee and commission income of RMB1,280 million, representing an increase of RMB511 million or 66.3% over last year. Retail business revenue accounted for 30.0%, representing an increase of 5.3 percentage points as compared to the previous year. Secondly, the Bank strengthened the management on pricing and increased the standard of interest margin control. The interest margin was steadily increased, with a net interest margin of 2.83%, maintaining the leading level in industry. Thirdly, the Bank enhanced the awareness of cost constraint to effectively control cost expenditures. Through actively reducing non-interest-bearing assets, optimizing the layout of outlets and strengthening cost control and other measures, the cost-to-income ratio decreased to 40.59% from 44.00% in last year, representing a decrease of 3.41 percentage points as compared with the same period last year, continuously improving the operational efficiency. In 2018, the Bank achieved a net operating income of RMB16,784 million, representing an increase of RMB3,968 million or 31.0% as compared to the same period last year. The Bank recorded profit before provision of RMB9,826 million, representing an increase of RMB2,770 million or 39.2% over the same period of last year. The Bank strictly implemented the regulatory policy that requires all loans overdue for more than 90 days to be classified as non-performing loans and fully provisioned for impairment, as such,



Chapter 5 Management Discussion and Analysis

adopted a more prudent risk classification standard to fully make provisions for impairment. The provision for asset impairment losses was RMB6,852 million, representing an increase of RMB4,823 million or 237.8% over last year. The Bank recorded net profit attributable to the parent of RMB2,415 million, representing a decrease of RMB1,424 million or 37.1% over last year.

Increased efforts to innovation and further enhancement in brand reputation.

Firstly, the Bank vigorously promoted the product innovation through development and launching of small and micro banking and transaction banking products such as “Tax Receipt Loans”(稅單貸) and “Quanquan Mutual Benefit (圈圈互利)”, promptly responding to market and customer demand with debt products including Regular Fund (定期寶) and Cun Li De (存利得) and continuous optimization of customer experience on asset products such as online car loans. The launch of first batch of net worth wealth management products in Henan Province, such as Qian Jing series (乾景系列) and Zhongyuan Xian Jin Bao (中原現金寶) complied with the reform trend. Yong Xu Dai (永續貸) achieved technical output with the accumulative loan exposure exceeding RMB100 million. City impression card and ETC credit card with distinctive innovations were enriched with the number of card issuance exceeding 1 million, setting a record with respect to the amount of public issuance of credit cards in initial year among domestic banks. Secondly, innovative business achieved a breakthrough. The Bank actively carried out financial services such as direct financing and cross-border financing, and the issuance scale of debt financing programs ranked the first in Henan Province. Through issuance of green and innovation and entrepreneurship financial bonds, the Bank stepped up its effort in supporting the green and innovation and entrepreneurship industries. The refactoring business, cross-border bilateral Renminbi cash pool and onshore guarantees for offshore loans fulfilled zero breakthrough. It succeeded to become directly connected with the system of Shanghai Commercial Paper Exchange, by which the products such as OMO, MLF and interest rate swaps were launched continuously. The interest rate swaps business was carried out to help the development of structured deposit business. The online processing for whole process of bills pool business effectively enhanced the customer experience. Thirdly, the brand influence was further enhanced. The Bank was awarded the “Ten Best City Commercial Banks (年度十佳城市商業銀行)” for 4 consecutive years by Financial Times and the “Golden Cicada Award (金蟬獎)”-the financial science and technology innovation bank award for the year by China Times for 2 consecutive years and won the “Golden Lion Award (金獅獎)”- the best innovative company award for Hong Kong-listed banks in 2018, Best IPO of the Year 2017 (年度最佳IPO獎) by China Financial Market (中國融資) in 2017, “Top 10 IRON-HORSE Bank (鐵馬十佳銀行)”, “Best Listed Company” (最佳上市公司) of China Securities “Golden Bauhinia Award” (中國證券金紫荊獎), “Outstanding City Commercial Bank of the Year 2018 in Asia (2018年度亞洲卓越城市商業銀行)”, “Best Regional Commercial



Chapter 5 Management Discussion and Analysis

Bank for Online Banking Customer Experience for the Year 2018 (2018年區域性商業銀行最佳網上銀行用戶體驗獎). It ranked 196th among the global Top 1,000 banks in terms of tier-one capital rated by The Banker in 2018, representing a significant increase of 31 places as compared with last year. In addition, the Bank ranked 31st among Chinese commercial banks in the list, representing an increase of 4 places as compared with last year.

Strategic transformation contributed to the development, and impressive results delivered in “Internetization and Ruralization of Banking Services (上網下鄉)” once again. Firstly, the digitization transformation was steadily promoted. Through the reform of departmental structural, the Bank carried out the working method of agile banks and accelerated the technology and product innovation and iteration to take end-to-end responsibilities for clients and comprehensively enhance financial services. Secondly, the foundation for the development of financial technology was further consolidated. The Bank improved the technology management structure to provide a strong platform for the digital transformation of the Bank. It strengthened the life cycle safety management of system development to improve the quality and efficiency of IT development. The artificial intelligent technologies such as biometric identification and AI advisor were applied to channels to continuously enhance the application of scientific and technological achievements and enhance the customer experience. Thirdly, the online orientation showed remarkable effectiveness. The Bank actively adapted to the trend towards digitalization, vigorously developed financial technology, and actively facilitated the business to be online-oriented, digitalized and intelligent by adhering to the guiding ideology of “technology cultivation, technology prosperity (科技立行、科技興行)”. The Bank clarified the online development target of the Bank to gradually implement “four online (四個在線)”: basically realized online processing of standardized products as the phased targets of online products had been realized; basically realized full-channel online customer service with the gradual enhancement in the level of customer online; the development and launch of Yuan Xin APP (原心APP) as employees online made a breakthrough; and the management online system was initially formed, and the middle and back office support systems such as risk control, compliance and operation were launched one after the other. The online customer acquisition capability continued to improve, with mobile banking customers reaching 3.9699 million, an increase of 59.0%. The e-banking replacement rate was 90.95%. Fourthly, the strategy of “Ruralization of Banking Services (下鄉)” was further advanced. Through actively establishing a rural financial service ecosystem, vigorously developing inclusive finance, the Bank provided standardized financial services for rural areas and promoted rural revitalization. In terms of institutional system, by leveraging on the



Chapter 5 Management Discussion and Analysis

farmers-benefiting payment service, the Bank continued to optimize the three-in-one service network covering “county, township and village”. As of December 31, 2018, the Bank had established 119 county sub-branches and 37 rural township sub-branches in Henan province, and deployed 3,600 farmers-benefiting services points, which covered more than 90% regions of Henan province. In terms of service model, the Bank continued to enrich the service model of farmers-benefiting, and launched APP of farmers-benefiting products to provide financial and non-financial services with focusing on the production and living needs of farmers. Through the alliance across different industries, the Bank connected the service platforms, expanded the special customer base, and built a rural financial ecosystem, effectively filled the gap of rural financial service. In terms of product system, the Bank launched the hot selling products such as Hui Nong Bao (惠農寶), Huo Li Duo (活利多) and Xin Hun Bao (新婚寶). With the constant iteration of wealth management products, the Bank launched exclusive wealth management products with a minimum purchase amount of RMB10,000. The breakthrough in asset business introduced large data risk control technology to launch online products such as “Easy Loan (隨心貸)” and “Wang Nong Dai (旺農貸)”, which improved the farmers-benefiting service system.

The constant enhancement in risk control capability and further consolidated in the asset quality. Firstly, the establishment of the risk system was further deepened and improved. The Bank established a risk dynamic monitoring mechanism for information technology and introduced a business continuity management work plan to continuously improve the management standard of information technology risks and business continuity. Through further establishing of risk policy system, improving the branch management system, and establishing a consolidated risk management system, the Bank’s risk prevention and control capabilities were effectively improved. Secondly, the building of digital risk control capacity continued to be strengthened. The Bank introduced the first-phase project of market risk management system, completed the risk decision-making model project for retail big data, and promoted the reconstruction of the credit system, further enhancing the capacity of risk control online. Thirdly, the Bank firmly implemented the new regulatory policy, and asset quality pressure was relieved to some extent. The Bank proactively adopted a more prudent risk classification standard in line with regulatory requirements, and classified all loans overdue for more than 90 days as non-performing loans. The non-performing loan ratio was 2.44%, representing an increase of 0.61 percentage point over the beginning of the year. With the further consolidated asset quality, the potential adverse risks were reduced, the asset quality was relatively stable, and the risk exposure was generally under control.



Chapter 5 Management Discussion and Analysis

3. ANALYSIS ON INCOME STATEMENT

For the year ended December 31, 2018, the Bank recorded profit before provision of RMB9,826 million, representing a year-on-year increase of 39.2%, recorded profit before taxation of RMB2,975 million, representing a year-on-year decrease of 40.8% and recorded net profit of RMB2,365 million, representing a decrease by 39.4%.

For the year ended December 31,

	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Interest income	25,241.5	21,250.2	3,991.3	18.8%
Interest expense	(11,497.3)	(9,048.9)	(2,448.4)	27.1%
Net interest income	13,744.2	12,201.3	1,542.9	12.6%
Fee and commission income	1,479.4	903.8	575.6	63.7%
Fee and commission expense	(199.2)	(134.2)	(65.0)	48.4%
Net fee and commission income	1,280.2	769.6	510.6	66.3%
Net trading gains/(losses)	365.2	(379.3)	744.5	N/A
Net gains/(losses) arising from investments securities	1,303.5	(0.4)	1,303.9	N/A
Other operating income ⁽¹⁾	90.5	224.3	(133.8)	(59.7%)
Operating income	16,783.6	12,815.5	3,968.1	31.0%
Operating expenses	(6,957.5)	(5,759.0)	(1,198.5)	20.8%
Impairment losses on assets	(6,851.5)	(2,028.1)	(4,823.4)	237.8%
Operating profit	2,974.6	5,028.4	(2,053.8)	(40.8%)
Profit before taxation	2,974.6	5,028.4	(2,053.8)	(40.8%)
Income tax	(609.3)	(1,122.7)	513.4	(45.7%)
Net profit	2,365.3	3,905.7	(1,540.4)	(39.4%)
Net profit attributable to shareholders of the Bank	2,414.6	3,838.7	(1,424.1)	(37.1%)
Minority interests	(49.3)	67.0	(116.3)	(173.6%)

Note (1): Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

Chapter 5 Management Discussion and Analysis

3.1 Net interest income, net interest spread and net interest margin

For the year ended December 31, 2018, the Bank recorded net interest income of RMB13,744 million, representing an increase of RMB1,543 million or 12.6% as compared to last year. Among this, a growth of net interest income of RMB409 million as compared to 2017 was attributable to the expansion of the Bank's business scale and an increase in net interest income of RMB1,134 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost rate of these interest-bearing liabilities for the years ended December 31, 2017 and 2018.

	For the year ended December 31,					
	2018			2017		
Average balance	Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾	
(in millions of RMB, except percentages)						
Interest-earning assets						
loans and advances to customers	222,781.7	13,746.7	6.17%	184,105.5	10,922.8	5.93%
Investment securities and other financial assets ⁽²⁾	186,371.6	9,905.7	5.32%	195,951.8	9,228.2	4.71%
Deposits with Central Bank	46,195.0	690.0	1.49%	42,806.4	639.7	1.49%
Deposits with bank and other financial institutions	12,663.8	291.1	2.30%	9,556.4	162.8	1.70%
Financial assets held under resale agreements	13,478.3	392.8	2.91%	7,305.1	222.0	3.04%
Placements with banks and other financial institutions	4,718.4	215.2	4.56%	1,889.4	74.7	3.95%
Total interest-earning assets	486,208.8	25,241.5	5.19%	441,614.6	21,250.2	4.81%
Interest-bearing liabilities						
Deposits from customers	327,242.6	5,283.8	1.61%	273,268.6	3,931.7	1.44%
Financial assets sold under repurchase agreements	20,830.3	582.1	2.79%	22,449.4	646.0	2.88%
Placements from banks and other financial institutions	10,103.3	377.5	3.74%	3,489.8	114.0	3.27%
Borrowings from Central Bank	4,693.7	135.4	2.88%	2,043.6	62.4	3.05%
Deposits from banks and other financial institutions	50,138.8	1,964.8	3.92%	40,295.4	1,705.4	4.23%
Debt securities issued ⁽³⁾	69,419.3	3,153.7	4.54%	61,421.5	2,589.4	4.22%
Total interest-bearing liabilities	482,428.0	11,497.3	2.38%	402,968.3	9,048.9	2.24%
Net interest income		13,744.2			12,201.3	
Net interest spread⁽⁴⁾			2.81%			2.57%
Net interest margin⁽⁵⁾			2.83%			2.76%



Chapter 5 Management Discussion and Analysis

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) The Bank has implemented New Accounting Standards for Financial Instruments since January 1, 2018, and such interest-earning assets consist of financial assets at amortized cost, financial assets at fair value through other comprehensive income in 2018, while it consists of financial assets at fair value through profit or loss for the current period, available for-sale financial assets, held-to-maturity investments and investment receivables in 2017.
- (3) Mainly consists of interbank deposits, financial bonds and Tier 2 capital instruments issued.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets, and based on daily average interest-earning assets.

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interests.



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	For the year ended December 31, 2018 vs 2017		
	Reasons for increase/(decrease)		
	Volume⁽¹⁾	Rate⁽²⁾	Net increase/ (decrease)⁽³⁾
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	2,386.5	437.4	2,823.9
Investment securities and other financial assets	(509.2)	1,186.7	677.5
Deposits with the Central Bank	50.6	(0.3)	50.3
Deposits with banks and other financial institutions	71.4	56.9	128.3
Financial assets held under resale agreements	179.9	(9.1)	170.8
Placements with banks and other financial institutions	129.0	11.5	140.5
Changes in interest income	2,308.2	1,683.1	3,991.3
Interest-bearing liabilities			
Deposits from customers	871.5	480.6	1,352.1
Financial assets sold under repurchase agreements	(45.2)	(18.7)	(63.9)
Placements from banks and other financial institutions	247.1	16.4	263.5
Borrowings from Central Bank	76.4	(3.4)	73.0
Deposits from banks and other financial institutions	385.7	(126.3)	259.4
Debt securities issued	363.3	201.0	564.3
Changes in interest expense	1,898.8	549.6	2,448.4

Notes:

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



Chapter 5 Management Discussion and Analysis

3.2 Interest Income

For the year ended December 31, 2018, the Bank's interest income increased by RMB3,991 million or 18.8% to RMB25,242 million as compared to the same period last year, primarily attributable to (i) the increase in the volume of loans and advances to customers and (ii) the increase in the average yield of investment securities and other financial assets.

3.2.1 Interest income from loans and advances to customers

For the year ended December 31, 2018, the Bank's interest income from loans and advances to customers increased by RMB2,824 million or 25.9% to RMB13,747 million as compared to the same period last year, primarily attributable to the Bank's overall increase in the granting of loans with stronger support on marketing promotion and product innovation. With respect to the corporate business, the Bank stepped up its support on the real economy by constantly accelerating the research, development, marketing and promotion of financial products in small and micro enterprises such as Tax Receipt Loans(稅單貸), Government Procurement Loans(政采貸), and Science and Technology Loans (科技貸), which constantly improved the corporate business product system. As for the retail business, the Bank strengthened its business marketing and further enriched and improved the retail credit online system through continuously improving the online upgrading and transformation of "Yong Xu Dai (永續貸)", "Miao Dai (秒貸)", car loans and student loans, showing its stronger support on the growth of consumption. The average balance of loans increased from RMB184,106 million to RMB222,782 million. The average yield increased from 5.93% to 6.17%, primarily due to the continuously deepened research on monetary and fiscal policies and kept abreast of the market, which effectively improved the average yield of investment securities and other financial assets.



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The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the year ended December 31,					
	2018			2017		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	<i>(in millions of RMB, except percentages)</i>					
Corporate loans	122,944.9	7,590.4	6.17%	118,030.5	7,191.9	6.09%
Discounted bills	11,322.8	552.7	4.88%	5,408.0	277.7	5.13%
Personal loans	88,514.0	5,603.6	6.33%	60,667.0	3,453.2	5.69%
Total	222,781.7	13,746.7	6.17%	184,105.5	10,922.8	5.93%

3.2.2 Interest income from investment securities and other financial assets

For the year ended December 31, 2018, the Bank's interest income from investment securities and other financial assets increased by RMB678 million or 7.3% to RMB9,906 million as compared to the same period last year, primarily attributable to the increase in the average yield of investment securities and other financial assets. The increase in the average yield of investment securities and other financial assets was primarily due to the Bank's enhancement of forward-looking research and judgement on market interest rates, optimization of its asset structure and duration, which efficiently improved the average yield of investment securities and other financial assets.

3.2.3 Interest income from deposits with the Central Bank

For the year ended December 31, 2018, the Bank's interest income from deposits with the Central Bank increased by RMB50 million or 7.9% to RMB690 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits with the Central Bank. The increase in the average balance of deposits with the Central Bank was primarily attributable to an increase in deposits from customers resulting in the growth in the size of deposit reserves.



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3.2.4 Interest income from deposits with banks and other financial institutions

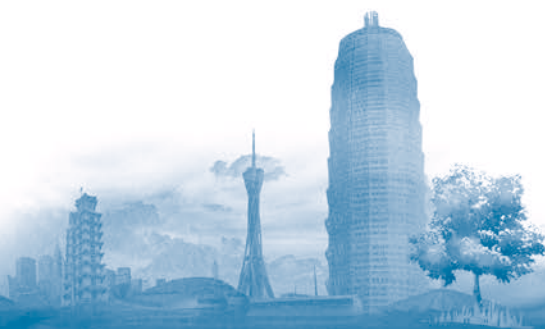
For the year ended December 31, 2018, interest income from deposits with banks and other financial institutions increased by RMB128 million to RMB291 million, primarily attributable to the average balance of deposits with banks and other financial institutions increased by RMB3,108 million to RMB12,664 million for the year ended December 31, 2018 from RMB9,556 million for the year ended December 31, 2017.

3.2.5 Interest income from financial assets held under resale agreements

Interest Income from financial assets held under resale agreements increased by RMB171 million to RMB393 million for the year ended December 31, 2018 from RMB222 million for the year ended December 31, 2017, primarily attributable to the average balance of financial assets held under resale agreements increased by RMB6,173 million to RMB13,478 million for the year ended December 31, 2018 from RMB7,305 million for the year ended December 31, 2017.

3.2.6 Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by RMB140 million to RMB215 million for the year ended December 31, 2018 from RMB75 million for the year ended December 31, 2017, primarily attributable to the average balance of placements with banks and other financial institutions increased by RMB2,829 million to RMB4,718 million for the year ended December 31, 2018 from RMB1,889 million for the year ended December 31, 2017.



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3.3 Interest Expense

For the year ended December 31, 2018, the Bank's interest expense increased by RMB2,448 million or 27.1% to RMB11,497 million as compared to the same period last year, primarily attributable to the increase in the volume of deposits from customers, debt securities issued and average cost.

3.3.1 Interest expense on deposits from customers

For the year ended December 31, 2018, the Bank's interest expense on deposits from customers increased by RMB1,352 million or 34.4% to RMB5,284 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank and the average cost. The increase in the average balance of deposits from customers of the Bank was primarily due to our efforts to develop our corporate banking and personal banking businesses, continue to expand our customers' base, enrich product system and to improve service quality and drive growth of deposits. The increase in the average cost of deposits from customers was primarily due to the increase in market interest rates driven by the effects of interest rate liberalization.

	For the year ended December 31,					
	2018			2017		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	124,775.7	779.7	0.62%	104,181.4	699.6	0.67%
Time	62,731.3	1,332.9	2.12%	58,545.7	1,074.8	1.84%
Sub-total	187,507.0	2,112.6	1.13%	162,727.1	1,774.4	1.09%
Personal deposits						
Demand	46,011.0	461.1	1.00%	36,409.0	273.1	0.75%
Time	93,724.6	2,710.1	2.89%	74,132.5	1,884.2	2.54%
Sub-total	139,735.6	3,171.2	2.27%	110,541.5	2,157.3	1.95%
Total deposits from customers	327,242.6	5,283.8	1.61%	273,268.6	3,931.7	1.44%

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3.3.2 Interest expense on deposits from banks and other institutions

For the year ended December 31, 2018, the Bank's interest expense on deposits from banks and other financial institutions increased by RMB259 million or 15.2% to RMB1,965 million as compared to the same period last year. The increase in the interest expense on deposits from banks and other financial institutions was primarily attributable to the increase in the average balance. The increase in the average balance of deposits from banks and other financial institutions was primarily attributable to the increase in deposits from banks and other financial institutions after the Bank's comprehensive consideration regarding the needs of assets and liabilities allocation.

3.3.3 Interest expense on debt securities issued

For the year ended December 31, 2018, the Bank's interest expense on debt securities issued increased by RMB564 million or 21.8% to RMB3,154 million as compared to the same period last year, primarily attributable to the Bank's issuance of financial bonds of RMB3.00 billion and Tier 2 capital instruments of RMB10.00 billion.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread increased from 2.57% for last year to 2.81% for the current year, while the Bank's net interest margin increased from 2.76% for last year to 2.83% for the current year. The increases in net interest spread and net interest margin were primarily attributable to the Bank's improvement on refined management of pricing, dynamic adjustment to asset/liability structure, efficient liability cost controls and efforts to continuously improve return on assets.



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3.4 Non-interest income

3.4.1 Fee and commission income

For the year ended December 31, 2018, the Bank's net fee and commission income increased by RMB511 million or 66.3% to RMB1,280 million as compared to the same period last year, primarily attributable to the Bank's active expansion of its intermediate businesses, service channel and the business volume.

	For the year ended December 31,			
	2018	2017	Change	Rate of Change
(in millions of RMB, except percentages)				
Net fee and commission income				
Bank card service fees	105.5	36.4	69.1	189.8%
Settlement and clearing service fees	205.5	89.8	115.7	128.8%
Agency service income	103.2	93.1	10.1	10.8%
Underwriting service income	205.7	113.8	91.9	80.8%
Acceptance and guarantee service fees	99.0	60.7	38.3	63.1%
Advisory and consulting fees	98.5	109.6	(11.1)	(10.1%)
Custodial service fees	421.8	230.6	191.2	82.9%
Wealth management business fees	240.2	169.8	70.4	41.5%
Sub-total	1,479.4	903.8	575.6	63.7%
Fee and commission expenses	(199.2)	(134.2)	(65.0)	48.4%
Net fee and commission income	1,280.2	769.6	510.6	66.3%

For the year ended December 31, 2018, the Bank realized custodial service fees income of RMB422 million, representing an increase of RMB191 million as compared to the same period last year, primarily attributable to the Bank's active development of capital custody business with an increase in the scale of custody services offered.

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For the year ended December 31, 2018, the Bank realized wealth management business fees of RMB240 million, representing an increase of RMB70 million as compared to the same period last year, primarily attributable to the Bank's continued development of product systems and increase in the size of issuance of wealth management products.

For the year ended December 31, 2018, the Bank realized underwriting service income of RMB206 million, representing an increase of RMB92 million as compared to the same period last year, primarily attributable to the Bank's active engagement in financial business, such as direct financing and cross-border financing, and plans for new issuance of debt financing.

For the year ended December 31, 2018, the Bank realized agency service income of RMB103 million, representing an increase of RMB10 million as compared to the same period last year, primarily attributable to the Bank's continued development of agency business and expansion of service channel.

For the year ended December 31, 2018, the Bank realized advisory and consulting fees income of RMB99 million, representing an decrease of RMB11 million as compared to the same period last year, primarily attributable to the decrease in the volume of advisory and consulting services provided by the Bank in accordance with changes in market demand.

3.4.2 Net trading gains/(losses)

For the year ended December 31, 2018, the Bank's net trading gains were RMB365 million, representing an increase of RMB745 million as compared to the same period last year, primarily attributable to (i) the Bank's implementation of New Accounting Standards for Financial Instruments since January 1, 2018, according to the requirement of the New Standards, interest income generated from security assets at fair value through profit or loss for the holding period were credited into net trading gains/(losses) for accounting; (ii) during the Reporting Period, the exchange rate of the US dollar showed an upward trend, resulting in the exchange gain of RMB50 million generated.



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3.4.3 Net gains/(losses) arising from investment securities

For the year ended December 31, 2018, the Bank's net gains arising from investment securities amounted to RMB1,304 million, representing an increase in gains of RMB1,304 million as compared to the same period last year, primarily attributable to (i) the Bank's implementation of New Accounting Standards for Financial Instruments since January 1, 2018, according to the requirement of the New Standards, interest income generated from interbank investments at fair value through profit or loss for the holding period were credited into net gains/(losses) arising from investment securities for accounting; (ii) the increase in the scope of financial assets at fair value as compared to last year under New Standards.

3.5 Operating expenses

For the year ended December 31, 2018, the Bank's operating expenses increased by RMB1,199 million or 20.8% to RMB6,958 million as compared to the same period last year, primarily attributable to the growths in staff costs, depreciation and amortisation and other general and administrative expenses caused by the Bank's active implementation of the strategy of "Internet and Rural Banking Services", accelerating the transformation to digital and technology-based bank and increasing strategic expenditures.

	For the year ended December 31,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	2,736.7	2,343.9	392.8	16.8%
Staff welfare	241.7	215.3	26.4	12.3%
Social insurance and annuity	516.9	377.0	139.9	37.1%
Housing fund	159.9	129.7	30.2	23.3%
Employee education expenses and labor union expenses	94.2	103.3	(9.1)	(8.8%)
Others ⁽¹⁾	92.4	61.0	31.4	51.5%
Sub-total of staff costs	3,841.8	3,230.2	611.6	18.9%
Tax and surcharges	144.3	120.2	24.1	20.0%
Depreciation and amortisation	845.3	722.5	122.8	17.0%
Other general and administrative expenses	2,126.1	1,686.1	440.0	26.1%
Total	6,957.5	5,759.0	1,198.5	20.8%

Note: (1) Primarily included expenses relating to dispatched staff.

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For the year ended December 31, 2018, staff costs increased by RMB612 million or 18.9% to RMB3,842 million as compared to the same period last year, primarily attributable to the increase in salaries, bonuses and allowances as well as social insurance and annuities and staff welfare expenses as a result of the increase in staff headcount of the Bank. Staff costs represented the largest component of the Bank's operating expenses, and respectively accounted for approximately 55.2% and 56.1% of the total operating expenses for the years ended December 31, 2018 and for the years ended December 31, 2017.

For the year ended December 31, 2018, depreciation and amortisation expenses increased by RMB123 million or 17.0% to RMB845 million as compared to the same period last year, primarily attributable to our intensified and continuous efforts on the construction of information technology system, aiming at a "technology-based bank", and more additional investment on new outlets to realize full coverage of outlets in Henan Province.

For the year ended December 31, 2018, tax and surcharges amounted to approximately RMB144 million, representing an increase of RMB24 million or 20.0% as compared to the same period last year, which was primarily due to the increase in the Bank's operating income.

For the year ended December 31, 2018, other general and administrative expenses increased by RMB440 million or 26.1% to RMB2,126 million as compared to the same period last year. Other general and administrative expenses primarily include rentals and property management fees, office expenses, business marketing expenses and others.

3.6 Impairment losses

For the year ended December 31, 2018, the Bank's impairment losses increased by RMB4,823 million or 237.8% to RMB6,852 million as compared to the same period last year, primarily attributable to (i) the Bank implemented the New Accounting Standards for Financial Instruments from January 1, 2018, in which the method of impairment provisions has been changed from the "incurred loss model" to "expected credit loss model", and the scope of provision for impaired financial assets increased as compared with the same period last year; (ii) the Bank actively complied with regulatory requirements, adopting more prudent classification standards of risk, classifying the loans past due over 90 days into non-performing loans, which resulted in the balance of non-performing loans of RMB6,207 million, representing an increase of RMB2,564 million as compared to the same period last year; (iii) more rigorous written-off of non-performing loans of the Bank resulting in the significant increase in the written-off of non-performing loans.



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	For the year ended December 31,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Loans and advances to customers	6,082.7	1,221.9	4,860.8	397.8%
Investment financial assets ⁽¹⁾	584.4	810.3	(225.9)	(27.9%)
Other assets ⁽²⁾	184.4	(4.1)	188.5	N/A
Total impairment losses	6,851.5	2,028.1	4,823.4	237.8%

Notes:

- (1) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses for the year ended December 31, 2018 include impairment losses on financial investments at amortized cost and financial investments at fair value through other comprehensive income; impairment losses for the year ended December 31, 2017 are impairment losses on investment receivables and available-for-sale financial assets.
- (2) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses for the year ended December 31, 2018 mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset and other receivables; impairment losses for the year ended December 31, 2017 mainly include impairment losses on other receivables.

3.7 Income tax expense

For the year ended December 31, 2018, the Bank's income tax decreased by RMB513 million or 45.7% to RMB609 million, primarily attributable to the decrease in the Bank's profit before taxation.

	For the year ended December 31,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Current income tax	1,631.8	1,517.7	114.1	7.5%
Deferred income tax	(1,022.5)	(395.0)	(627.5)	158.9%
Total income tax expenses	609.3	1,122.7	(513.4)	(45.7%)

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4. ANALYSIS ON KEY ITEMS OF ASSETS AND LIABILITIES

4.1 Assets

As of December 31, 2018, the Bank's total assets increased by RMB98,455 million or 18.9% to RMB620,444 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets (net), representing 39.7% and 40.7% of the Bank's total assets as of December 31, 2018, respectively.

The following table sets forth the components of the Bank's total assets as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	255,865.7	41.2%	198,902.9	38.1%
Allowance for impairment losses	(9,314.0)	(1.5%)	(7,194.1)	(1.4%)
Loans and advances to customers, net	246,551.7	39.7%	191,708.8	36.7%
Investment securities and other financial assets	252,645.9	40.7%	226,924.2	43.5%
Financial assets held under resale agreements	16,345.2	2.6%	12,988.6	2.5%
Cash and deposits with Central Bank	64,544.5	10.4%	64,369.4	12.3%
Deposits with banks and other financial institutions	15,863.5	2.6%	8,923.8	1.7%
Placements with banks and other financial institutions	10,032.0	1.6%	1,363.4	0.3%
Derivative financial assets	43.1	0.1%	–	–
Other assets ⁽¹⁾	14,418.4	2.3%	15,711.6	3.0%
Total assets	620,444.3	100.0%	521,989.8	100.0%

Note: (1) Primarily consist of properties and equipment, deferred income tax assets, goodwill and other assets.



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4.1.1 Loans and advances to customers

As of December 31, 2018, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB55,467 million or 27.9% to RMB254,370 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

The following table sets forth the distribution of the Bank's loans by business line as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans	130,280.9	50.9%	112,849.6	56.7%
Personal loans	105,170.5	41.1%	73,931.1	37.2%
Discounted bills	18,918.8	7.4%	12,122.2	6.1%
Sub-total	254,370.2	99.4%	198,902.9	100.0%
Accrued interest	1,495.5	0.6%	–	–
Total loans and advances to customers	255,865.7	100.0%	198,902.9	100.0%

(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As of December 31, 2018, the Bank's corporate loans increased by RMB17,431 million or 15.4% to RMB130,281 million as compared to the end of last year, representing 51.2% of the Bank's gross loans to customers, primarily attributable to the Bank's efforts to develop its corporate loan business and more supports to real economy.

The following table sets forth a breakdown of the Bank's corporate loans by collateral as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Unsecured loans	8,378.9	6.4%	5,423.7	4.8%
Guaranteed loans	65,886.7	50.6%	61,708.3	54.7%
Collateralized loans	36,577.1	28.1%	33,667.7	29.8%
Pledged loans	19,438.2	14.9%	12,049.9	10.7%
Total corporate loans	130,280.9	100.0%	112,849.6	100.0%

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(2) Personal loans

As of December 31, 2018, the Bank's personal loans increased by RMB31,239 million or 42.3% to RMB105,171 million as compared to the end of last year, primarily attributable to the Bank's continuous improvement of retail products and the increased support for growth of consumption.

The following table sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	50,865.7	48.4%	39,977.3	54.1%
Personal business loans	20,905.9	19.9%	20,209.0	27.3%
Personal consumption loans	29,032.2	27.6%	13,494.0	18.3%
Other personal loans	4,366.7	4.1%	250.8	0.3%
Total personal loans	105,170.5	100.0%	73,931.1	100.0%

(3) Discounted bills

As of December 31, 2018, the Bank's discounted bills increased by RMB6,797 million or 56.1% to RMB18,919 million as compared to the end of last year, which primarily due to the Bank's continuous satisfaction of customers' demand for short-term financing.



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4.1.2 Investment securities and other financial assets

As of December 31, 2018, the Bank's total investment securities and other financial assets (excluding accrued interest) increased by RMB23,692 million or 10.4% to RMB250,617 million as compared to the end of last year, primarily attributable to an increase in our investments in government bonds and corporate bonds.

The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
Debt securities issued by				
PRC government	28,620.0	11.3%	21,314.3	9.4%
Debt securities issued by				
PRC policy banks and other financial institutions	48,428.5	19.2%	47,327.1	20.8%
Debt securities issued by				
PRC corporate issuers	14,226.9	5.6%	7,414.5	3.3%
Sub-total	91,275.4	36.1%	76,055.9	33.5%
Other financial assets				
Wealth management products				
issued by other PRC				
commercial banks	28,455.1	11.3%	31,471.9	13.9%
Asset management plans	11,252.7	4.5%	21,457.7	9.5%
Trust plans	89,200.3	35.3%	65,923.9	29.1%
Others	30,433.0	12.0%	32,014.8	14.0%
Sub-total	159,341.1	63.1%	150,868.3	66.5%
Accrued interest	2,029.4	0.8%	–	–
Total investment securities and other financial assets	252,645.9	100.0%	226,924.2	100.0%

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4.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements; (ii) cash and deposits with the Central Bank; (iii) deposits with banks and other financial institutions; (iv) placements with banks and other financial institutions; and (v) other assets.

As of December 31, 2018, the financial assets held under resale agreements increased by RMB3,357 million or 25.8% to RMB16,345 million as compared to the end of last year, primarily attributable to an increase of short-term high liquid assets including financial assets held under resale agreements to improve liquidity reserve at the end of the Reporting Period.

As of December 31, 2018, the total cash and deposits with the Central Bank increased by RMB175 million or 0.3% to RMB64,545 million as compared to the end of last year, primarily attributable to an increase in the Bank's deposits from customers which led to an expansion in the corresponding size of its deposit reserves.

As of December 31, 2018, the total deposits with banks and other financial institutions increased by RMB6,940 million or 77.8% to RMB15,864 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the deposits with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of December 31, 2018, the total placements with banks and other financial institutions increased by RMB8,669 million to RMB10,032 million from RMB1,363 million for the end of last year, primarily attributable to the Bank's adjustment of the size of the placements with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the matching demand of assets and liabilities.



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4.2 Liabilities

As of December 31, 2018, the Bank's total liabilities increased by RMB88,867 million or 18.7% to RMB564,767 million as compared to the end of last year.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	349,387.0	61.9%	306,708.3	64.4%
Deposits from banks and other financial institutions	60,802.0	10.8%	39,650.8	8.3%
Debt securities issued	93,277.6	16.5%	74,128.6	15.6%
Financial assets sold under repurchase agreements	33,527.9	5.9%	40,809.8	8.6%
Placements from banks and other financial institutions	12,729.2	2.3%	5,717.1	1.2%
Borrowings from Central Bank	9,247.5	1.6%	1,322.9	0.3%
Income tax payable	1,054.8	0.2%	984.9	0.2%
Derivative financial liabilities	228.1	0.0%	–	–
Other liabilities ⁽¹⁾	4,512.4	0.8%	6,576.8	1.4%
Total liabilities	564,766.5	100.0%	475,899.2	100.0%

Note:

- (1) Primarily consist of interest payable, payment and collection clearance accounts, staff salaries payable, other tax payable, dividends payable, provisions and other payables.

4.2.1 Deposits from customers

As of December 31, 2018, the Bank's total deposits from customers (excluding accrued interest) increased by RMB39,481 million or 12.9% to RMB346,189 million as compared to the end of last year, primarily attributable to (i) the Bank's continued efforts to develop its corporate customers, expand service channels and improve service quality, resulting in an increase in its corporate deposits; (ii) initial results of its strategy of "Ruralization of Banking Services" (下鄉), leading to an increase in its rural customer deposits; (iii) the Bank's continued efforts to promote product innovation, which effectively derived an increase in deposits.



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The following table sets forth the Bank's deposits from customers by product type and maturity profile of deposits as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate deposits				
Demand	133,615.6	38.2%	130,505.0	42.5%
Time	64,865.7	18.6%	51,452.0	16.8%
Sub-total	198,481.3	56.8%	181,957.0	59.3%
Personal deposits				
Demand	40,614.6	11.6%	48,420.3	15.8%
Time	107,093.1	30.7%	76,331.0	24.9%
Sub-total	147,707.7	42.3%	124,751.3	40.7%
Accrued interest	3,198.0	0.9%	–	–
Total deposits from customers	349,387.0	100.0%	306,708.3	100.0%

4.2.2 Deposits from banks and other financial institutions

As of December 31, 2018, the Bank's balance of deposits from banks and other financial institutions increased by RMB21,151 million or 53.3% to RMB60,802 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from banks and other financial institutions according to market interest rates and allocation strategies of assets and liabilities.

4.2.3 Placements from banks and other financial institutions

As of December 31, 2018, the Bank's balance of placements from banks and other financial institutions increased by RMB7,012 million to RMB12,729 million from RMB5,717 million for the end of last year, primarily because the Bank expanded financing channels and adjusted the placements from banks and other financial institutions according to market interest rates and the demand for liquidity management.

4.2.4 Debt securities issued

As of December 31, 2018, the Bank's balance of bonds in issue increased by RMB19,149 million or 25.8% to RMB93,278 million as compared to the end of last year, primarily attributable to the Bank's issuance of RMB3.00 billion financial bonds and RMB10.00 billion Tier 2 capital instruments.



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4.2.5 Financial assets sold under repurchase agreements

As of December 31, 2018, the Bank's financial assets sold under repurchase agreements decreased by RMB7,282 million or 17.8% to RMB33,528 million as compared to the end of last year, primarily due to the optimization of short-term liabilities structure according to the demand for liquidity management.

4.3 Shareholders' Equity

As of December 31, 2018, the Bank's total shareholders' equity increased by RMB9,587 million or 20.8% to RMB55,678 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by RMB9,589 million or 21.2% to RMB54,858 million as compared to the end of last year. The increase in shareholders' equity was primarily attributable to the issuance of Preference Shares of USD1,395 million and an increase in the profits of the Bank during the Reporting Period.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Share capital	20,075.0	36.1%	20,075.0	43.5%
Other equity instrument	9,632.8	17.3%	–	–
Capital reserve	14,310.0	25.7%	14,474.4	31.4%
Surplus reserve	1,500.6	2.7%	1,258.1	2.7%
General reserve	7,884.3	14.2%	6,386.3	13.9%
Re-evaluation and impairment reserve	671.4	1.1%	(938.9)	(2.0%)
Retained earnings	783.4	1.4%	4,014.0	8.7%
Equity attributable to				
shareholders of the Bank	54,857.5	98.5%	45,268.9	98.2%
Non-controlling interests	820.3	1.5%	821.7	1.8%
Total shareholders' equity	55,677.8	100.0%	46,090.6	100.0%

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5. OFF-BALANCE SHEET COMMITMENTS

The following table sets forth the contractual amounts of the Bank's off-balance sheet credit commitments as of the dated indicated.

	As of December 31, 2018	As of December 31, 2017
	(in millions of RMB)	
Credit commitments		
Loan commitments	9,342.7	2,710.5
Bank acceptance	36,986.9	30,413.7
Letters of credit	11,444.1	4,448.4
Letters of guarantees	2,903.0	984.2
Total	60,676.7	38,556.8

6. ANALYSIS ON LOAN QUALITY

During the Reporting Period, the Bank continued the adjustment and optimization of credit structure, strengthened credit risk management, optimized credit procedures and strengthened risk early warning and post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so as to keep the loan quality at a generally manageable level. As of December 31, 2018, the balance of non-performing loans of the Bank amounted to RMB6,207 million, representing an increase of RMB2,564 million as compared with the end of last year. The non-performing loan ratio was 2.44%, representing an increase of 0.61 percentage points as compared with the end of last year; the ratio of loan in special mention category was 3.92%, representing a decrease of 0.65 percentage points as compared with the end of last year.



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6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by its five-category loan classification⁽¹⁾. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	238,199.7	93.64%	186,169.1	93.60%
Special mention	9,963.7	3.92%	9,091.3	4.57%
Substandard	2,780.5	1.09%	949.2	0.47%
Doubtful	2,273.8	0.90%	1,448.1	0.73%
Loss	1,152.5	0.45%	1,245.2	0.63%
Total loans and advances to customers	254,370.2	100.00%	198,902.9	100.00%
Non-performing loans and non-performing loan ratio ⁽²⁾	6,206.8	2.44%	3,642.5	1.83%

Notes:

- (1) The core definitions of credit asset classifications in "Loan Risk Classifications Guiding Principles" are as follows:

Normal: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments for the principal and interest, but there may be some issues that could have adverse impacts on the payments.

Substandard: The borrower's repayment ability has been evidently impaired and the borrower's normal income cannot repay the loan principal plus interest in full. Even with execution of guarantees, there may be some loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantees, there will definitely be a significant loss.

Loss: After taking all possible actions or following all necessary legal procedures, the outcome of recovery for principal and interest is likely to be little or no recovery.

- (2) Non-performing loan ratio is calculated by dividing non-performing loans by total loans and advances to customers.



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

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by product types.

	As of December 31, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	84,790.6	33.3%	4,467.4	5.27%	76,553.7	38.5%	2,107.6	2.75%
Medium-to-long-term loans ⁽²⁾	45,490.3	17.9%	182.1	0.40%	36,295.9	18.2%	479.2	1.32%
Sub-total	130,280.9	51.2%	4,649.5	3.57%	112,849.6	56.7%	2,586.8	2.29%
Personal loans								
Personal residential mortgage loans	50,865.7	20.1%	39.3	0.08%	39,977.3	20.1%	3.8	0.01%
Personal consumption loans ⁽³⁾	29,032.2	11.4%	248.5	0.86%	13,494.0	6.8%	102.4	0.76%
Personal business loans	20,905.9	8.2%	790.8	3.78%	20,209.0	10.2%	948.2	4.69%
Others	4,366.7	1.7%	4.7	0.11%	250.8	0.1%	1.3	0.56%
Sub-total	105,170.5	41.4%	1,083.3	1.03%	73,931.1	37.2%	1,055.7	1.43%
Discounted bills	18,918.8	7.4%	474.0	2.51%	12,122.2	6.1%	-	0.00%
Total	254,370.2	100.0%	6,206.8	2.44%	198,902.9	100.0%	3,642.5	1.83%

Notes:

- (1) Include loans with maturity of one year or less and advances.
- (2) Include loans with maturity of more than one year.
- (3) Others include primarily credit cards.
- (4) Calculated by dividing non-performing loans in each product type by gross loans in that product type.

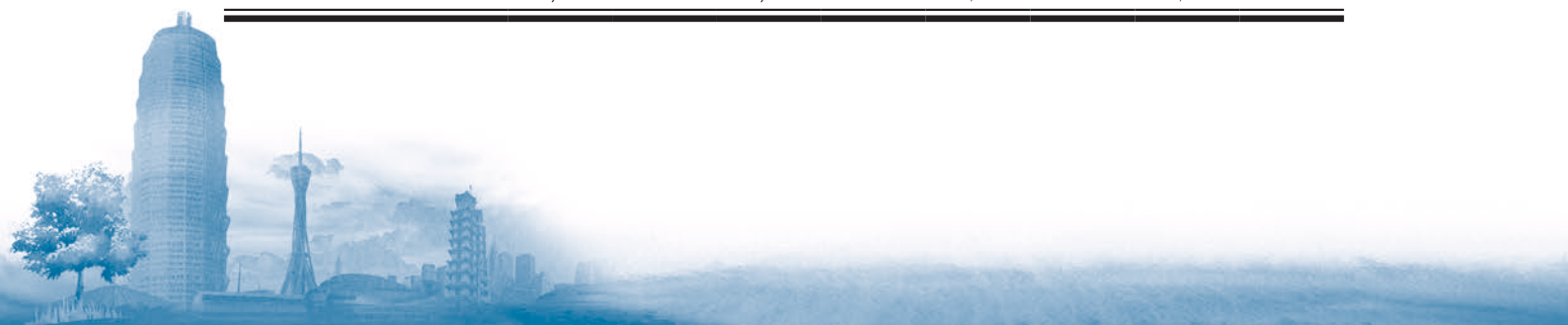
In 2018, the balance of corporate non-performing loans of the Bank amounted to approximately RMB4,650 million, representing an increase of approximately RMB2,063 million as compared with the end of last year. The non-performing loan ratio was 3.57%, representing an increase of approximately 1.28 percentage points as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the Bank implemented more prudent five-category loan classification system at end of year, by which all loans overdue more than 90 days were classified into non-performing loans. In addition, the credit customers of the Bank were mainly small and medium corporate clients, whose repayment abilities were deteriorated greatly by the operation difficulties as a result of economic downside.

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The balance of personal non-performing loans of the Bank amounted to approximately RMB1,083 million, representing an increase of approximately RMB28 million as compared with the end of last year. The non-performing loan ratio was 1.03%, representing a decrease of approximately 0.4 percentage points as compared with the end of last year. The personal non-performing loans of the Bank increased mainly because the Bank implemented more prudent five-category loan classification system at the year end, resulting in the inclusion of all loans overdue more than 90 days into non-performing loans. The decline in the Bank's non-performing loan ratio was mainly due to the fact that (i) the Bank proactively responded to national policies by reinforcing credit structure adjustment and further developing personal credit business, and as of December 31, 2018, the balance of personal loans amounted to approximately RMB105,171 million, representing an increase of approximately RMB31,239 million or approximately 42.25% as compared with the end of last year; and (ii) the Bank continuously increased contribution to reduce non-performing loans and proactively reduced personal non-performing loans.

6.3 Distribution of Loans and Non-Performing Loans by Industry

	As of December 31, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Manufacturing	29,135.1	11.5%	2,192.8	7.53%	30,642.5	15.4%	1,325.1	4.32%
Leasing and business services	25,941.0	10.2%	126.3	0.49%	16,556.3	8.3%	40.2	0.24%
Wholesale and retail	18,001.4	7.1%	1,099.2	6.11%	18,984.2	9.5%	561.9	2.96%
Real estate	16,958.8	6.7%	427.7	2.52%	11,424.0	5.7%	334.5	2.93%
Construction	9,885.3	3.9%	229.6	2.32%	8,856.7	4.5%	49.0	0.55%
Water, environment and public facilities management	7,473.6	2.9%	5.5	0.07%	4,615.1	2.3%	6.0	0.13%
Electricity, gas and water production and supply	4,367.6	1.7%	60.7	1.39%	3,920.1	2.0%	54.9	1.40%
Agriculture, forestry, animal husbandry and fishery	4,103.7	1.6%	240.7	5.87%	4,283.4	2.2%	76.7	1.79%
Accommodation and catering	3,271.3	1.3%	110.3	3.37%	3,223.1	1.6%	80.8	2.51%
Education	2,920.5	1.1%	12.9	0.44%	2,270.4	1.1%	19.5	0.86%
Health, social security and social welfare	2,477.7	1.0%	-	0.00%	1,705.0	0.9%	8.0	0.47%
Mining	2,157.8	0.9%	15.8	0.73%	2,384.8	1.2%	5.0	0.21%
Transportation, storage and postal services	2,122.3	0.8%	116.3	5.48%	2,084.7	1.0%	13.5	0.65%
Others	1,464.8	0.5%	11.7	0.80%	1,899.3	1.0%	11.7	0.62%
Total corporate loans	130,280.9	51.2%	4,649.5	3.57%	112,849.6	56.7%	2,586.8	2.29%
Total personal loans	105,170.5	41.4%	1,083.3	1.03%	73,931.1	37.2%	1,055.7	1.43%
Discounted bills	18,918.8	7.4%	474.0	2.51%	12,122.2	6.1%	-	0.00%
Total	254,370.2	100.0%	6,206.8	2.44%	198,902.9	100.0%	3,642.5	1.83%



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

As of December 31, 2018, the non-performing corporate loans of the Bank mainly concentrated in the manufacturing industry, wholesale and retail industry and agriculture, forestry, animal husbandry and fishery industry, with non-performing loan ratio of approximately 7.53%, 6.11% and 5.87%, respectively, of which:

- (i) the balance of non-performing loans in the manufacturing industry increased by approximately RMB868 million compared with the end of last year, with an increase of approximately 3.21 percentage points in non-performing loan ratio, which was mainly attributable to the inclusion of all loans overdue more than 90 days into non-performing loans as the Bank implemented more prudent five-category loan classification system at the year end, as well as the increase of non-performing loan ratio in the industry as a result of production and operation difficulties in the traditional manufacturing industry and a weakened repayment capacity after being affected by the economic downturn.
- (ii) the balance of non-performing loans in the wholesale and retail industry increased by approximately RMB537 million compared with the end of last year, with an increase of approximately 3.15 percentage points in non-performing loan ratio, which was mainly attributable to the inclusion of all loans overdue more than 90 days into non-performing loans as the Bank implemented more prudent five-category loan classification system at the year end, as well as the effect of prolonged trade receivables cycle and slowdown of recollection on the capital turnover, and worsen operating conditions in the wholesale and retail industry after being significantly affected by the slowdown of the PRC economy development.
- (iii) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry increased by approximately RMB164 million compared with the end of last year, with an increase of approximately 4.08 percentage points in non-performing loan ratio, which was mainly attributable to the inclusion of all loans overdue more than 90 days into non-performing loans as the Bank implemented more prudent five-category loan classification system at the year end, as well as the increase of non-performing loan ratio in the industry as a result of production and operation difficulties in the agriculture, forestry, animal husbandry and fishery industry and a weakened repayment capacity after being affected by the economic downturn.



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6.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans and nonperforming loans by collateral.

	As of December 31, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
	(in millions of RMB, except percentages)							
Unsecured loans	22,309.8	8.7%	158.0	0.71%	9,202.4	4.6%	33.3	0.36%
Guaranteed loans	81,392.5	32.0%	3,177.0	3.90%	74,273.7	37.3%	2,150.9	2.90%
Collateralised loans	115,649.2	45.5%	2,348.5	2.03%	89,632.8	45.1%	1,387.0	1.55%
Pledged loans	35,018.7	13.8%	523.3	1.49%	25,794.0	13.0%	71.3	0.28%
Total	254,370.2	100.00%	6,206.8	2.44%	198,902.9	100.0%	3,642.5	1.83%

Note: Calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

As of December 31, 2018, the balance of our guaranteed non-performing loans increased by approximately RMB1,026 million from the end of last year, representing an increase in non-performing loan ratio of approximately 1 percentage points, primarily because (i) the Bank implemented more prudent five-category loan classification system at the year end with the inclusion of all loans overdue more than 90 days into non-performing loans; (ii) borrowers of the Bank's guaranteed loans are mostly small and medium enterprises which are vulnerable to risks under current economic situations, the decline in their operations resulted in the decrease in contractual performance ability; (iii) the weak guarantee capacity of the guarantors and their failure to repay loans on time resulted in the increase in the volume and ratio of our guaranteed non-performing loans.

As of December 31, 2018, the balance of our collateralised non-performing loans increased by approximately RMB962 million from the end of last year, representing an increase in non-performing loan ratio of approximately 0.48 percentage points, primarily because (i) the Bank implemented more prudent five-category loan classification system at the year end with the inclusion of all loans overdue more than 90 days into non-performing loans; and (ii) with the relatively high proportion of loan customers of the Bank were small and medium enterprises, those enterprises experienced decline in operations and were exposed to risks under the current economic situation, which resulted in an increase in collateralised non-performing loans.

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6.5 Borrowers Concentration

As of December 31, 2018, the balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of December 31, 2018, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank.

As of December 31, 2018				
Industry	Balance	% of total		
		loans	% of net capital	
(in millions of RMB, except percentages)				
Borrower A	Leasing and commercial services	1,428.0	0.7%	2.1%
Borrower B	Manufacturing	1,387.2	0.5%	2.1%
Borrower C	Accommodation and catering	1,192.2	0.5%	1.8%
Borrower D	Real estate	1,163.0	0.5%	1.7%
Borrower E	Real estate	1,139.0	0.4%	1.7%
Borrower F	Real estate	988.2	0.4%	1.5%
Borrower G	Leasing and commercial services	887.5	0.3%	1.3%
Borrower H	Leasing and commercial services	850.0	0.3%	1.3%
Borrower I	Real estate	828.2	0.3%	1.1%
Borrower J	Leasing and commercial services	780.0	0.3%	1.1%
Total		10,643.3	4.2%	15.7%

As of December 31, 2018, the loan balance of the largest single borrower of the Bank was approximately RMB1,428 million, accounting for approximately 0.7% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was approximately RMB10,643 million, representing approximately 4.2% of the total amount of loans of the Bank.



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6.6 Overdue loans

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans to customers by maturity.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	243,455.4	95.71%	188,348.9	94.69%
Overdue loans				
Up to 3 months	4,798.9	1.89%	2,496.9	1.26%
Over 3 months up to 1 year	2,702.5	1.06%	4,218.3	2.12%
Over 1 years up to 3 years	2,628.9	1.03%	3,569.1	1.79%
Over 3 years	784.5	0.31%	269.7	0.14%
Sub-total	10,914.8	4.29%	10,554.0	5.31%
Total loans	254,370.2	100.00%	198,902.9	100.00%

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

As of December 31, 2018, the amount of overdue loans totaled approximately RMB10,915 million, representing an increase of approximately RMB361 million as compared with the end of last year. Overdue loans accounted for approximately 4.29% of the total loans, representing a decrease of approximately 1.02 percentage points as compared with the end of last year.

7. BUSINESS OPERATION SEGMENT REPORT

The table below sets forth the Bank's total operating income by business segments for the periods as indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	9,733.1	58.0%	8,380.7	65.4%
Retail banking business	5,027.0	30.0%	3,173.9	24.7%
Financial markets business	1,937.4	11.5%	1,279.9	10.0%
Other businesses	86.1	0.5%	(19.0)	(0.1%)
Total operating income	16,783.6	100.0%	12,815.5	100.0%



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8. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimize its business structure and strengthen its capital management. As of December 31, 2018, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 14.37%, 11.49% and 9.44% respectively, representing an increase of 1.22 percentage points, and a decrease of 0.67 percentage points and 2.71 percentage points respectively, compared to the numbers at the end of the preceding year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBRC. The changes in capital adequacy ratio were mainly due to the issue of RMB10.00 billion tier-two capital instruments and USD 1,395 million preference shares by the Bank.

In accordance with Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBRC, the capital adequacy ratio of the Bank was as follows:

	As of December 31, 2018	As of December 31, 2017
	<i>(in millions of RMB, except percentages)</i>	
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,605.8	13,535.5
Surplus reserve	1,500.6	1,258.1
General reserve	7,884.3	6,386.3
Retained earnings	783.4	4,014.0
Valid portion of minority interests	373.3	301.4
Total Core tier-one capital	45,222.4	45,570.3
Core tier-one capital deductions	(709.2)	(676.3)
Net core tier-one capital	44,513.2	44,894.0
Other tier-one capital	9,682.6	39.9
Net tier-one capital	54,195.8	44,933.9
Net tier-two capital	13,581.9	3,635.1
Net capital base	67,777.7	48,569.0
Total risk-weighted assets	471,779.0	369,459.2
Core tier-one capital adequacy ratio	9.44%	12.15%
Tier-one capital adequacy ratio	11.49%	12.16%
Capital adequacy ratio	14.37%	13.15%

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9. BUSINESS REVIEW

9.1 Corporate Banking Business

The Bank adhered to the three key development strategies to implement the overall work requirements of “quality improvement, efficiency enhancement and sustainable development”, focusing on “Internetization and Ruralization of Banking Services (上網下鄉)” and “digital transformation” (數字化轉型). The Bank concentrated and united all efforts and captured the opportunities to strive for success, and to maintain healthy, fast and reasonable development all along.

9.1.1 Corporate deposits

The Bank continued to leverage the advantages of bank-government cooperation, and focused on establishing its internal growth mechanism for corporate settlement deposits, thereby optimizing the corporate liabilities business structure. The Bank continued to improve the competitiveness of its corporate deposit business by providing corporate customers with corporate demand deposits, corporate time deposits, corporate call deposits, corporate agreement deposits, negotiated deposits, corporate intelligent deposits, as well as other innovative corporate deposit products and services, such as Growth with Profit (成長添利), Daily Average Profit Increase (日均增利), Quanquan Mutual Benefit (圈圈互利) and group interest optimization.

As of December 31, 2018, the Bank’s corporate deposit balance was RMB198,481 million, with an increase of RMB16,524 million compared to the beginning of the year. The corporate deposits grew by 9.1% in terms of time-point increment, representing 5.6 percentage points higher than the average market growth rate. Daily balance of the corporate deposit was RMB187,507 million, with an increase of RMB24,780 million or 15.2% compared to the beginning of the year. The market share of corporate deposits increased by 0.39% compared to the beginning of the year, ranking 4th among peers in terms of market share increment, and ranked 2nd in the industry of Henan in terms of time-point increment.



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9.1.2 Corporate loans

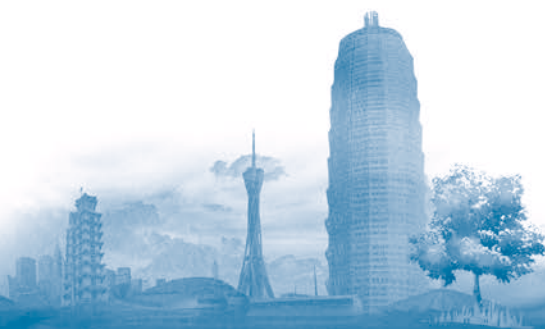
The Bank strengthened its strategic execution and innovation leadership, seized market opportunities, and expanded its loan sources through multiple measures. It promoted the marketing of key projects, key customers and key regions, deepened the strategic cooperation among banks, the government and enterprises, strengthened the strategic partnership with 18 regions or cities, having signed strategic cooperation agreements with the provincial civil affairs department and Zhongyuan Asset Management Co., Ltd.. The Bank actively carried out financial businesses such as direct financing, equity financing and cross-border financing, and gave more support on green and innovation and entrepreneurship industries. In 2018, a total of 309 new major projects with an amount exceeding RMB50 million each were implemented, aggregating to RMB63,220 million in total.

As of December 31, 2018, the Bank's corporate loan balance was RMB130,281 million, with an increase of RMB17,431 million or 15.4% compared to the beginning of the year.

9.1.3 Corporate customers

Basing on the economic development reality of Henan Province, the Bank insisted on "returning to original sources and breaking away from virtual economy to real economy", served to the implementation of national strategies and supported the development of the real economy. The Bank adhered to the customer-oriented approach, developed the customer segmentation operating approach, and adopted customized service model and operating strategies tailored for different customer groups. The Bank developed the segmentation operating approach by providing layered services to institutional customers, strategic customers, transaction banking customers and small and micro enterprise customers. It continued to deepen the cooperation relationship among banks, the government and enterprises, in order to explore new ways for supporting the small and medium size enterprises, thereby pushing ahead the Bank's transformation and development.

As of December 31, 2018, corporate clients of the Bank reached 193,000, representing an increase of 17,000 as compared with that of the beginning of the year.



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9.1.3.1 Strategic customers

The Bank actively implemented the segmentation operating approach on corporate customers and differentiated marketing policies towards strategic customers. Through cross-line inter-connective marketing and internal and external coordination mechanisms, the Bank improved the level of customer marketing management and realized in-depth development and intensive cultivation of strategic customers. As of December 31, 2018, the Bank's head office-level strategic customer coverage was 77.22%, representing an increase of 8.70% from the beginning of the year. The balance of credit assets accounted for 28.95% of the total assets, increasing by 8.95% from the beginning of the year, of which, the strategic customers' average daily corporate deposit balance increased by 20.68% compared with the beginning of the year.

9.1.3.2 Institutional customers

The Bank proactively expanded its institutional business coverage to foster new growth points of the business, and seized business opportunities in key segments of the institutions, enhanced the commitments in technological marketing, to improve the vertical service capabilities for institutional customers. As of December 31, 2018, the average daily balance of institutional deposits of the Bank was RMB114,906 million, representing an increase of RMB28,506 million as compared to the beginning of the year. The number of institutional business agency qualification increased by 305 compared with the beginning of the year.



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9.1.3.3 Small and micro customers

As to its small and micro customers, the Bank adheres to the concept of “professional and robust”, broadening customer base, building model, establishing brand, and utilizes new technologies and means to strengthen the integration of private small and micro finance with “Internet+”. The Bank adopts big data tools to enrich the means of obtaining customers, and makes full use of new channels, such as online banking and mobile banking, to provide efficient and convenient financial services for small and micro enterprises. As of December 31, 2018, the Bank served more than 29,600 private small and micro enterprises, and the loan balance of private small and micro enterprises reached RMB112,201 million, accounting for 44.11% of the Bank’s loans. The balance of the Bank’s small and micro loans increased by RMB34,361 million, representing an increase of RMB7,307 million compared with the beginning of the year. The annual completion rate of small and micro credit programs was 120%, and small and micro customers increased by 28,000, representing an increase of 300 compared with the beginning of the year. The Bank completely fulfilled the task to achieve the increment in both small and micro enterprises.

9.1.3.4 Bank’s products

In 2018, in order to improve customer service capabilities, the Bank actively promoted the construction of its product system, with continuous contributions to intensify product innovation and further improve the customer experience.

As regards to liability products, the Bank took an initiative to introduce structured deposits in May 2018, further enriching the Bank’s liability products. In terms of customer settlement services and liquidity management, the cross-border bilateral RMB cash pool business has been implemented. Four products, namely Group interest optimization, Quanquan Mutual Benefit (圈圈互利), Daily Average Profit Increase (日均增利) and Growth with Profit (成長添利), were newly developed, of which Quanquan Mutual Benefit (圈圈互利) and Growth with Profit (成長添利) were first issued in the industry. The Bank’s innovation in cash management products has been among the forefront of the industry, and has been widely recognized by the industry and customers.

In respect of intermediate services, in 2018, the Bank launched new trust plan custody and account fund supervision services, showing its capability in more abundant service content and service means.



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In respect of financing products, products such as debt financing plans and onshore guarantees for offshore Loans business have made breakthroughs, further expanding the varieties of financing products.

While widening the series of products constantly, the Bank has expedited the pace of its line products and services turning online. The bill pool business realized functions such as online custody and online lending; and completely online products such as “Tax Bill Loan (稅單貸)” and “Government Procurement Loan (政采貸)” were successfully launched. The Bank’s business processing is more convenient, which significantly improves the customer experience, and accordingly further enhances the competitiveness of its products, which effectively supports the Bank’s banking business. In December 2018, the Bank won the “2018 China E-banking Gold List Award-2018 Regional Commercial Bank Best Online Banking User Experience Award (2018中國電子銀行金榜獎-2018年區域性商業銀行最佳網上銀行用戶體驗獎)” for its innovative breakthroughs and practices in the field of e-banking.

9.1.4 Investment banking

Based on the steady operation of investment banking businesses such as structured financing, equity financing and financial advisory service, the Bank strongly promoted the transformation from a traditional investment bank to an integrated service investment bank by enriching investment banking business products and increasingly developing new ideas and channels, and thereby offer its clients with higher quality and comprehensive services.



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The Bank has issued RMB1.50 billion green financial bonds and RMB1.50 billion financial bonds supporting innovative and entrepreneurship enterprises, successively. By this way, the Bank continuously exerted innovation in the investment banking business and supported the development of green finance and innovation and entrepreneurship enterprises. At the same time, the Bank actively carried out bond underwriting business. As of the end of the Reporting Period, the Bank's debt financing programs underwriting business ranked 1st in terms of its size in the province, and the cumulative debt financing programs registered amounted to RMB14.7 billion, with the completion of listing and offering of RMB5.86 billion. Cooperating with institutions and organizations such as the regional equity trading center in the province and the Henan Small and Medium Enterprise Development Fund (LP) (河南省中小企業發展基金(有限合夥)), and by means of convertible bonds and "investment and lending linkage (投貸聯動)", etc., the Bank developed new equity financing approaches to continue to support small and medium-sized enterprises in the province. Through the perpetual debt-like business, while providing financing for customers in the province, the Bank effectively optimized corporate debt structure. It actively expanded the asset securitization business to cater for the needs of asset securitization financing of high-quality enterprises inside and outside the province. Acting as an independent lead underwriter, the Bank successfully issued China's first receivables debt financing program product with the property fee as basic asset; as a joint promotion agency, it participated in the issuance of China's first gas billing rights asset securitization product. The Bank promoted overseas debt issuance and financial advisory services for enterprises on their being listed in Hong Kong. By establishing a cross-border investment and financing collaboration platform, the Bank strengthened its "friend circle" of cross-border business cooperation, laying a solid foundation for the development of the cross-border investment and financing business.



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9.1.5 Transaction banking

The Bank adhered to its future business layout and promoted the digital strategic transformation by further establishing the online system for transaction banking, and realized the operation of key businesses with in-depth industry research. In 2018, the Bank actively consolidated resources by leveraging on financial technology and the advantages of extensive geographical coverage, developed transaction banking business such as cash management, bills pool, supply chain finance and trade finance, thereby deepened the upstream and downstream cooperation with the core enterprises, expanded the customer base and extended the industrial chain. Consequently, in September 2018, the Bank was successfully selected as one of the national first batch pilot enterprises in the supply chain finance application and innovation, which was jointly determined by eight ministries and commissions including the Ministry of Commerce.

9.1.5.1 Corporate online banking

The Bank continued to develop new applications for corporate online banking, aiming for improvement in customer experience. It reduced its internal and external costs, effectively diverted and mitigated counter pressures of branches, enhanced the service capability of the online corporate banking business, and built a one-stop financial service platform for enterprises. As of December 31, 2018, the aggregated number of the Bank's corporate online banking customers was 112,600, representing an increase of 27,800 customers compared to the number at the beginning of the year. The aggregated transaction amount increased by RMB1,782,355 million compared to the amount at the beginning of the year, and the total transaction volume increased by 6,928,000 transactions compared to the number at the beginning of the year, accounting for 89.87% of the total number of transactions conducted by corporate banking customers during the same period.



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9.1.5.2 Cash management

Through independent research and development and product innovation, Zhongyuan Bank has established a relatively complete cash management product system, which can provide standardized and personalized cash management service solutions for enterprises, governments and public institutions. In June 2018, the Bank's cash management won the "Ten Best Financial Product Innovation Award (十佳金融产品创新奖)" (for corporate business) at the China Financial Innovation Forum with its innovative design concept and excellent service experience.

As of December 31, 2018, there were 2,522 cash management customers, representing a year-on-year increase of 267.10%; the aggregated time-point balance of RMB deposits was RMB35,083 million, representing a year-on-year increase of 38.72%; the average daily balance was RMB35,228 million, representing a year-on-year increase of 58.42%; the total transaction amount of the cash management business reached RMB762,635 million. Zhongyuan Bank has become a major cooperative bank for more customers in light of its comprehensive and all-around product system and service capabilities in cash management.

9.1.5.3 Supply chain financing

The Bank continues to be customer-centric and actively push forward the supply chain finance business to become online, digitized, scenarios and platform oriented. Product construction adheres to the scientific concept of promoting development with flexibility with the goal of excellence. The Bank strives for perfection in the process of building an industrial finance ecosystem, to provide tail-made, professional and online supply chain financial services for customers from different industries and sectors. During the Reporting Period, the aggregated number of supply chain finance customers was 383, with an aggregate amount of RMB12,611 million during the year. In particular, a total of 2,531 loans were granted through the online supply chain, amounting to RMB4,232 million.



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9.1.5.4 Trade finance

During the Reporting Period, the Bank obtained the qualification to jointly handle forward foreign exchange settlement and sales, and implemented the business successfully. It launched the cross-border bilateral RMB cash pool business, onshore guarantees for offshore loans business, and has achieved business breakthroughs. The Bank achieved full coverage of the main business types of capital accounts; fully promoted system construction and became the first bank in China to have realized domestic licenses six-in-one (證六合一), which reduced business operation time, improved customer experience, and boosted the transaction banking business.

As of December 31, 2018, the transaction amount of the Bank's trade finance services reached RMB34,573 million, representing an increase of RMB26,256 million compared to 2017; the Bank's aggregated amount of international settlement transactions was USD3,004 million, representing an increase of USD1,950 million compared to 2017. As of December 31, 2018, the Bank has established cooperation relationship in trade finance services with 714 corporate banking customers and has established agency relationship with 246 domestic and foreign banks.

9.1.5.5 Bills pool

In 2018, the Bank's bills pool business experienced constant upgrades and optimization, which was able to promptly respond to customers' needs and complete the system iteration and operation. While helping customers to reduce the custodian risk of bills, lower down financing costs, and improve the liquidity of bill assets, the Bank has created the functions of electronic bill custody and online lending, with services concentrating on increasing customer experience and catering for customers' needs. The Bank firmly satisfied various needs of customers subject to the digitized and smart development guidance. During the Reporting Period, the total number of customers in the bills pool was 702, representing an increase of 546 over the previous year. The accumulated amount raised for the year was RMB4,638 million, representing an increase of RMB2,112 million compared to 2017. Upon launch of the online financing of the bills pool in July 2018, the total number of loan granted was 122 with a financing amount of RMB285 million.



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9.2 Retail Banking Business

During the Reporting Period, in view of the complex and ever-changing external environment, the Bank's retail line fully implemented the "three major development strategies" and continuously promoted the implementation of work requirements of "three stresses and one persistence (三抓一堅持)" (stressing demolition, agency issue and ecosystem construction, and persistence in customer management). Riding on the strong momentum of agile and digital transformation, the Bank continued to promote a shift in the business-driven model from traditional price, product, relationship, resource input to higher level of data, scenarios and ecology. The mode for the head office to manage branches shifted from mainly relying on assigning indicators, holding competitions and focusing assessment to formulating strategies, improving capabilities, developing hot-sale products and proactively screening customer groups. Through all of the above, the Bank's various indicators performed well, witnessing initial results achieved in segmental transformation.

9.2.1 Retail Deposits

During the Reporting Period, the Bank actively seized market opportunities to focus on both customer management and innovative products, increasing the scale of retail deposits. Through various targeted activities, the Bank provided a combination of online and offline, financial and non-financial services, and continuously deepened customer management by stratification and group. The Bank endeavored to accelerate product creation and design, adhered to the principle of expanding the scale of main category products and highlighting occasional products, for the purpose of sustainably increasing product competitiveness. The Bank continuously introduced new products, optimize channels, and innovate product purchase and sales models, ensuring stableness with steady increment of savings deposits, and enhancing customer loyalty, so as to realize customers management by stratification and group.

As of December 31, 2018, the balance of the Bank's personal deposits amounted to RMB147,708 million, representing an increase of RMB22,957 million.



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9.2.2 Retail Loans

During the Reporting Period, the Bank took multiple measures to continuously promote the steady growth of retail loans business with highlights. Keeping an eye on the assigned tasks, the Bank continuously strengthened the marketing of key channels, expanded and explored target customers; continued to optimize the retail loans business structure; actively improved the retail loans pricing mechanism, enhancing its product pricing advantages. The Bank always adheres to the concept of equal emphasis on inorganic and organic growth, customer development and customer management, and continues to market customers and beef up comprehensive operations. The Bank values customer experience, paying equal attention to financial services and non-financial services. On the one hand, it continuously develops and innovates to optimize business processes; on the other hand, it provides more non-financial services to customers through various forms of online gift-giving activities; continues to enhance customer stickiness coupled with varieties of offline value-added services.

As of December 31, 2018, the balance of the personal loans on the balance sheet reached RMB105.171 billion, increased by RMB31,239 million; interest income from personal loans reached RMB5,604 million, representing a year-on-year increase of 62.3%. In particular, a total of 33,800 loans were granted under Yong Xu Dai (永續貸), with the amount reaching RMB33,879 million, representing an increase of RMB14,916 million in 2018.



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9.2.3 Personal customers

As of December 31, 2018, the Bank's personal customers reached 12,380,000 in total, representing an increase of 2,020,000 compared with the beginning of the year, of which 2,697,700 were active customers, representing an increase of 547,900 compared with the beginning of the year.

9.2.3.1 Mass customers

As of December 31, 2018, the number of mass customers was 2,501,600, representing an increase of 356,200 over the previous year; the size of assets under management (including savings) was RMB135,580 million, representing an increase of RMB27,259 million over the previous year; the amount of savings deposits was RMB109,119 million, representing an increase of RMB18,907 million compared to last year.

9.2.3.2 Wealth management & private banking customer groups

As of December 31, 2018, the number of wealth management & private banking customers was 19,500, representing an increase of 9,400 over the previous year; the amount of assets (including savings) was RMB47,248 million, representing an increase of RMB8,530 million compared to the previous year, of which the savings deposits of wealth management & private banking customers increased by RMB2,716 million. The number of customers with a balance exceeding RMB3 million was 3,337, representing an increase of 578, or 20.95% than the previous year. The balance of off-balance sheet assets was RMB6,466 million, representing an increase of RMB2,583 million or 66.52% compared to last year; the sales of trust amounted to RMB305 million.



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9.2.4 Scenario development and operation

In October 2018, the Bank set up a scenario development and operation segment, and successively established six panels, including community, campus, xiaowei (小微), foodie map and Zhongyuan wallet, provident fund, inactive customer improvement and data application. With continuous market research, customer survey and value argumentation, the Bank has explored the ecological circle construction model, and the results acquiring customers through scenarios have begun to bear fruit.

As for the foodie map, as of December 31, 2018, the foodie map served a total of 13,900 food merchants, attracting about 250,000 customers. The online transaction number was 219,600, with the amount of RMB5,088,900, and the number of offline transactions was 1,319,800, with the amount of RMB150 million.

As for the campus card, as of December 31, 2018, the Bank had 18 cooperative schools and 142,000 cards issued in bulk. The number of teachers for agency issuance was 12,000, issuing an amount of RMB47.02 million on monthly basis. Specifically, we newly entered into cooperation with five schools in 2018, with a number of cards issued in bulk of 34,600, and 3,158 teachers for agency issuance had a monthly issuance of RMB27.66 million. The joint marketing deposits amounted to RMB240 million.

In terms of improvement in inactive customers, the Bank has conducted a comprehensive data analysis on inactive customers, classified them according to customer sources, basic characteristics, transaction attributes, etc., and intended to reach, awaken and activate those customers through scenarios by grading them based on the difficulty of improvement in different types of customers.



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9.2.5 Wealth management and private banking business

The Bank is committed to establishing high-quality private banking business, focusing on wealth management and private banking customer management, completing institutional transformation, improving financial and non-financial product service systems, and pursued to improve the overall customer service.

The Bank has specially set up a wealth and private banking segment, including four panels, i.e. wealth customer group, private banking customer group, non-financial products and value-added services and high-net-worth products. At the same time, the Bank has established regional wealth center and wealth team at branch level to build a reasonable and efficient organizational structure, thereby promote sustainable business development.

Through the establishment of abroad financial business system, the Bank continued to acquire customers by means of scenario-oriented approach; provided high-end customers with comprehensive value-added services by organizing high-end customer maintenance activities and setting up high-end hotel reservation platforms. The Bank maintained the practice of “customer-oriented creation of products”, and continuously developed agile, efficient and rapid iteration products, as to optimize the high-net-worth exclusive product system and complete “3+1” high-net-worth exclusive product system planning. The Bank organized diamond financial planner competitions, financial manager CFP vocational skills training, etc., to foster and increase the abilities of account managers’ professional quality, to build a full-service circle of account managers, and to continue on professional deployment of customer assets.

During the Reporting Period, a total of 6 high-end customer maintenance activities at the head office level were held, bringing assets under management of RMB1,269 million, of which the savings deposits increased by RMB1,015 million.



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9.2.6 Farmers-benefiting business

During the Reporting Period, the Bank continued to innovate financial services, improved its service capabilities, and implemented the “going of ideas, funds, channels, products and services to village (理念下沉、資金下沉、渠道下沉、產品下沉、服務下沉)”, developing new standards for the construction of rural financial services featuring “indoor services, in-village withdrawal, outlet per village, credit per household (服務不出門、取款不出村、村村有網點、戶戶有授信)”.

The Bank has established the “three-in-one (三位一體)” channel service system, namely “sourcing at county sub-branches, implementing at township sub-branches, and extending at farmers-benefiting outlets (縣域支行抓源頭、鄉鎮支行抓落地、惠農服務點抓延伸)”, boasting of 119 county-level sub-branches in operation and 37 new township sub-branches, with 3,600 farmers-benefiting service points spread over rural areas, which benefitted more than 10 million county and rural residents.

Riding on the farmers-benefiting service points and in the way of financial auditorium, drama performance in countryside, financial night school, etc., the Bank impacted the knowledge of financial products, payment settlement as well as risk prevention and anti-counterfeit money to customers in rural areas. Through on-site explanation, hanging of banner ads and propaganda posters, distribution of poster foldouts and other forms, the Bank popularized basic financial knowledge in the vast rural areas, improved the mass villagers’ awareness of payment settlement, thus improving the financial literacy of rural residents. As of December 31, 2018, the Bank held more than 10,000 lectures on various types of financial knowledge in rural areas, with nearly 1,000,000 participants, which has been widely praised by farmers.

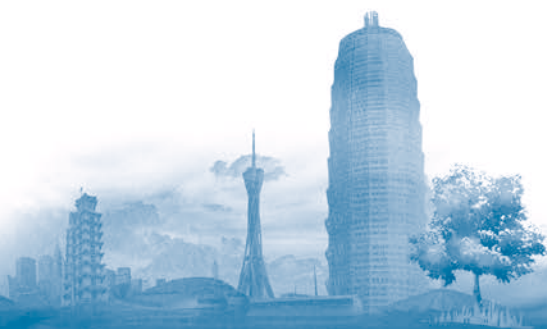
The Bank constantly enhanced the supply of financial services and products in rural areas using “Internetization (上網)” thinking to resolve the traditional problem of “Ruralization of Banking Services (下鄉)”, and improved the four major farmers-benefiting products system of “Yuan Beneficial Loans, Yuan Beneficial Savings, Yuan Beneficial Wealth Management and Yuan Beneficial Fast Settlement (原惠貸、原惠存、原惠盈、原惠快)”. The Bank developed APP of farmers-benefiting products to realize the “online + offline” customer operation model, with “financial + non-financial” services as core, improved the new standards of farmers-benefiting financial services and built a rural financial service ecosystem. It helped accurate poverty alleviation, and got access to the “last one kilometer” of inclusive finance. The Bank helped to resolve the unbalancing and insufficient problems of rural financial services, effectively improving the coverage, availability and satisfaction of financial services.

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9.2.7 Credit card business

During the Reporting Period, the Bank's credit card business witnessed a rapid development, the number of users continued to expand, with the total number of cards issued exceeding 1,000,000. The Bank has successively launched 18 cities' impression cards, and with furthering penetration in the region, it strived to establish its credit card brand image in short time in various cities in the province. With the hot selling ETC credit cards, it quickly acquired customers as car owners, and enhanced its competitiveness of the credit card in the market. The implementation of large amount instalment business enabled the Bank to quickly develop channels in the industry with leading T+0 lending model, which was widely praised by customers. Through cooperation with Jingdong Finance, 51 Credit Card, Tencent, Ctrip, Vipshop and other large scenarios and customer group Internet platforms, the Bank acquired more customers steadily. While developing new products and expanding new channels, the Bank's credit card business also combined online and offline means to accurately market and enhance customer contribution. In addition, resources such as big data platforms were used to establish approval model, accurately identify customer profiles, for the sake of improving the level of risk control.

As of December 31, 2018, a total of 1,028,800 cards were issued, of which 980,000 were newly issued in 2018, ranking 1st among regional banks in terms of the increment and growth rate. A total of 782,200 cards were activated, with an activation rate of 76.03%; the transactions totaled 10,441,100 with an amount of RMB16,418 million, which was 8.5 times of the annual transaction volume in 2017. The total income was RMB100.2816 million, which was 7.87 times of the annual income in 2017. The total credit card facilities were RMB13,707 million, with the loan balance of RMB4,367 million, representing a utilization rate of 31.86%. Among them, the revolving loan was RMB3,951 million, and the balance of installment loans was RMB416 million.



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9.2.8 Direct marketing banking

The Bank's direct marketing banking business adheres to the positioning of "China's best housing-secured loans financial technology platform" and has embarked on a development path of "three lights, three emphases (三輕三重)" (light capital, personnel and system; emphases on online, technology and intelligence), exploring the use of technology to help the development of inclusive finance. After nearly a year of practice, the Bank has formed business models such as "four major service levels" and "eight major system tools". The four service levels include management consulting, risk control model, system tool and on-site guidance; eight major system tools include video interview component, online signing component, mobile marketing APP, video verification component, Zhongyuan Bank online platform, risk control model, data analysis platform and account authentication, which provide all-round technical support for the technology output with "component + APP + model + platform".

The Bank launched "Zhongyuan Bank Online" credit management platform, as well as "Instant Processing (即刻辦)" (a mobile marketing tool) and "Pedometer" (a credit factory management tool) exclusively for cooperative banks. The customer experience of "Zhongyuan direct marketing banking" loan was continuously improved, under which, the application amount was RMB79,000 million, and the average number of housing price evaluations was 969. The Bank launched the "Hao Dai Yi Jia (好貸一家)" APP to explore interbank lending platform. Yong Xu Dai (永續貸) has fully realized online processing, which, coupled with the introduction of several external data sources, increased the risk control capability and continually optimized the business process. With the launch of phase I of 360-degree customer imaging, the customer imaging are fully upgraded to better guide the account manager to implement in-depth operation.



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9.3 Financial market business

9.3.1 Treasury operation

During the Reporting Period, the Bank actively responded to and implemented various regulatory measures of the regulatory authorities, further expanding the financial market business horizontally and vertically, and enhancing market influence on the premise of ensuring business compliance. On the basis of ensuring liquidity, the Bank strengthened investment and research capabilities, and widened carry trade while grasping the market opportunities. As of December 31, 2018, the balance of the Bank's deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements was RMB42,241 million, accounting for 6.81% of the Bank's total assets. The balance of the Bank's deposits and placements from banks and other financial institutions as well as financial assets sold under repurchase agreements was RMB107,059 million, accounting for 18.96% of the Bank's total liabilities.

During the Reporting Period, the Bank actively adjusted its investment strategies, optimized its investment structure, and continuously enriched and adjusted its business development strategies by increasing study on capital markets, external regulatory policies, and macroeconomic conditions. Meanwhile, the Bank continued to widen varieties of its investment business, strengthen business innovation, and actively expand potential investment channels when risks are controllable, and increase investment spreads.



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9.3.2 Interbank business

Under the overall guiding ideology of “quality improvement, efficiency enhancement and sustainable development” set by the Bank at the beginning of the year, it insisted on returning to the origin of the interbank business, performed well in liquidity adjustment, exerted asset adjustment functions, and flexibly adjusted the asset-liability structure, to made its customers nationwide and operating results outstanding.

During the Reporting Period, the scale of interbank liabilities remained stable, asset allocation was gradually optimized, product innovation capability was significantly increased, business development mechanism was continuously improved, and risk prevention and control capabilities were significantly enhanced. Through further and deepened cooperation with the Shanghai Commercial Paper Exchange, the foreign exchange trading center and other nationally approved exchanges in the system construction, commercial paper assets trading capacity and interbank liability management capability were effectively improved.

9.3.3 Asset management

During the Reporting Period, the transformation of the Bank’s net worth wealth management products achieved initial results. The private equity net worth product “Qian Jing (乾景)” series and the first net worth cash management product “Zhongyuan Xian Jin Bao (中原現金寶)” were successfully issued, providing consumers with more investment options. During the Reporting Period, the Bank’s existing wealth management products totaled 501, with a size of RMB52,218 million, representing an increase of RMB6,149 million from the beginning of 2018.

During the Reporting Period, the Bank’s Dingsheng (鼎盛) fortune series wealth management products operated steadily, generating stable income for customers. During the Reporting Period, the Bank issued a total of 1,175 wealth management products with a total amount of RMB156,632 million.

During the Reporting Period, the Bank’s Dingsheng (鼎盛) wealth series wealth management products were awarded the “City Commercial Banks Wealth Management Excellence Award of the Year (年度城商行理財卓越獎)”, at the selection of “2018 SSN 9th ‘Golden Wealth Management (金理財)’ campaign held by Shanghai Securities News.



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9.4 Distribution channels

9.4.1 Physical distribution channels

As of the end of 2018, there are 18 branches and 2 direct sub-branches, and 457 outlets in total, including 301 urban branches, which covered all 18 prefectures and cities in the Henan province, and 156 county-level sub-branches, which covered 89% of 105 counties in the Henan province.

9.4.2 Self-service banking channel

The Bank's self-service equipment includes automatic teller machine, self-service deposit and withdrawal machine, smart teller machine, smart cash counters, VTM, multimedia inquiry machine, mobile PAD, self-service receipt printer, etc. Those machines provide customers with a variety of convenient services such as deposit and withdrawal, account opening and account services, self-service contracting services, investment and wealth management, living payment, credit card business, and receipt printing. Pursuing customer needs-centric, the Bank continuously develops and upgrades new functions of self-service devices. The business functions of self-service equipment are continuously expanded, effectively diverting the counter business and reducing the pressure on the counter.

As of December 31, 2018, the Bank's self-service equipment has reached 4,978 units in total. Among them, there were 1,534 ATMs and CRSs, 763 smart teller machines, 331 smart cash counters, 50 VTM equipment, 1,237 multimedia inquiry machines, 958 mobile PADs, 105 self-service receipt printers. A total of 61,434,300 transactions are processed via offline self-service channels, involving an amount of RMB652,435 million.



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9.4.3 E-banking channel

9.4.3.1 Personal online banking

During the Reporting Period, the Bank's personal online banking attracted 145,100 new users, with a cumulative transaction volume of 3,272,300, representing a year-on-year increase of 65.5% as compared to last year. The newly added transactions amounted to RMB146,715 million, representing a year-on-year increase of 42.6% as compared to last year. As of December 31, 2018, the number of personal online banking users totaled 594,600.

9.4.3.2 Mobile finance

In 2018, the Bank's personal mobile banking continued to develop rapidly, and it is committed to building the best omni-channel customer experience bank among regional banks. The number of mobile banking contracted customers increased by 1,473,600. By the end of 2018, the total number of mobile banking contracted customers reached 3,969,900, the total number of transactions was 2,191 million, the average daily transaction volume was 6,003,700, the cumulative transaction amount was RMB422,931 million, and the replacement rate of electronic banking was 90.95%.

During the Reporting Period, the Bank's mobile banking focused on building an ecological circle to develop Zhongyuan foodie map, which effectively expanded the service ecosystem of small-amount high-frequency living scenarios, and provided users with better Internet financial services. Mobile development framework with independent intellectual property rights were continuously optimized and evolved to achieve fast access to the business module page in milliseconds, effectively improving the user interaction experience.

WeChat Banking is one of the important areas for the Bank's brand promotion and marketing activities, whose functional construction has basically reached the industry average level. During the Reporting Period, there were 410,000 new followers and 328,000 users who connected their cards with WeChat Banking. As of December 31, 2018, WeChat Banking had a total of 1,985,000 followers and 942,000 card-connected customers.



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9.5 Information technology

The Bank continues to promote information technology work as a key task Bank-wide by accelerating financial technology innovation, strengthening external ecological cooperation, and injecting new impetus into operation management and business innovation.

Firstly, the Bank sets up a data banking department and data team, realizes online closed-loop management of big data applications, supports the construction and promotion of retail marketing cases, and improves the big data-based technology service system. Secondly, an agile center is set up to organize and promote agile work methods, capacity building and implementation of concept and culture. Thirdly, the Bank promotes the construction of two-speed IT, and completes the modular decoupling of core, electronic channel, credit and other systems, supporting the agile iterative development of the tribe; a new generation of credit system is launched, unifying the construction of development platform and WeChat service platform, to help transform the technology architecture. Fourthly, by integrating Internet thinking and big data technology, the Bank innovates and launches “Zhongyuan foodie map (中原吃貨地圖)”, “Miao Dai (秒貸)” and other products, increasing its market influence. Fifthly, the Bank increases investment in technology, explores the output of technical capabilities with the concept of open and sharing, actively arranges scientific and technological cooperation, providing comprehensive, multi-level and integrated services to customers. Sixthly, the Bank vigorously expands talent attracting channels and technical teams, continuously enhances its proprietary control over core technologies, such as technology platform development, quality testing and big data applications.



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9.6 Subsidiaries Business

For details of the Bank's subsidiaries, please refer to note 22 to the financial statements of this annual report.

9.6.1 County banks

9.6.1.1 Percentage of shareholding of the Bank in county banks

Name	Percentage of shareholding of the Bank
Linzhou Defeng County Bank Co., Ltd. (林州德豐村鎮銀行有限公司)	51.00%
Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行有限公司)	51.00%
Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行有限公司)	78.46%
Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行有限公司)	51.00%
Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行有限公司)	51.00%
Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行有限公司)	41.00%
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行有限公司)	51.72%
Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行有限公司)	43.69%
Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行有限公司)	51.02%

9.6.1.2 Business development during the Reporting Period

The nine county banks provide local enterprises and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intend to incorporate the nine county banks into the Bank's comprehensive service offering channels, to take advantage of their existing local market position and customer base, thereby allowing us to further penetrate our services and enhance the Bank's brand awareness.

The nine county banks adhered to their market positioning of serving "agriculture, rural areas and farmers (三農)" and "small and micro enterprises (小微)" and extended credit following the principles of "micro, mobile and disperse (小額、流動、分散)". Their size of assets kept expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of December 31, 2018, the total assets amounted to RMB10,959 million,

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representing an increase of RMB1,672 million, or 18.0%, as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB8,845 million, representing an increase of RMB1,432 million, or 19.3%, as compared to the beginning of the year. The total loans (excluding accrued interest) amounted to RMB6,820 million, representing an increase of RMB483 million, or 7.6%, as compared to the beginning of the year.

9.6.2 Consumer finance company

The registered capital of consumer finance company established by the Bank was RMB800 million, and the Bank held 78.13% of its shares. During the Reporting Period, Consumer Finance Company adhered to the development strategy of “one body, two wings (一體兩翼)” (creating value for users as “body (體)”, establishing proprietary user ecological group and building multi-channel open platform as “two wings (兩翼)”). Taking advantages of Zhongyuan Bank’s Shareholders, it consolidated its position in Henan, penetrated to other regions in the PRC, rooted in areas and actively explored development models of consumer finance company.. As of December 31, 2018, the total amount of loans extended by Consumer Finance Company reached RMB23,737 million, and the loan balance (excluding accrued interest) was RMB8,654 million, with the aggregated number of loans transactions exceeding 5.69 million. The amount of operating revenue recorded in aggregate was RMB522 million, providing consumer finance services for 2,040,100 clients.

In terms of risk control, Consumer Finance Company enhanced the popularity of risk concept, persisted the bottom line of risks, strengthened data analysis and application capabilities, established a scenario-based anti-fraud management system, gradually establishing a comprehensive, risk independent and mutually constrained risk management system with integration of pre-lending, lending, and post-lending operation.

In terms of information technology, Consumer Finance Company attaches great importance in research and application of technologies such as big data analysis, data mining, cloud computing, and biological information collection, aiming to create a technological, intelligent, digital, and refined information technology system.

In terms of operation management, Consumer Finance Company set up an intelligent payment platform, established a real-time abnormal monitoring system, and built a visual process operation platform to realize a smart digital operation mode by means of monitoring reports and real-time data calculation and display.



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10. RISK MANAGEMENT

In 2018, the Bank adhered to the risk concept of actively managing risks and creating value using risks, continued to promote the construction of overall risk management system in line with its robust risk preferences, improved risk management techniques and management tools, focused on strengthening refined management to further enhance the forward-looking and effective risk management. During the Reporting Period, the Bank has not experienced any major risk incidents, and has achieved good results in its risk management work.

10.1 Credit Risk Management

During the Reporting Period, the Bank actively responded to severe and complicated internal and external situations, and further improved system and process in accordance with the guiding ideology of “reducing stocks, managing increments, controlling variables, and improving quality”. We strictly implemented credit policies, and vigorously carried out the task of reducing old and controlling new. Risk investigation was organized while system construction was strengthened, steadily intensifying the credit management foundation, and strictly controlling credit risk.

Improve risk management system. Taking into account its actual situation, the Bank has established scientific and rigorous credit approval and authorization management mechanism, review and management equally focused risk control system, as to reduce old and controlling new linkage measures. By continuously strengthening the control over key personnel, major areas and key links, we increased efforts in broadcasting policies to branches to ensure the independence of credit approval.

Solidify risk management foundation. We continuously optimized the review and approval process, improved forward-looking research capabilities and refined management, implemented the “check-rectification-accountability-enhancement” management mechanism, standardized pre-lending investigations and reviews, strengthened risk screening and post-loan management, and enhanced the effectiveness of risk prevention and control.

Optimize credit business structure. In terms of industry, the Bank actively offered more credit resources toward new material, new technology, new energy, health and care for the aged, modern agriculture and other industries that are in line with the adjustment of industrial structure; implemented national policies and requirements to strictly constrain new credit grants to overcapacity and polluting industries. In terms of region, we highlighted the



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granting of credit to major areas such as Henan free trade zone, Zhengzhou airport port area, Zheng-Bian-Luo new district and Zhongyuan city cluster. On customer side, we adhered to the positioning of approaching citizens and serving citizens, and provided diversified and personalized service solutions among consumption and service industries for emerging consumption scenarios such as education, tourism, care for the aged and culture. In terms of product, driven by the goal of building a first-class commercial bank and guided by the “light asset” business model, the Bank devoted itself to providing personalized, comprehensive and one-stop financial services.

Strengthen asset quality control. We continued to reduce old credit and control new credit, strictly controlled new credit extension, and established a credit re-inspection mechanism to re-inspect and monitor new business of branches. We constantly proceed with the collection and elimination of non-performing assets and high risk credits, so as to optimize the asset quality assessment system, and resolved internal and external non-performing assets issues by employing multiple approaches, thereby to ensure the stable operation of the Bank’s asset quality.

Improve digital risk control. The Bank actively adopted big data risk control technology, deployed retail big data risk decision model, and initiated non-zero decision model. We promoted online credit management by launching and applying mobile online projects for post-lending and troubled loans management, and continuously improved early warning system function, thus propelling the quality and efficiency of risk management.

10.2 Market risk management

During the Reporting Period, the Bank continued reinforcing the construction of market risk management system to construct a market risk management system, which contributed to a series of systems and programs such as market risk limit management, metering and stress test, so as to improve the refined management of market risk.

Establish market risk policy system. We continued to boost the construction of the market risk management system and further improved the Bank’s market risk management framework and management processes.

Enhance market risk control mode. We further facilitated the construction of the market risk management system to explore a market risk management model suitable for the Bank’s development, thereby impelling market risk management and control become institutional, standardized and systematic.



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Build market risk management system. The Bank set up a market risk management data platform and system engine to achieve market risk identification, measurement and monitoring. In order to prevent the tail loss of measurement, pressure measurement, return inspection and other measurements were used as supplemental methods.

Emphasis market risk monitoring and reporting. The Bank continuously monitored and reported trading account positions, risk exposure, and limits to improve the timeliness and effectiveness of market risk control.

10.3 Operational risk management

During the Reporting Period, the Bank actively conducted inspections of various businesses, strengthened assessment of compliance regulations, carried out case prevention and control, strengthened employee behavior management, promoted system construction and the Bank's compliance awareness. Overall, each business was regulated and operated in order.

Form “three lines of defense” of operational risk management. Each department and branch and sub-branch, acting as the first line of defense against operational risk, is directly responsible for the management of operational risk involved. The compliance department, the risk management department and the departments in charge of operational risk of each branch, acting as the second line of defense against operational risk, checks, supervises and guides operational risk management of the first line of defense within its management authority, to ensure the consistency and effectiveness of operational risk management within the Bank. The audit department acts as the third line of defense against operational risks, and is responsible for independent review and objective evaluation with respect to the effectiveness and adequacy of operational risk management.

Improve operational risk system. The management process of operational risk identification, assessment, monitoring and early warning processing was constructed and further improved, and the integration of platforms for internal control management, compliance management and operational risk management was completed, so that the operational risk management system covering the entire links of the Bank was improved.

Enhance operational risk management capabilities. Through the informationization and automation of operational risk, internal control and compliance management, the Bank ensured the continuity and effectiveness of internal control compliance and operational risk management, which enhanced the Bank's refined management capabilities of operational risk.



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Regulate compliance risk supervision and inspection. We regulated compliance management at an early stage with focus on details, to make pre-compliance review, compliance check and post-compliance assessment become a normal practice. We stressed compliance management of critical links, and keeping a close eye on key systems, key positions, key personnel, as well as weak links of internal control compliance, improved the operational risk management.

10.4 Liquidity risk management

During the Reporting Period, the Bank established a liquidity risk management system that matches the scale, nature and complexity of the business. The overall liquidity was relatively abundant, and major liquidity regulatory indicators meet the regulatory requirements.

Improve liquidity risk management system. The Bank strengthened the construction of liquidity risk management procedures and mechanisms to ensure timely and effectively handle the liquidity risk. We enhanced the management capabilities of liquidity gaps and the coordination of the Bank, and expanded financing channels to achieve multi-channel supply of liquidity.

Establish liquidity risk monitoring indicator system. We monitored liquidity risk in a comprehensive, continuous and rigorous manner to provide timely and accurate information for liquidity risk management. We established a sound liquidity risk early warning system pursuant to regulatory requirements and various liquidity indicators. The Bank added liquidity management tools and improved the liquidity risk monitoring and analysis reporting system.

Maintain mobility security in the region. The Bank strengthened mutual assistance of inter-bank liquidity at key time-points, promoted the running of the liquidity mutual assistance mechanism of the city commercial banks in Henan Province, and contributed to the liquidity mutual assistance management of city commercial banks in the province.

10.5 Information technology risk management

During the Reporting Period, the Bank continued to inspect its information technology risk, optimized the organizational management process, and further improved the information technology risk management.



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Establish hierarchical information technology risk management structural system. Based on the three lines of defense, with the information technology risk management policy as the core, the Bank formulated the information technology risk management system by tiers and regularly re-examined the system. It conducted information technology risk control self-assessment, information technology key risk indicators monitoring, information technology risk loss (event) database collection and other related work, establishing an effective risk management process system that supports risk identification, assessment, control/release, monitoring/reporting.

Steadily push forward transformation towards agile organization. Focusing on strategic goals, we initiated agile ability improvement consulting projects, and push forward the planning and construction of agile management mechanisms, process and methods and capacity systems.

Improve information technology risk management structure. We carried out information technology risk monitoring and evaluation, improved the disaster recovery system and emergency plans, and took a series of measures to ensure business continuity, so as to improve the information technology risk management.

Deepen information security management. By strengthening the construction of technology risk monitoring mechanism, deepening information security management, enhancing information technology outsourcing management and information technology team building, we further increased our information technology risk management capabilities.

10.6 Reputational risk management

During the Reporting Period, the Bank conscientiously conducted reputational risk prevention and control work, improved the reputational risk management system, optimized the reputational risk disposal mechanism and enhanced the effectiveness of reputational risk management. The Bank centralized the management of information release and journalistic work, and incorporated reputation risk management into the comprehensive risk management system.



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Combine prevention and disposal. Following the principles of “plan for hazards in peaceful days, take preventive and governance measures on collective basis”, “centralized leadership, hierarchical management and control”, “respond quickly, tackle problems together” and “perform duties and comply with discipline, investigate accountability”, we enhanced the capabilities and efficiency of preventing reputational risk and resolving reputational incidents.

Step up positive publicity efforts to enhance brand reputation. Monitoring and alerts on daily public opinions were strengthened, in-depth investigations on reputational risk factors were conducted, and a daily reporting system for reputational risk information was established to handle various types of reputational risk incidents properly.

Cultivate reputational risk management culture. Emergency drills were organized to handle reputational risk, trainings on reputational risk were organized to enhance the awareness of staff on reputational risk and their capabilities to handle reputational risk incidents.

10.7 Exchange rate risk management

The Bank seeks to maintain the adverse effects of exchange rate changes within a tolerable range by adopting various measures. The Bank has put in place corresponding policies and operational procedures regarding the Bank's foreign exchange businesses, such as foreign exchange settlement, sales and payment and foreign exchange trading, so as to ensure that our various measures are effectively implemented. The Bank has set various monitoring indicators including overnight limits for foreign currency exposure, and continually checked the position of respective foreign currencies held by it in the daily management, effectively monitoring various indicators such as exposure and limit.

11. OPERATING STRATEGIES AND PROSPECTS

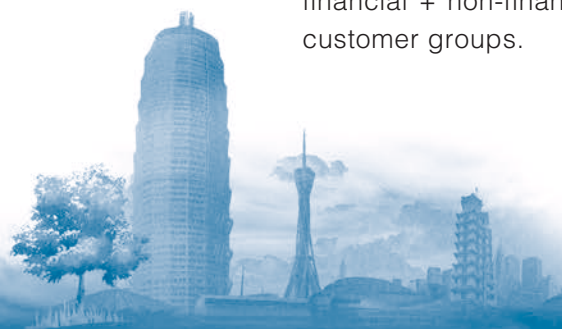
The Bank always adheres to digital transformation by focusing on the “Internetization and Ruralization of Banking Services (上網下鄉)”, strives to realize three major strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking (傳統業務做特色, 創新業務找突破, 未來銀行求領先)”, and finally achieves leapfrog development riding on technology capabilities to build operation edges.



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We will adhere to our market positioning to offer featured products in traditional banking business. The Bank has always adhered to the positioning of “approaching citizens, serving small and micro enterprises, supporting agriculture, rural areas and farmers and promoting regional economic development (貼近市民、服務小微、支持三農、推動區域經濟發展)” in the market. While consolidating its ability to control risks, the Bank intends to focus on “three major priorities (三大重點)” (key areas, key industries, key customer groups) to serve the real economy, deepen the “customer group + product + service model” operation, and offer featured products in traditional banking business. Focusing on key areas, the Bank intends to cater for the construction needs of “three districts, one city (三區一城)” and “sub-central city” by continuously serving key urban areas for their construction and planning. Focusing on key industries, based on Henan’s development in 12 key industries in the four major areas in the next decade, we would innovate the omni-channel service system to create a one-stop financial service ecosystem for enterprises. Focusing on key customer groups, we have confirmed four key customer groups, namely urban residents, small and micro enterprises, agriculture, rural and farmer customers and institutional customers, and with mobile application as the priority, we can create a omni-channel customer service model with online and offline experience consistency. With customer experience as the core, we will innovative customer-specific products to acquire bulk customers and manage key customer groups in depth.

We would deepen the “Internetization and Ruralization of Banking Services (上網下鄉)” to find breakthroughs in innovative business. Vigorously implement the construction of “Internetization (上網)”. We have set goals of “product, customer, employee, management” ongoing development. As of the end of the Reporting Period, we have basically achieved the online processing of standardized products, omni-channel customer services, online operation of self-developed employee APP, online management of risk control, compliance, operations and other mid- and back-office support systems, laying a solid foundation for realizing digital and intelligent operation. Further promote the strategy of “Ruralization of Banking Services (下鄉)”. Promoting “Ruralization of Banking Services (下鄉)” through “Internetization (上網)”, the Bank aims to enhance sustainable development of the farmers-benefiting business. We intend to improve the rural financial service system, and develop new rural financial products to support provincial key construction projects and leading enterprises; deepen Henan’s agricultural development to cultivate featured agricultural industries. As the Bank continues growing its business, it also upgrades rural financial risk control capabilities by building “online + offline + third party + liaison” four-in-one risk prevention and control system, thereby enhance the overall risk prevention capabilities. Meanwhile, to cater to farmers’ production and living needs, the Bank intends to build a rural financial ecosystem, which, by means of developing APP of farmers-benefiting products and building a platform for cross-industry alliances, the Bank can provide financial + non-financial services for farmers, which in turn would broaden special customer groups.



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Promote digital transformation to allow us enjoy a leading edge in the future. Focusing on the “customer-centric” service concept, we have defined our development vision of “data banking, technology banking” to implement digital transformation. The first is to complete top-level design of digital transformation. The Bank intends to formulate five major strategic initiatives of “one horizontal and four vertical” digital transformation, with a three-year three-step plan to implement them. The second is to steadily promote agile transformation. The Bank will complete agile transformation of the retail line, actively promote the agile transformation of its transaction banking line, and by establishing an agile center, implement the construction of authorization mechanism, incentive mechanism, communication mechanism, decision-making mechanism and branch and sub-branch sales system under the new organizational structure. The third is to further consolidate the foundation of financial technology development. Through the improvement of the technology management structure, we accelerate the construction of two-speed IT, enhance the strength of the technical team, and strengthen the application of financial technology results, providing a strong platform that can support the digital transformation of the Bank. The fourth is to forge big data application capabilities. We have established the data banking department to establish data governance organizational structure and major institutional processes and to advance case-driven critical data governance. We have realized online closed-loop management of big data applications, and implemented four data use cases such as the expiration of wealth products at branches and the prevention of loss of mass customer groups, reflecting that data-driven marketing effects have begun to appear. We continue to promote data integration across the Bank, improve data dimensions, and build six basic platforms for data collection and exchange, offline computing, and data visualization, to meet diverse data processing demands and enhance the autonomy of big data applications.

The Bank is committed to creating longer-term real value for the broadest range of stakeholders. In the future, the Bank will strive to become a technology company with finance attributes. Based on the layout and application of big data algorithms, cloud platform construction and blockchain technology, the Bank is confident in embracing financial technology and building an agile bank in the aspect of corporate culture, organizational structure, system and mechanism.



Chapter 6 Changes in Share Capital and Information on Shareholders

1. Changes in Ordinary Shares of the Bank during the Reporting period

There was no change in share capital of the Bank during the Reporting Period. As at the end of the Reporting Period, the total issued share capital of the Bank was 20,075,000,000 shares, including 3,795,000,000 H shares and 16,280,000,000 domestic shares.

2. Shareholdings of Top 10 Non-Overseas Listed Domestic Shareholders of the Bank

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held at the end of the Reporting Period	Approximate percentage of the total issued share capital of the Bank at the end of the Reporting Period
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	1,407,285,479	7.01%
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	State-owned Legal Person Shares	1,156,751,425	5.76%
3	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
4	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
5	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	474,836,916	2.37%
7	Xinxiang City Finance Bureau (新鄉市財政局)	State-owned Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%
Total			6,143,419,209	30.60%



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3. Interests and Short Positions of Substantial Shareholders under Hong Kong Regulations

As of December 31, 2018, so far as is known to the Bank and the Directors, substantial shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. (河南投資集團有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	1,407,285,479 (L)	8.64	7.01
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	1,156,751,425(L)	7.11	5.76
	Domestic Shares	Interest in controlled corporation	54,695,401(L)	0.34	0.27
Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) ⁽⁵⁾	Domestic Shares	Interest in controlled corporation	1,299,627,447 (L)	7.98	6.48
China Create Capital Limited	H Shares	Beneficial owner	342,682,000(L)	9.03	1.71
CMB International Finance Limited ⁽⁶⁾	H Shares	Held Security Interest in Shares	214,168,000(L)	5.64	1.07
China Merchants Bank Co., Ltd. ⁽⁶⁾	H Shares	Interest in controlled corporation	214,168,000(L)	5.64	1.07
Zhong Sheng Capital (Hongkong) Co., Limited	H Shares	Beneficial owner	214,168,000(L)	5.64	1.07
TIAN KUN INVESTMENT LIMITED ⁽⁷⁾	H Shares	Beneficial owner	1,001,000,000(L)	26.38	4.99
YINGCHUANG INTERNATIONAL INVESTMENT LIMITED ⁽⁷⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
Zhongchuang Investment (Holdings) Limited ⁽⁷⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
Ruipei Investment (Shanghai) Co., Ltd.(芮沛投資(上海)有限公司) ⁽⁷⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99

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Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) ⁽⁷⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
China Minsheng Investment Group (中國民生投資股份有限公司) ⁽⁷⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
AMTD Group Company Limited ⁽⁸⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
L.R. Capital Management Company (Cayman) Limited ⁽⁸⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	573,964,000(L)	15.12	2.86
Guangzhou Rural Commercial Bank Co., Ltd.	H Shares	Held Security Interest in Shares	303,000,000(L)	7.98	1.51
GOLD LEADING CAPITAL LIMITED	H Shares	Held Security Interest in Shares	573,964,000(L)	15.12	2.86
CITIC Securities Company Limited ⁽⁹⁾	H Shares	Interest in controlled corporation	221,593,927(L)	5.84	1.10
	H Shares	Interest in controlled corporation	221,593,927(S)	5.84	1.10

Notes:

- (L) represents the long position, (S) represents short position.
- As of December 31, 2018, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly-owned by the Henan Provincial Development and Reform Commission (河南省發展和改革委員會).



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4. Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) directly holds 1,156,751,425 Domestic Shares of the Bank (long positions) and indirectly holds 54,695,401 Domestic Shares of the Bank (long positions) through its controlled corporations, including 23,146,265 Domestic Shares of the Bank (long positions) directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), 9,961,851 Domestic Shares of the Bank (long positions) indirectly held by Yongcheng Coal and Electricity Group (Kaifeng) Tower Investment Co., Ltd. (永城煤電集團(開封)鐵塔投資有限公司) through Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) and 21,587,285 Domestic Shares of the Bank (long positions) directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司), respectively. Therefore, by virtue of the SFO, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) and Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司).
5. Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is wholly-owned by the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會). Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) indirectly holds 1,299,627,447 Domestic Shares of the Bank (long positions) through its controlled corporations, including 1,211,446,826 Domestic Shares of the Bank (long positions) directly and indirectly held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), 23,548,264 Domestic Shares of the Bank (long positions) directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), 15,621,486 Domestic Shares of the Bank (long positions) directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and 49,010,871 Domestic Shares of the Bank (long positions) indirectly held by Henan Energy and Chemical Construction Group Co., Ltd. (河南能源化工建設集團有限公司) through its controlled corporation, namely Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司), respectively. Therefore, by virtue of the SFO, Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司).
6. China Merchants Bank Co., Ltd., through its controlled corporations, namely CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited, is indirectly interested in 214,168,000 H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares. Therefore, by virtue of the SFO, China Merchants Bank Co., Ltd., CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited are deemed to be interested in the H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares.



Chapter 6 Changes in Share Capital and Information on Shareholders

7. China Minsheng Investment Group (中國民生投資股份有限公司), through its controlled corporations, namely China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED, is indirectly interested in 1,001,000,000 H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED. Therefore, by virtue of the SFO, each of China Minsheng Investment Group (中國民生投資股份有限公司), China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED is deemed to be interested in the H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED.
8. L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, indirectly holds 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.
9. CITIC Securities Company Limited, through its controlled corporations, namely CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited, indirectly holds 221,593,927 H Shares of the Bank (long positions) and 221,593,927 H Shares of the Bank (short positions) directly held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. Therefore, by virtue of the SFO, each of CITIC Securities Company Limited, CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited is deemed to be interested in the H Shares of the Bank (long positions) and H Shares of the Bank (short positions) held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. CITIC Securities Company Limited holds underlying Shares of the Bank (long positions and short positions) in derivative interests, including the underlying 221,593,927 H Shares (long position) derived from listed derivatives of the convertible instruments, and the underlying 221,593,927 H shares (short positions) derived from cash-settled non-listed derivatives.

Save as disclosed above, none of the substantial Shareholders or other persons had, as of December 31, 2018, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

4. Shareholders Holding 5% or More of the Total Ordinary Share Capital of the Bank

Please refer to the relevant sections 6.2–6.3 for details of the Shareholders with an interest in 5% or more of the share capital of the Bank.



Chapter 6 Changes in Share Capital and Information on Shareholders

5. Substantial Shareholders as Stipulated in the Interim Measures for the Administration of Equity Interest in Commercial Banks

According to the Interim Measures for the Administration of Equity Interest in Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBRC, in addition to the three Shareholders, namely Henan Investment Group Co., Ltd. (河南投資集團有限公司), Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) and TIAN KUN INVESTMENT LIMITED mentioned above, the following four Shareholders are also the substantial Shareholders of the Bank.

- (1) Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which holds 753,000,000 domestic Shares of the Bank. The company was incorporated in Jinshui District, Zhengzhou City, Henan Province on October 24, 2001 with a registered capital of RMB850 million. The company's business scope includes investment and investment service management; information technology consulting services; enterprise planning management; project planning management; electronic network engineering services (excluding items subject to state approval). During the Reporting Period, Mr. LI Xipeng (李喜朋), a non-executive Director of the Bank, was the chairman and legal representative of the company. The company was actually owned by Mr. LI Xipeng and his wife, Ms. SHU Pujuan (舒蒲娟).
- (2) Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司), which holds 568,000,000 domestic Shares of the Bank. The company was incorporated in Zhengdong New District, Zhengzhou City, Henan Province on July 21, 2003 with a registered capital of RMB365 million. The company's business scope includes investment in highways, bridges, transportation, energy, electricity, chemicals, high-tech industries, medicine, education industry; sales of building materials; housing leasing, car leasing. During the Reporting Period, Mr. ZHAO Ming (趙明), the Shareholder representative Supervisor of the Bank, was the legal representative and executive director of the company.
- (3) Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司), which holds 474,836,916 domestic Shares of the Bank. The company was incorporated in Erqi District, Zhengzhou City, Henan Province on January 20, 2010 with a registered capital of RMB100 million. The company's business scope includes real estate development and sales; housing leasing. During the Reporting Period, Ms. LI Weizhen (李偉真), the Shareholder representative Supervisor of the Bank, was the chief accountant of the company.



Chapter 6 Changes in Share Capital and Information on Shareholders

- (4) Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which holds 200,000,000 domestic Shares of the Bank. The company was incorporated in Luolong District, Luoyang City, Henan Province on November 4, 2005 with a registered capital of RMB300 million. The company's business scope includes the construction and operation of natural gas long-distance pipelines; research, development, construction and operation of LPG and other oil and gas utilization projects. (If the above scope needs to be approved, it shall not be operated before approved). During the Reporting Period, Mr. LI Wanbin (李萬斌), the Shareholder representative Supervisor of the Bank, was the de facto controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is actually controlled by Mr. LI Wanbin, holds 207,657,871 domestic Shares of the Bank.

6. Equity pledge and freezing

As of the end of the Reporting Period, as far as is known to the Bank, the Bank's 6,672,784,706 domestic Shares have a pledge, accounting for 33.24% of the total number of the issued ordinary Shares (of which, the domestic Shares pledged by the Bank's substantial Shareholders accounted for 11.76% of the total number of the issued ordinary shares). In addition to that, there are still 644,490,115 domestic Shares which are judicially frozen (of which, the domestic Shares of the Bank's substantial Shareholders frozen judicially accounted for 0.6742% of the total number of the issued ordinary Shares).

7. Non-public Issuance of Offshore Preference Shares

7.1 The Issuance and Listing of Offshore Preference Shares

To supplement the Bank's capital for diversification, further enhance the Bank's capital strength and enhance its ability to resist risks, according to the approvals of China Banking Regulatory Commission Henan Supervision Bureau (Yu Yin Jian Fu [2018] No. 120) and the China Securities Regulatory Commission (Zheng Jian Xu Ke [2018] No. 1343), the Bank issued USD1,395 million non-cumulative perpetual Offshore Preference Shares on November 21, 2018. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on November 22, 2018 (stock name: ZYBNK 18USDPREF, stock code: 04617). The Offshore Preference Shares will have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares that have been issued is 69,750,000, and will be issued fully paid in U.S. dollars.



Chapter 6 Changes in Share Capital and Information on Shareholders

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the offering of the Offshore Preference Shares will amount to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank's additional Tier 1 capitals as of the end of the Reporting Period, to increase the Bank's Tier 1 capital adequacy ratio and optimize the capital structure, which is consistent with the specific use disclosed earlier.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcement of the Bank published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

7.2 Number of Offshore Preference Shareholders and Particulars of Shareholding

At the end of the Reporting Period, the Bank had one offshore preference shareholder.

The shareholdings of the top 10 offshore preference shareholders (or proxies) of the Bank are set out in the table below (the following data are based on the register of offshore preference shareholders as at December 31, 2018):

Name of shareholder	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period (shares)	Shareholding percentage (%)	Total shareholdings (shares)	Number of shares subject to restrictions on sales (shares)	Number of pledged or locked-up shares (shares)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	69,750,000	100%	69,750,000	-	Unknown

Notes:

1. The number of Offshore Preference Shares held by the shareholder was recorded according to the register of holders of the Offshore Preference Shares of the Bank.
2. As the Offshore Preference Shares were issued through a private offering in the overseas market, information of nominees of the allotted investors was recorded on the register of holders of the Offshore Preference Shares.



Chapter 6 Changes in Share Capital and Information on Shareholders

7.3 Profit Distribution of the Offshore Preference Shares

Dividends of preference shares would be paid in cash by the Bank to preference shareholders. Each dividend will be payable annually in arrear on the dividend payment date. The first dividend payment date will be November 21, 2019. During the Reporting period, the Offshore Preference Shares issued by the Bank were not yet due for dividend distribution, and no dividends on Offshore Preference Shares have been distributed. Announcement on payment of a dividend for the Offshore Preference Shares will be published by the Bank separately as and when appropriate.

7.4 Other Information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored. And there was no experience of any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

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



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1 Basic Information of Directors, Supervisors and Senior Management

1.1 Basic Information of Directors

Name	Gender	Month and year of birth	Positions	Starting Time of Term of Office	Shareholding or not
DOU Rongxing (竇榮興)	Male	March 1963	Executive Director, chairman of the Board	March 2018	No
WANG Jiong (王炯)	Male	June 1968	Executive Director, president	March 2018	No
LI Yulin (李玉林)	Male	March 1966	Executive Director, executive vice president	May 2018	No
WEI Jie (魏傑)	Male	August 1963	Executive Director, vice chairman of the Board	May 2018	Yes
LI Qiaocheng (李喬成)	Male	January 1963	Non-executive director	March 2018	No
LI Xipeng (李喜朋)	Male	November 1963	Non-executive director	March 2018	No
MI Hongjun (弭洪軍)	Male	February 1971	Non-executive director	May 2018	No
PANG Hong (龐紅)	Female	April 1955	Independent non-executive director	March 2018	No
LI Hongchang (李鴻昌)	Male	December 1948	Independent non-executive director	March 2018	No
JIA Tingyu (賈廷玉)	Male	August 1942	Independent non-executive director	March 2018	No
CHAN Ngai Sang Kenny (陳毅生)	Male	November 1964	Independent non-executive director	March 2018	No

Note: the appointment of Mr. WEI Jie as the Director has been approved by the relevant banking regulatory authorities in the PRC on May 9, 2018, and the appointment of Mr. WEI Jie as the vice chairman of the Board has been approved by the relevant banking regulatory authorities in the PRC on July 26, 2018.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1.2 Basic Information of Supervisors

Name	Gender	Month and year of birth	Positions	Starting Time of Term of Office	Shareholding or not
HAO Jingtao (郝驚濤)	Male	June 1971	Employee representative Supervisor, Chairman of the Board of Supervisors	March 2018	No
JIA Jihong (賈繼紅)	Female	September 1963	Employee representative Supervisor, Vice Chairman of the Board of Supervisors	March 2018	Yes
ZHANG Yixian (張義先)	Male	October 1967	Employee representative Supervisor	March 2018	No
LI Weizhen (李偉真)	Male	June 1965	Shareholder representative Supervisor	March 2018	No
LI Wan Bin (李萬斌)	Male	December 1971	Shareholder representative Supervisor	March 2018	No
LI Xiaojian (李小建)	Male	August 1954	External Supervisor	March 2018	No
Han Wanghong (韓旺紅)	Male	March 1954	External Supervisor	March 2018	No
SUN Xuemin (孫學敏)	Male	April 1963	External Supervisor	March 2018	No

Note: Mr. HAO Jingtao, an executive Director of the first session of the Board, has resigned as an executive Director, the executive vice president, and a member of the Strategy Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee under the Board of the Bank with effect from January 20, 2018. On March 6, 2018, Mr. HAO Jingtao and Ms. JIA Jihong were elected as an employee representative Supervisor by the meeting of employee representatives of the Bank. On March 28, 2019, Mr. HAO Jingtao was elected as the Chairman of the second session of Board of Supervisors of the Bank by the 7th meeting of the second session of the Board of Supervisors of the Bank and Ms. JIA Jihong was elected as the Vice Chairperson of the Board of Supervisors at the 7th meeting of the second session of Board of Supervisors of the Bank. On January 17, 2019, Mr. ZHAO Ming (趙明), the shareholder representative Supervisor of the Bank, resigned as a shareholder representative supervisor and a member of the supervision committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin (潘新民) was elected as a candidate of external Supervisor of the Bank and the proposed election was submitted to the general meeting of the Bank for approval. For details, please refer to the announcements dated December 26, 2017, January 20, 2018, March 6, 2018, January 17, 2019 and March 28, 2019 of the Bank.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1.3 Basic Information of Senior Management

Name	Gender	Month and year of birth	Positions	Date of appointment	Shareholding or not
WANG Jiong (王炯)	Male	June 1968	President	March 2018	No
LI Yulin (李玉林)	Male	March 1966	Executive vice president	March 2018	No
LIU Kai (劉凱)	Male	March 1971	Vice president	March 2018	No
ZHAO Weihua (趙衛華)	Male	March 1977	Vice president, chief risk officer	May 2018	No
ZHOU Litao (周麗濤)	Male	November 1979	Vice president	May 2018	No
LIU Qingfen (劉清奮)	Male	March 1970	Assistant to the president	June 2018	No
ZHANG Ke (張克)	Male	October 1977	Secretary to the Board	March 2018	No
ZHANG Yi (張怡)	Female	March 1973	General manager of the planning and financing department	September 2015	No
ZHANG Yixian (張義先)	Male	October 1967	General manager of the audit department	December 2017	No

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

2 Changes of the Directors, Supervisors and Senior Management

2.1 Changes of the Directors

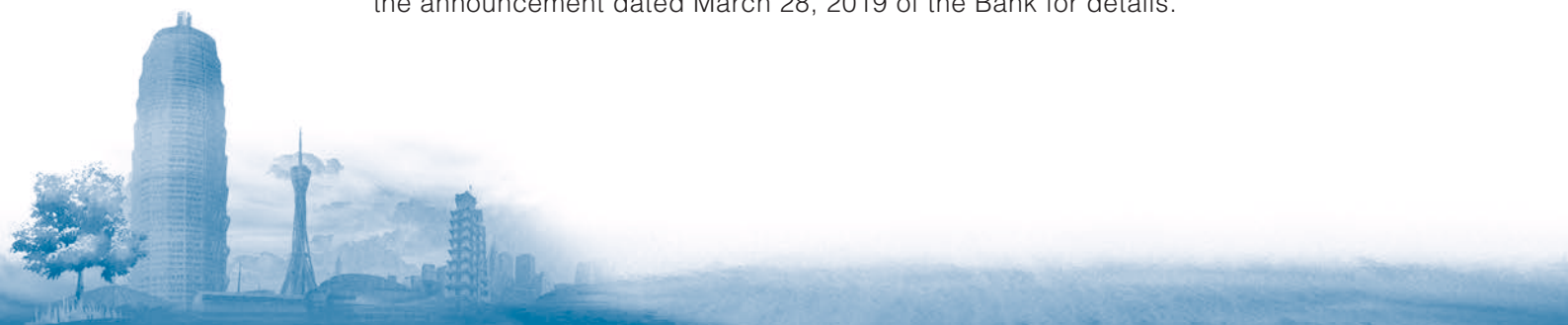
On January 20, 2018, Mr. HAO Jingtao (郝驚濤) resigned as an executive Director, the executive vice president, and a member of the Strategy and Development Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Executive Committee of the Bank. Please refer to the announcement dated January 20, 2018 of the Bank for details.

The second session of the Board of the Bank has been elected at the 2018 first extraordinary general meeting of the Bank held on March 16, 2018 with Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun as non-executive Directors, and Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors. Meanwhile, the Board elected Mr. DOU Rongxing as the chairman, and Mr. WEI Jie as the vice chairman of the second session of the Board. The appointment of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun as directors have been approved by the relevant banking regulatory authorities in the PRC on May 9, 2018, and the appointment of Mr. WEI Jie as the vice chairman of the Board has been approved by the relevant banking regulatory authorities in the PRC on July 26, 2018. Please refer to the announcements dated January 20, 2018, March 16, 2018, May 14, 2018 and August 3, 2018 of the Bank for details and the circular dated February 22, 2018.

On March 16, 2018, Ms. HU Xiangyun ceased to act as the vice chairman of the Board, the executive director, a member of the Strategy and Development Committee, the Related Party Transactions Control Committee and the Executive Committee of the Bank due to her retirement upon the expiry of her term in the first session of the Board of Supervisors of the Bank. Please refer to the announcement dated March 16, 2018 of the Bank for details.

2.2 Changes of Supervisors

On March 6, 2018, Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian were elected as employee representative supervisors of the second session of the Board of Supervisors of the Bank. Please refer to the announcement dated March 6, 2018 of the Bank for details. On March 28, 2019, Mr. HAO Jingtao and Ms. JIA Jihong were elected as the Chairman and Vice Chairman of the second session of the Board of Supervisors of the Bank by the seventh meeting of the second session of the Board of Supervisors. Please refer to the announcement dated March 28, 2019 of the Bank for details.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

The 2018 first extraordinary general meeting of the Bank held on March 16, 2018 re-elected Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin as shareholder representative Supervisors, Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin as external Supervisors. Please refer to the announcement dated March 16, 2018 of the Bank for details and the circular dated February 22, 2018.

Since March 16, 2018, Mr. MA Guoliang, due to his retirement, and Mr. SI Qun, due to his work arrangement, no longer acted as the employee representative Supervisors upon the expiry of their term in the first session of the Board of Supervisors of the Bank. And Mr. MA Guoliang has also resigned as the chairman of the Board of Supervisors since March 16, 2018. Please refer to the announcement dated March 16, 2018 of the Bank for details.

On January 17, 2019, Mr. ZHAO Ming, the shareholder representative Supervisor of the Bank, resigned as a shareholder representative supervisor and a member of the supervision committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank and the proposed election was submitted to the general meeting of the Bank for approval. Please refer to the announcement dated January 17, 2019 of the Bank for details.

2.3 Changes of Senior Management

On January 20, 2018, Mr. HAO Jingtao, due to his work arrangement, resigned as the executive vice president of the Bank.

On March 16, 2018, the Bank's first meeting of the second session of the Board appointed Mr. WANG Jiong as the president, Mr. LI Yulin as executive vice president, Mr. LIU Kai as vice president, Mr. ZHAO Weihua as vice president and chief risk officer, Mr. ZHOU Litao as vice president, Mr. LIU Qingfen as assistant to the president and Mr. ZHANG Ke as the secretary to the Board of the Bank. On May 14, 2018, CBRC Henan Office approved the qualification of Mr. ZHAO Weihua as vice president and chief risk officer and Mr. ZHOU Litao as vice president of the Bank. On June 11, 2018, CBRC Henan Office approved the qualification of Mr. LIU Qingfen as assistant to the president of the Bank.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

3 Biography of Directors, Supervisors and senior management

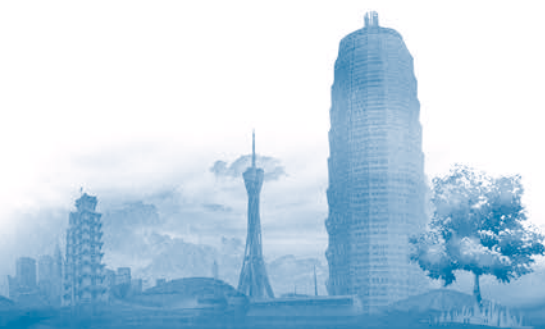
3.1 Directors

Mr. DOU Rongxing (竇榮興), born in March 1963, Chinese. Mr. Dou Rongxing is an executive Director and the chairman of the second session of the Board of the Bank, primarily responsible for the overall management, strategic planning and business development of the Bank. Mr. Dou has over 30 years of experience in banking business management. In addition to his role as the chairman of the Board, Mr. Dou is also the secretary to the party committee of the Bank. Mr. Dou's primary work experience prior to joining the Bank includes: (i) serving as the deputy chief (director-of-bureau level) and a member of the party group of the Office of Financial Service of Henan Government (河南省政府金融服務辦公室) from December 2013 to December 2014, during which period he also served as the executive director of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作); (ii) the Director of the wholesales business and the general manager of the corporate banking department of China CITIC Bank from June 2013 to December 2013; (iii) the secretary to the party committee and the president of the Zhengzhou Branch of China CITIC Bank from January 2005 to June 2013. He worked as the vice president of the Zhengzhou Branch of China Merchants Bank from September 2002 to January 2005. Mr. Dou held several positions successively at the Henan Branch of the China Construction Bank from July 1985 to August 2002, including: (i) an officer, the deputy chief of the investment research institution; (ii) the deputy chief of funds planning department, (iii) the deputy general manager of finance department, (iv) the deputy chief and the chief of the inspection and audit department, (v) the chief of the planning and finance department, (vi) the secretary to the party committee and the president of the Xinxiang Branch, and (vii) the chief of asset preservation department and the president of the Jinyuan Sub-branch. Mr. Dou was recognized as the "Outstanding Contribution Entrepreneur on the 40th Anniversary of Reform and Opening Up (改革開放四十週年傑出貢獻企業家)" by "The 8th Hong Kong International Finance Forum cum China Securities Golden Bauhinia Award" in December 2018. Mr. Dou is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. Mr. Dou received a bachelor's degree in infrastructure finance and credit from Hubei College of Finance (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985, a master's degree in investment finance from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1995 and a doctor's degree in management science and engineering from Huazhong University of Science and Technology (華中科技大學) in December 2005. Mr. Dou is a senior economist accredited by China Construction Bank in December 1997.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. WANG Jiong (王炯), born in June 1968, Chinese. Mr. Wang Jiong is an executive Director and the president of the Bank, primarily responsible for the daily operation and management and in charge of the human resource department, strategic development department, information technology department and data banking department of the Bank. Mr. Wang has more than 20 years of experience in banking business operations and management. Mr. Wang served as the secretary to the party committee and the president of the Haikou Branch of China CITIC Bank from May 2012 to December 2014, and was in charge of the planning group of the Haikou Branch of China CITIC Bank from November 2011 to May 2012. Prior to that, he successively held several positions in the Zhengzhou Branch of China CITIC Bank from March 2001 to November 2011, including the deputy general manager and the general manager of the planning and financing department, the assistant to the president, and the vice president. Mr. Wang's work experience also includes serving as the deputy manager, the manager, and the assistant to the general manager of the business department, the assistant to the general manager and the deputy general manager of the financial accounting department of the Zhengzhou Branch of China Guangfa Bank from December 1995 to March 2001. Before that, he worked at the Zhengzhou Railway Branch of China Construction Bank from August 1993 to November 1995 and at the human resources department of Zhengzhou College of Industry (鄭州工學院) from July 1990 and August 1993. Mr. Wang is a deputy of the 13th National People's Congress of Henan Province. Mr. Wang received a bachelor's degree in applied physics from Wuhan University (武漢大學) in July 1990, a secondary bachelor's degree in ideological and political education from Xi'an Jiaotong University (西安交通大學) in July 1994, and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009. Mr. Wang is a senior accountant accredited by the Review Committee of Senior Professional and Technical Positions of Accounting Professions of Henan Province (河南省會計系列高級專業技術職務評委會) in April 2000.

Mr. LI Yulin (李玉林), born in March 1966, Chinese. Mr. Li Yulin is an executive director and executive vice-president of the Bank, in charge of the general office, planning and finance department, accounting and operation department, rural banking management department and subsidiaries. Prior to that, Mr. Li had served as a vice president of the Bank from October 2016 to March 2018.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Prior to joining the Bank, Mr. Li's primary work experience includes serving as the vice president of the Changsha Branch of China Merchants Bank (招商銀行長沙分行) from March 2016 to May 2016. Mr. Li held various positions successively in the Zhengzhou Branch of China Merchants Bank (招商銀行鄭州分行) from August 2002 to February 2016, including the assistant to the office chief, the vice general manager of the business department, the vice general manager of the planning group of the Sub-branch II, the president of the Huayuan Road Sub-branch (花園路支行), the general manager of the corporate banking department I, assistant to the president, the assistant to the president and the president of the Luoyang Branch (洛陽分行), the member of party committee and the vice president. He served as the vice president of the Huayuan Road Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行花園路支行) from March 2000 to August 2002. Prior to that, Mr. Li served successively as an accountant, a facility reviewer, the office chief and the vice president of the Railway Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行鐵路支行) from July 1989 to February 2000. Mr. Li completed his undergraduate education in finance at Zhengzhou University (鄭州大學) in June 1989.

Mr. WEI Jie (魏傑), born in August 1963, Chinese, is an executive director and vice-chairman of the Bank, in charge of the Audit Department, Regional Audit Department I and Regional Audit Department II. Prior to that, Mr. Wei had served as an assistant to the president of the Bank from December 2014 to March 2018.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. Wei's primary work experience prior to joining the Bank includes serving as the chairman and the secretary to the party committee of Shangqiu Bank from December 2009 to December 2014, the chief, the deputy secretary and the secretary to the party committee, and the Director and the general manager of Shangqiu City Credit Union Co., Ltd. from January 2003 to December 2009. Mr. Wei held several Positions successively at the Shangqiu Branch of China Construction Bank from April 1992 to December 2002, including the deputy chief of facility department, the vice president, the president and the secretary to the party group of the Yongxia Mine District Sub-branch, and the president, the secretary to the party group and the secretary to the party general branch of the Liangyuan Sub-branch. He served as the chief of the construction economics section of the former Shangqiu Sub-branch of China Construction Bank from February 1987 to April 1992, and the member of the construction section and the deputy secretary to the communist youth league of the former Shangqiu District Central District of China Construction Bank from August 1983 to February 1987. Mr. Wei received a technical secondary school diploma from School of Finance and Trade of Kaifeng (開封市財貿學校) in July 1983. Mr. Wei completed college education in fundamental construction economics at the Correspondence College of Renmin University of China in June 1988 and completed undergraduate education in finance and investment at Henan University in July 1995.



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Mr. LI Qiaocheng (李喬成), born in January 1963, Chinese. Mr. Li Qiaocheng is currently a non-executive Director of the Bank. Mr. Li has been the deputy general accountant and a director of Henan Energy and Chemical Engineering Group Co., Ltd. (河南能源化工集團有限公司) since April 2016 and May 2016, respectively. Prior to that, Mr. Li's primary work experience includes serving as: (i) a member of the standing party committee, the Director, the vice general manager of Henan Energy and Chemical Engineering Group Hemei Investment Co., Ltd. (河南能源化工集團鶴煤投資有限公司) and a researcher at the vice general manager level of Hebi Coal (Group) Co., Ltd. (鶴壁煤業(集團)有限責任公司) successively from November 2012 to April 2016, (ii) the deputy general accountant, the chief of the finance department and the general accountant of Jiaozuo Coal (Group) Co., Ltd. (焦作煤業(集團)有限責任公司) from May 2009 to November 2012, (iii) the Director of finance of Yongcheng Coal and Electricity Group Co., Ltd. (永城煤電集團有限責任公司) and Yongmei Group Co., Ltd. (永煤集團股份有限公司) successively from May 2007 to May 2009, and (iv) the vice general manager and the Director of finance of Henan Zhenglong Coal Co., Ltd. (河南正龍煤業有限公司) successively from December 2003 to May 2007. Prior to that, Mr. Li worked at Beilutian Mine of Yima Mining Bureau (義馬礦務局北露天礦) from December 1982 to January 1994. In addition, Mr. Li worked as an accountant at the Yima Mining Bureau Middle School (義馬礦務局中學) from August 1981 to November 1982. Mr. Li received a technical secondary school diploma in finance and accounting from Zhengzhou Coal Technical School (鄭州煤炭工業學校) in July 1981 and a college diploma in corporate operation management from Henan Radio and Television University (河南廣播電視大學) in July 1986. He is a senior accountant accredited by Henan Government in September 2012.

Mr. LI Xipeng (李喜朋), born in November 1963, Chinese. Mr. Li Xipeng is currently a non-executive Director of the Bank. Mr. Li has been the chairman of the board of directors of Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (formerly known as Henan Shengrun Venture Capital Management Co., Ltd. (河南盛潤創業投資管理有限公司)) ("**Henan Shengrun Group**") since October 2001, a director of Zhongyuan Trust Company Limited (中原信託股份有限公司) since January 2012 and a director of Fanxian Rural Commercial Bank Co., Ltd. ("**Fanxian Rural Commercial Bank**") since January 2017. Mr. Li received a Master of Business Administration degree for senior management from Cheung Kong Graduate School of Business (長江商學院) in March 2006.



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Mr. MI Hongjun (弭洪軍), born in February 1971, Chinese. Mr. Mi Hongjun is a non-executive Director of the Bank. Mr. Mi is the Director of finance to the Board of China Minsheng Investment Group (中國民生投資股份有限公司). He served as the Director of finance and secretary to the board of directors of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司) from February 2012 to June 2014, the chief financial officer and the chief executive officer of Digital Diligent Knowledge (Beijing) Information and Technology Co., Ltd. (數字博識(北京)信息技術有限公司) from February 2009 to December 2011, the chief financial officer of Beijing Hinge Software Co., Ltd (北京和勤軟件技術有限公司) from September 2007 to January 2009, the Director of finance of Dayang Technology Development Inc. (中科大洋科技發展股份有限公司) from March 2004 to August 2007, and the Director of finance of Ec-Founder Company Limited (方正數碼有限公司) from March 2001 to February 2004.

Mr. Mi obtained an Executive Master of Business Administration degree from Tsinghua University (清華大學) in 2012 and was accredited as a senior accountant.

Ms. PANG Hong (龐紅), born in April 1955, Chinese. Ms. Pang Hong is an independent non-executive Director of the Bank. Ms. Pang has been a professor in the School of Finance of Renmin University of China (中國人民大學財政金融學院) since August 2010. Prior to that, she held several positions at Renmin University of China from December 1996 to August 2010, including the deputy secretary to the party committee in the School of Finance from January 2007 to August 2010, a deputy professor from July 2001 to August 2010, and a lecturer from December 1996 to July 2001. She also worked as a teacher in the School of Finance of Central University of Finance and Economics (中央財經大學財政金融學院) from September 1982 to December 1996. Ms. Pang was awarded the prize of “Innovation Pilot of Education in Beijing (北京市教育創新標兵獎)” by the Education Legal Union of Beijing Municipality for the year from 2003 to 2004 and was named the “Teacher of the Year (優秀教師獎)” by Baosteel Education Foundation (寶鋼教育基金會) in November 2003. Ms. Pang was also awarded the title of the “Top 10 Pilot in Education (十大教學標兵)” by Renmin University of China in September 2002 and the title of the “Excellent Ideological and Political Workers in Beijing (北京市優秀思想政治工作者)” by the People’s Government of Beijing Municipality and the Communist Party of China Beijing Municipal Committee (中共北京市委) in March 1991. Ms. Pang received a bachelor’s degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics) in August 1982 and a master’s degree in economics from Central University of Finance and Economics in March 2001.



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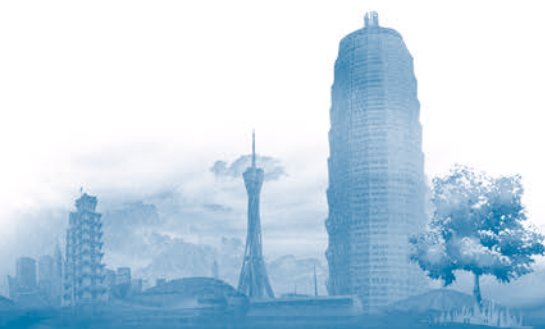
Mr. LI Hongchang (李鴻昌), born in December 1948, Chinese. Mr. Li Hongchang is an independent non-executive Director of the Bank. Mr. Li has served as a professor and the dean of Zhengzhou College of Finance (鄭州財經學院) from September 2013 to September 2018. Prior to that, Mr. Li served as a professor at Henan University of Economics and Law (河南財經政法大學) from December 2008 to December 2011. In addition, Mr. Li successively held several positions at Henan College of Finance (河南財經學院) (currently known as Henan University of Economics and Law) from July 1985 to December 2008, including the vice chief and the chief of the finance department, the assistant to the dean, the vice dean and the dean researcher. Mr. Li received a master's degree in economics from Zhongnan University of Finance in November 1985. Mr. Li is a professor in economics accredited by the Review Committee of Senior Positions of College Teachers of Henan Province (河南省高校教師高級職務評委會) in November 1993 and was awarded the title of "Top Expert in Henan Province (河南省優秀專家)" by Henan Government and the Communist Party of China Henan Provincial Committee (中共河南省委) in July 1995.

Mr. JIA Tingyu (賈廷玉), born in August 1942, Chinese. Mr. Jia Tingyu is an independent non-executive Director of the Bank. Mr. Jia has served as an independent non-executive director of Hang Seng Bank (China) Limited since January 2010, and a member of the audit committee and the chairman of the risk committee under the board of Hang Seng Bank (China) Limited since May 2010 and April 2010, respectively. Prior to that, he concurrently served as the risk consultant, the deputy chief of the facility approval committee, the deputy chief of the audit committee, and a member of the assets and liability management committee of China CITIC Bank from January 2005 to September 2009. He served as the general manager of the risk control department, the deputy chief of the facility approval committee, and a member of the expert panel of China Merchants Bank successively from March 2000 to December 2004. Additionally, he served as the vice president and the president of the Chengdu Branch of China Merchants Bank successively from July 1997 to March 2000, and the deputy general manager of the facility approval department and the general manager of the department of planning and capital at China Merchants Bank successively from February 1992 to June 1997.



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Mr. CHAN Ngai Sang Kenny (陳毅生), born in November 1964, Chinese (Hong Kong). Mr. Chan Ngai Sang Kenny is an independent non-executive Director of the Bank. Mr. Chan has over 20 years of experience in accounting, taxation, auditing and corporate finance. He is a partner and the funder of Kenny Chan & Co., a firm of Certified Public Accountants (Practicing). In addition, Mr. Chan has served on several tribunals and committees of the Government of Hong Kong, which includes the Mandatory Provident Fund Schemes Appeal Board (強制性公積金計畫上訴委員會), the Occupational Retirement Schemes Appeal Board (職業退休計畫上訴委員會), and the Organizing Committee of the Hong Kong Youth Cultural & Arts Competitions Committee (全港青年學藝比賽大會統籌委員會), where he has served as the chairman. He was a member of the Youth Program Coordinating Committee of the Commission on Youth of the Home Affairs Bureau (民政事務局青年委員會青年活動統籌委員會) from April 2015 to March 2017. Mr. Chan has been an independent non-executive director of several listed companies, including Combest Holdings Limited (HK.8190) from January 2002 to February 2018, Convoy Global Holdings Limited (HK.1019) since April 2015, WLS Holdings Limited (HK.8021) since April 2015, TSC Group Holdings Limited (HK.206) since October 2005, Amco United Holding Limited (HK.630) since June 2015, Sing On Holding Limited (HK.8352) since November 2016, and Minsheng Education Group Co., Ltd. (HK.1569) since March 2017. Mr. Chan is a member of the Institute of Chartered Accountants of New Zealand since March 1998, the Association of International Accountants since October 1998, the Hong Kong Society of Accountants (香港會計師公會) (currently known as the Hong Kong Institute of Certified Public Accountants) since February 1992, and the Hong Kong Institute of Directors (香港董事學會) since October 2016. Mr. Chan is also a member of the Taxation Institute of Hong Kong (香港稅務學會) since August 1998 and the Australian Society of Certified Practising Accountants since February 1989. Mr. Chan received a bachelor's degree in commerce (accounting and finance) from the University of New South Wales in Australia in October 1988.



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3.2 Supervisors

Mr. HAO Jingtao (郝驚濤), born in June 1971, Chinese. Mr. Hao Jingtao is the Chairman of the Board of Supervisors of the Bank. He served as the deputy secretary of the party committee of the Bank from January 2018 and employee representative Supervisor of the Bank from March 2018, the executive vice president of the Bank from April 2015 to January 2018 and an executive director of the Bank from December 2014 to January 2018. Mr. Hao has more than 20 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Hao's major work experience includes: serving as the vice president of the Hefei Branch of China Minsheng Banking Corp., Ltd. (中國民生銀行合肥分行) from December 2013 to December 2014; serving as a member of the party committee and the vice president of the Guiyang Branch of China CITIC Bank (中信銀行貴陽分行) from September 2011 to December 2013. He served successively as the deputy head of the planning group, vice president, secretary of the party committee and the president of the Luoyang Branch of China CITIC Bank (中信銀行洛陽分行) from December 2007 to September 2011. In addition, he served successively as the general manager of corporate banking department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) and the president of the Information Mansion Sub-branch (信息大廈支行) of the Zhengzhou Branch. His work experience also includes serving as the deputy president of the Zhengzhou Chengdong Sub-branch of Bank of China (中國銀行鄭州城東支行) from December 2003 to February 2005, the president of the Xinmi Sub-branch of Bank of China (中國銀行新密市支行) from June 2001 to December 2003, the deputy head of accounting department of the Zhengzhou Sub-branch of Bank of China from July 1999 to June 2001. He worked at the Zhengzhou Branch of Bank of China from July 1994 to July 1997. Mr. Hao received a bachelor's degree in statistics from Zhongnan University of Finance (currently known as Zhongnan University of Economics and Law (中南財經政法大學) in July 1994 and a master's degree in applied economics (financial engineering) from Renmin University of China (中國人民大學) in January 2012. Mr. Hao is an accountant accredited by the Ministry of Finance of the People's Republic of China in May 1998.



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Ms. JIA Jihong (賈繼紅), born in September 1963, Chinese. Ms. Jia Jihong is an employee representative supervisor and the Vice Chairman of the Board of Supervisors of the Bank. She has more than 30 years of experience in banking business operations and management. Prior to joining the Bank, Ms. Jia's major work experience includes: serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Bank from December 2011 to December 2014 and serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Commercial Bank Co., Ltd from May 2005 to November 2011. Ms. Jia held several positions in the Nanyang Branch of Agricultural Bank of China, including vice president and the deputy secretary to the party committee from December 1996 to May 2005, the deputy section chief and the section chief of the information computer successively from September 1989 to November 1996. Before that, Ms. Jia served as an accountant, a facility reviewer, the office chief, the vice president and the chairman of the labor union of the Sheqi County of Agricultural Bank of China successively from February 1981 to September 1987. Ms. Jia received a bachelor's degree in management from the Party School of the Central Committee of the Communist Party of China in December 1995, a master's degree in literature from Henan University in October 2001 and an Executive Master in Business Administration degree from Tsinghua University in July 2009. She studied at Wuhan Management Cadres College of Agricultural Bank of China (中國農業銀行武漢管理幹部學院) from September 1987 to July 1989. Ms. Jia is a certified senior consultant accredited by the Henan Science and Technology Committee (河南省科學技術委員會) in January 1999, a senior economist accredited by Agricultural Bank of China in December 2001 and received the basic qualification certificate for insurance agent from the CIRC in July 2002.



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Mr. ZHANG Yixian (張義先), born in October 1967, Chinese. Mr. Zhang Yixian is an employee representative Supervisor and the general manager of the audit department of the Bank. Mr. Zhang's major working experience in the Bank: worked in the audit department of the Bank since July 2017 and served as the general manager of the audit department since December 2017. He also served as the general manager of the monitoring and guardian department of the Bank from January 2015 to June 2017. Prior to joining the Bank, Mr. Zhang' major work experience includes: serving as the president of the Yellow River Road Sub-Branch from May 2013 to January 2015, the general manager of the audit department of the Zhengzhou Branch from August 2012 to May 2013, the vice president of Luoyang Branch from August 2011 to August 2012, the deputy general manager of the monitoring and guardian department of Zhengzhou Branch from July 2007 to August 2011, the vice president of Zhengzhou Weisan Road Sub-Branch (緯三路支行) from July 2005 to July 2007, and the assistant to the general manager of accounting department of Zhengzhou Branch from July 2002 to July 2005. Mr. Zhang worked at the finance department of the Xinxiang Branch of China Construction Bank (建設銀行新鄉分行) from September 1993 to July 2002 and the finance department of Xingxiang State-owned 103 Factory (新鄉國營103廠財務部) from July 1990 to September 1993. Mr. Zhang received a college diploma in finance and accounting from Zhengzhou University of Aeronautics (鄭州航空工業管理學院) in July 1990, and is a mid-level accountant.



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Ms. LI Weizhen (李偉真), born in June 1965, Chinese. Ms. Li Weizhen is a Shareholder representative Supervisor of the Bank. Ms. Li has been the deputy chief of Henan Mingrui Accounting Firm (河南明銳會計師事務所) since November 2015 and the general accountant of Zhengzhou Kangqiao Real Estate Development Co. Ltd (鄭州康橋房地產開發有限責任公司) since December 2009. Ms. Li's work experience also includes serving as the general manager of Henan Chenghe Accounting Firm (河南誠和會計師事務所) from June 2008 to November 2015 and the deputy chief accountant of Asia Pacific (Group) CPAs (亞太(集團)會計師事務所) from October 1993 to June 2008. Ms. Li has been an independent non-executive director of several listed companies, including Zhengzhou Coal Industry and Electric Power Co., Ltd. (鄭州煤電股份有限公司) (SH.600121) since May 2016, Henan Tongli Cement Co., Ltd. (河南同力水泥股份有限公司) (SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (SZ.000544) since July 2013. Ms. Li completed her undergraduate education in planning and statistics in the department of economics at Zhengzhou University (鄭州大學) in July 1987 and received a master's degree in accounting from Zhengzhou University in June 1999. Ms. Li received the qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2008 and was accredited as a senior accountant by the Senior Review Committee of Accounting Professions of Henan Province (河南省會計系列高評會) in November 2002.

Mr. LI Wanbin (李萬斌), born in December 1971, Chinese. Mr. Li Wanbin is a Shareholder representative Supervisor of the Bank. Mr. Li has been the chairman of the board of directors of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) since March 2011. Before that, Mr. Li worked as a director, the vice president, the general manager, the vice chairman of the board of directors and a member of the party committee of Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司) successively from July 2003 to August 2008. In addition, Mr. Li served as the chairman of the board of directors of several companies, including Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) from August 2008 to March 2011, Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) from October 2003 to October 2004, and Southern Henan Gas Co., Ltd. (河南省豫南燃氣有限公司) from September 2000 to December 2002. Mr. Li was also a director and the executive vice general manager of Henan Zhongyuan Gas and Chemical Engineering Investment Co., Ltd (河南中原氣化工程投資有限公司) from June 1999 to April 2001, and a sales personnel, the vice general manager and the general manager of Zhumadian Middle Distillate Co., Ltd. (駐馬店中油銷售有限公司) successively from July 1994 to June 1999. Mr. Li received an Executive Master of Business Administration degree from Hong Kong University of Science and Technology (香港科技大學) in June 2012.



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Mr. LI Xiaojian (李小建), born in August 1954, Chinese. Mr. Li Xiaojian is an external Supervisor of the Bank. Mr. Li's primary work experience prior to joining the Bank includes serving as the principal of Henan University of Economics and Law from September 2010 to September 2015, the principal of Henan College of Finance from October 2003 to September 2010, the vice principal of Henan University from September 2001 to October 2003, and the dean of the school of environment and planning of Henan University from April 1994 to September 2001. Mr. Li received a bachelor's degree in geography from Henan Normal University (河南師範大學) in January 1982. He received a doctor's degree in economical geography from Nankai University (南開大學) in June 1990 and completed a doctorate program at Australian National University in March 1990, respectively. Mr. Li is a professor accredited by Henan Government in November 1993.

Mr. HAN Wanghong (韓旺紅), born in March 1954, Chinese. Mr. Han Wanghong is an external Supervisor of the Bank, currently a professor, a Ph.D. supervisor, and the deputy director of the Investment Study Centre of Zhongnan University of Economics and Law, as well as the vice president of the Committee of the Construction of the Investment Major of the Investment Association of China (中國投資協會投資學科建設委員會). Before that, he held various other positions at Zhongnan University of Economics and Law, including the head of the investment department from September 2004 to December 2011, and a lecturer and a deputy professor successively from September 1987 to August 2002. Mr. Han received a bachelor's degree in economics from Hubei College of Finance in July 1982, a master's degree in economics from Zhongnan University of Finance in November 1985 and a doctor's degree in industrial economics from Zhongnan University of Economics and Law in December 2008.



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Mr. SUN Xuemin (孫學敏), born in April 1963, Chinese. Mr. Sun Xuemin is an external Supervisor of the Bank. Mr. Sun currently holds several positions at Zhengzhou University, including a professor in the business department since November 2001, the chief of the Strategic Research Centre of the Development of Modern Industry and Enterprises (現代產業與企業發展戰略研究中心) since April 2010 and the chief of the Corporation Research Centre (企業研究中心) since April 2004. Mr. Sun's work experience also includes serving as an independent non-executive director of Jindan Rusuan Technology Co., Ltd. (河南金丹乳酸科技股份有限公司) (a company listed on the National Equities Exchanges and Quotations in the PRC, stock code: 832821) since April 2011, the legal representative and the executive director of Zhengzhou Jiebang Management Consulting Co., Ltd. (鄭州傑邦管理諮詢有限公司) since April 2005, the Director of Zhengzhou High-Tech Valley of Technology Development Co., Ltd. (鄭州高創穀科技園開發有限公司) since July 2015, the legal representative and executive director of Zhengzhou Zhengda Yunchuang Technology Co., Ltd. (鄭州鄭大雲創科技有限公司) since December 2015. Mr. Sun served as a member and the deputy chief of the "Expert Committee for Small and Medium Enterprises in Zhengzhou" (鄭州市中小企業專家服務團) from December 2010 to May 2014. Mr. Sun received a doctor's degree in western economy from Huazhong University of Science and Technology in June 2008.



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3.3 Senior Management

For biographical details of Mr. WANG Jiong (王炯) and Mr. LI Yulin (李玉林), please see “7.3 Biography of Directors, Supervisors and Senior Management – 1. Directors” in this chapter. For the biographical details of Mr. ZHANG Yixian (張義先), please see “7.3 Biography of Directors, Supervisors and senior management – 2. Supervisors” in this chapter.

Mr. LIU Kai (劉凱), born in March 1971, Chinese. Mr. Liu Kai is the vice president of the Bank. Mr. Liu has served as a vice president of the Bank since December 2014. Mr. Liu has more than 20 years of experience in banking operations and management. Mr. Liu's primary work experience prior to joining the Bank includes serving as: (i) a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan province from December 2013 to December 2014, (ii) the assistant to the head of the Bureau of Financial Market of PBoC from August 2011 to November 2013, (iii) the president and the secretary to the party committee of PBoC Anyang Central Sub-branch and the head of the Anyang Central Sub-bureau of the State Administration of Foreign Exchange (國家外匯管理局安陽支局) from May 2007 to August 2011. He served successively as a chief section member, the deputy chief and the chief of the office of the party committee and the manager of the office of legal affairs of PBoC Zhengzhou Central Sub-branch from January 1999 to April 2007. Prior to that, Mr. Liu served successively as an officer and a section member of the finance management department and a deputy chief section member and a chief section member of the office of the Henan Branch of PBoC from July 1994 to January 1999. He worked at PBoC Tanghe County Sub-branch from July 1993 to July 1994. Mr. Liu received a bachelor's degree in the science of law from Zhengzhou University in June 1993, and a master's degree in liberal arts from Henan University in June 2007. Mr. Liu received a certificate for passing the lawyer's qualification exam from the Department of Justice of Henan Province (河南省司法廳) in May 1995 and is a senior economist accredited by the PBoC in May 2005.



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Mr. ZHAO Weihua (趙衛華), born in March 1977, Chinese. Mr. Zhao Weihua is the vice president and the chief risk officer of the Bank. Prior to that, Mr. Zhao was the president and the chief risk officer of the Bank from December 2014 to May 2018. Mr. Zhao has more than 15 years of experience in banking operations and management. Prior to joining the Bank, Mr. Zhao served as a member of the leading group office for the reform and restructuring of some city commercial banks in Henan province from December 2013 to December 2014. Before that, Mr. Zhao held various positions in the Zhengzhou Branch of China CITIC Bank from July 2009 to December 2013, including (i) the assistant to the general manager of the risk management department and the retail banking department, (ii) the deputy general manager, the general manager of the risk management department and the manager of the credit approval department. In addition, he served as the credit approval manager of the Zhengzhou Branch of China CITIC Bank from July 2006 to February 2008. He worked as the assistant to the president of the Zhengzhou Zijing Shan Road Sub-branch of China CITIC Bank from February 2008 to July 2009. Prior to that, Mr. Zhao served as an accountant, a credit administrator, a specialized facility reviewer, the manager of the real estate facility department and the deputy manager of the real estate finance business department of the Henan Province Branch of China Construction Bank successively from August 1999 to August 2004. Mr. Zhao received a bachelor's degree in economics from Shaanxi College of Finance (陝西財經學院) (currently known as Xi'an Jiaotong University (西安交通大學)) in July 1999 and a Master of Business Administration degree from Sun Yat-Sen University (中山大學) in June 2006. Mr. Zhao is a mid-level economist accredited by the Human Resources Department of the PRC in November 2007.

Mr. ZHOU Litao (周麗濤), born in November 1979, Chinese. Mr. Zhou Litao is the vice president of the Bank, in charging of the financial market segment. Before that, Mr. Zhou was the corporate business director of the Bank from December 2014 to May 2018. Prior to joining the Bank, Mr. Zhou held several positions, including serving as the general manager of the asset management department of the investment banking division of the China CITIC Bank from May 2013 to December 2014, the general manager of the strategic customer department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) from January 2013 to May 2013, the product manager, assistant to general manager, deputy general manager and general manager of the investment banking center of Zhengzhou Branch of China CITIC Bank successively from March 2008 to January 2013, and the product manager of corporate banking department of Zhengzhou Branch of China CITIC Bank from February 2006 to March 2008. He worked at the Henan Branch of the China Construction Bank (中國建設銀行河南省分行) from July 2001 to July 2003. Mr. Zhou received a bachelor's degree in business administration in July 2001 and a master's degree in business administration in February 2006, both from Xi'an Jiaotong University. Mr. Zhou was recognized as an intermediate economist by the Ministry of Personnel of the People's Republic of China in November 2007.

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Mr. LIU Qingfen (劉清奮), born in March 1970, Chinese. Mr. Liu Qingfen is an assistant to the president of the Bank, in charging of the corporate business segment. Before that, Mr. Liu served as the secretary to the party committee and general manager of the head office of the Bank from December 2014 to July 2017 and the secretary to the party committee and president of the Branch of the Bank(中原銀行鄭州分行) from July 2017 to February 2018. Mr. Liu is the general manager of the corporate banking department of the Bank since February 2018. Prior to joining the Bank, Mr. Liu held several positions, including serving as a section member of the office of Zhengzhou Commercial Bank(鄭州市商業銀行) from July 1994 to July 1998, the vice president of Zhengbian Road Sub-branch(鄭汴路支行) and Qiaojiamen Sub-branch (喬家門支行) of Zhengzhou Commercial Bank successively from July 1998 to March 2000, the deputy director of the office of Zhengzhou Commercial Bank from March 2000 to November 2000, the deputy section chief and section chief of the customer section of Zhengzhou Branch of Bank of Communications(交通銀行鄭州分行) from November 2000 to April 2004, the vice president and president of the Weiwu Road Sub-branch(緯五路支行) of the Zhengzhou Branch of Bank of Communications successively from April 2004 to April 2006, the head of business expansion department of the Zhengzhou Branch of China Industrial Bank(興業銀行鄭州分行) from April 2006 to July 2007, the president of the Dongdajie Sub-branch (東大街支行)of the Zhengzhou Branch of China Industrial Bank from July 2007 to July 2012, the Director of the Dongdajie business department of the Zhengzhou Branch of China Industrial Bank from July 2012 to January 2013, the deputy secretary to the party committee and the president of Kaifeng Commercial Bank(開封市商業銀行) from January 2013 to December 2014. Mr. Liu graduated from Zhengzhou University(鄭州大學) with a bachelor's degree in Chinese language and literature in June 1994. Mr. Liu was awarded the intermediate economist in November 1998.

Mr. ZHANG Ke (張克), born in October 1977, Chinese. Mr. Zhang Ke is the secretary to the Board. Mr. Zhang has served as the secretary to the Board of the Bank since December 2014. His primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan province from December 2013 to December 2014, the general manager of the accounting finance department, the chief accountant and a director of Kaifeng Commercial Bank from April 2010 to December 2013, as well as a business manager of the corporate planning department of Henan Investment Group Co., Ltd. (河南投資集團有限公司) from July 2007 to March 2010. Before that, Mr. Zhang worked as a deputy chief officer in the accounting finance section of the Central Sub-branch of Sanmenxia City of the PBoC from July 1999 to June 2007. Mr. Zhang received a bachelor's degree in management from Henan University of Finance in June 1999 and a Master of Business Administration degree from Xi'an University of Technology in April 2006. Mr. Zhang is a senior accountant accredited in December 2008.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Ms. ZHANG Yi (張怡), born in March 1973, Chinese. Ms. Zhang Yi is the general manager of the planning and financing department of the Bank. Ms. Zhang has served as the general manager of the planning and financing department of the Bank since September 2015. Her primary work experience prior to joining the Bank includes serving as a member of the leading group office for the reform and restructuring of some city commercial banks in Henan province from December 2013 to December 2014, the deputy general manager of the planning and financing department from March 2011 to December 2013, and an employee and the assistant to the general manager of the planning and financing department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from June 2008 to March 2011. Ms. Zhang worked as an employee in the finance and accounting department at Henan Finance Securities Co., Ltd. (河南財政證券公司) from August 2000 to December 2001 and as an officer in the Government Procurement Department of the Bureau of Finance of Henan Province (河南省財政廳政府採購處) from January 1999 to August 2000. Ms. Zhang worked at Central China Securities Co., Ltd. (中原證券股份有限公司) from January 2002 to June 2005. Prior to that, Ms. Zhang was transferred from Henan Finance Securities Co., Ltd. to serve as an officer in the Administrative Politics and Law Department of the Bureau of Finance of Henan Province (河南省財政廳行政政法處) from January 1995 to December 1998, and she served as an employee in the computer department of Henan Finance Securities Co., Ltd. from August 1994 to December 1994. Ms. Zhang received a bachelor's degree in economics from Jiangxi Finance College (江西財經學院) in July 1994, a Master of Business Administration degree from Henan University in June 2004, and a doctor's degree in accounting from the Business School of Renmin University of China in June 2008. Ms. Zhang is a senior accountant accredited in May 2005.

4. Confirmation of Independence of Independent Non-executive Directors

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



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

5. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Company, which terms are no less exacting than those of the Model Code, for the relevant employees (as defined in the Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with for the twelve months period from January 1, 2018 to December 31, 2018. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Company, the Bank is not aware of any incompliance with the guidelines.

6. Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures

As of December 31, 2018, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:

Interests in Shares of the Bank (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽¹⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽¹⁾
Mr. WEI Jie	Domestic Shares	Beneficial owner	500,000	0.00	0.00
Mr. LI Xipeng ⁽²⁾	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. LI Wanbin ⁽³⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03
Mr. ZHAO Ming ⁽⁴⁾	Domestic Shares	Interest in controlled corporation	568,000,000	3.49	2.83



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Notes:

1. As of December 31, 2018, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
2. Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).
3. Mr. LI Wanbin and his spouse directly and indirectly hold 100% equity interest in Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).
4. Mr. ZHAO Ming holds 75.34% equity interest in Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司). By virtue of the SFO, Mr. ZHAO Ming is deemed to be interested in the 568,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司). On January 17, 2019, Mr. ZHAO Ming (趙明), the shareholder representative Supervisor of the Bank, resigned as a shareholder representative Supervisor and a member of the supervision committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. Please refer to the announcement dated January 17, 2019 of the Bank for details.

7. Remuneration Information for Directors, Supervisors and Senior Management

The Bank provide remuneration for Directors, Supervisors and Senior Management according to the “Administrative Measures on the Remuneration of Directors and Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事、監事薪酬管理辦法》)”, “Administrative Measures on the Remuneration of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司總行高級管理人員薪酬管理辦法》)”, “Measures for Evaluating the Performance of Directors and Senior Management of Board of Directors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事會對董事、高管人員履職評價辦法》)”, “Measures for Evaluating the Performance of Directors, Supervisors and Senior Management of Board of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事會對董事、監事、高管人員履職評價辦法》)” and “Measures for the Administration of the Performance Appraisal of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. in 2018 (《中原銀行股份有限公司2018年總行高級管理人員績效考核管理辦法》)”.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

The specific remuneration plan of the Bank's directors, supervisors and senior management personnel shall be reviewed by the Nomination and Remuneration Committee of the Board and submitted to the Board for final decision. The remuneration system of directors, supervisors and senior management personnel is determined based on the principles of power and responsibility consistent, incentives (both short-term and medium- and long-term incentives are taken into account) and constraints combination, promoting the marketization of the Bank's senior management income distribution.

Please refer to Note 10 to the financial statements for the remuneration of Directors and Supervisors during the Reporting Period. During the year ended December 31, 2018, no emolument was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as an inducement to join or upon joining the Bank or as compensation for loss of office.

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

	No. of employees
RMB0 to RMB1,000,000	0
RMB1,000,000 to RMB2,000,000	4
RMB2,000,000 to RMB3,000,000	2

Note: As of December 31, 2018, three senior management of the Bank were also Directors or Supervisor, namely Mr. WANG Jiong (王炯), Mr. LI Yulin (李玉林) and Mr. ZHANG Yixian (張義先). For details of the remuneration of Mr. WANG Jiong, Mr. LI Yulin and Mr. ZHANG Yixian, please refer to note 10 to the financial statements of this annual report.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

8. Employees and Human Resources Management

8.1 Information of Employees

As of December 31, 2018, we had 13,575 full-time employees in total, of which 1,176 employees at our head office and 12,399 employees at our branches and sub-branches. As of December 31, 2018, 9,922 employees or 73.09% had bachelor's degrees or above, with the average age of 35.43. We had 911 employees at village and township banks sponsored by the Bank and 258 employees at Henan Zhongyuan Consumer Finance Corp., Ltd. (“河南中原消费金融股份有限公司”).

8.2 Employees' Remuneration Policies

The Bank's remuneration policies aim to establish a well-developed, scientific and effective incentive and restraint mechanism for realization of corporate strategy and long-term shareholder value. The policy is conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. The Bank established a position evaluation-based and operating results-oriented remuneration distribution mechanism and developed a professional serial review method for employees to broaden the career development channels, which played an incentive and restraint role.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

The Bank gave full play to the guiding role of remuneration in management and risk control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints and subject to the needs of risk management, the Bank mitigates risks through deferred payment of performance compensation of senior management with regard to the risk factors that are not reflected currently, so as to promote the stable operation and sustainable development of the Bank.

The relevant remuneration management system of the Bank should be submitted to the Board of Directors, the Executive Committee of the Board and the Nomination and Remuneration Committee for review. The Bank did not have any share option incentive scheme or employee shareholding plan during the Reporting Period.

8.3 Employees Training Programs

The Bank upholds a people-oriented management philosophy and takes “implementing innovation-driven strategies and enhancing the quality and efficiency of training on management” with focus on formulation of formulate annual training plan, and provides training programs to its employees at various levels, with high frequency. Through multiple channels and multiple forms on the basis of its business development strategies and training plans, the Bank aims to enhances the overall quality, professional capabilities and management skills of its staff in a continuous and comprehensive manner, to build up a professional team specialized in business operations and management, and to drive the rapid and healthy development of its businesses. The Bank manages its training programs based on the mechanism of “standardized principles and planning, and hierarchical management and implementation”, and establishes a three-tier training system comprising “head office, branch, sub-branch (sector)”. During the reporting period, the Bank organized 229 tier 1 training in various categories in total, the planned completion rate is 100% with aggregated number of staff trained of 38,182 and 2.8 trainings per head. 18 branches of the Bank reported 2,383 tier 2 training programs at the beginning of the year and completed 2,426 training programs with the training duration of 1,918.9 days and aggregated number of staff trained of 127,604 and 10.45 trainings per head. Our training has basically reached full staff coverage and provides strong human resources protection for the business development of the Bank.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

9 Information of Institutions under the Bank

As of December 31, 2018, there are 18 branches and 2 direct sub-branches, and 457 outlets in total, including 301 county-level branches and 156 township-level sub-branches under the Bank. The following table sets out the branches and sub-branches:

No.	Region	Name of the Branch	Business Address (China)	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou	Shengrun International Plaza, 219 Jinshui Road, Zhengzhou City, Henan Province	In charge of one business department and 33 sub-branch institutions
3	Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department and 32 sub-branch institutions
4	Xinyang, Henan	Xinyang	1/F, Approval Centre, Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department and 28 sub-branch institutions
5	Anyang, Henan	Anyang	No. 11, Jiefang Avenue, Anyang City, Henan Province	In charge of one business department and 25 sub-branch institutions
6	Hebi, Henan	Hebi	1/F, Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department and 16 sub-branch institutions
7	Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department and 19 sub-branch institutions
8	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department and 42 sub-branch institutions
9	Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department and 11 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department and 22 sub-branch institutions
11	Sanmenxia, Henan	Sanmenxia	No. 64, Middle Xiaoshan Road, Sanmenxia City, Henan Province	In charge of one business department and 26 sub-branch institutions
12	Shangqiu, Henan	Shangqiu	Northeast Corner, Shangzi Plaza, Shangqiu City, Henan Province	In charge of one business department and 47 sub-branch institutions
13	Xinxiang, Henan	Xinxiang	No.599 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department and 36 sub-branch institutions



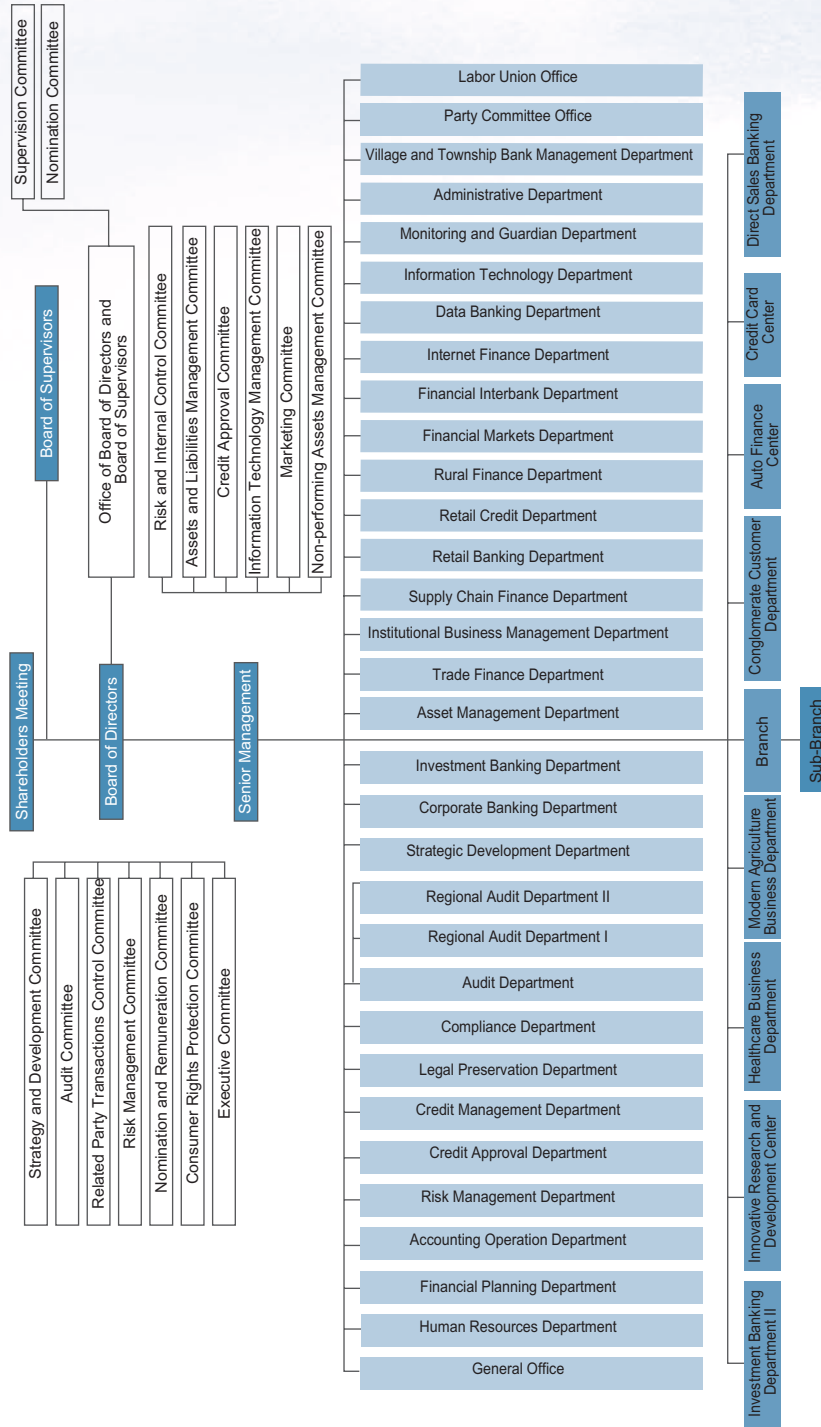
Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

No.	Region	Name of the Branch	Business Address (China)	Remarks
14	Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province(On the west to the Bureau of Finance)	In charge of one business department and 27 sub-branch institutions
15	Zhoukou, Henan	Zhoukou	MOCO New world Business Office Building, 150m east of the intersection of Qingfeng Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department and 26 sub-branch institutions
16	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department and 38 sub-branch institutions
17	Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department and 6 sub-branch institutions
18	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department and 2 sub-branch institutions
19	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department and one sub-branch institution



Chapter 8 Corporate Governance Report

1. Organizational Structure Chart of Corporate Governance



Chapter 8 Corporate Governance Report

2. Summary of Corporate Governance

The Bank pursues excellence in corporate governance and is committed to continuously enhancing the transparency of corporate governance for safeguarding shareholders' interests and enhancing the corporate values.

The Bank has established a comprehensive corporate governance structure in accordance with the requirements under the Hong Kong Listing Rules. The compositions of the Board and its special committees complied with the requirements under the Hong Kong Listing Rules. The responsibilities are clearly split among the general meeting, the Board, the Board of Supervisors and the senior management. The general meeting is the authority of the Bank, which exercises its powers pursuant to the laws. The Board shall be accountable to the shareholders' general meeting, and our Bank currently has six special committees under the Board. The special committees are operated under the leadership of the Board, and provide advice on the decision-making of the Board. The Executive committee under the Board is a standing organization of the Board. The Board of Supervisors shall be accountable to the shareholders' general meeting, with the target of safeguarding the legitimate interests of the Bank, the Shareholders, staff, creditors and other stakeholders, as well as supervising the stable and compliance operation of the Bank and the performance of the Board and the senior management. The senior management of the Bank work under the leadership of the Board, which is responsible for the implementation of the resolutions of the Board and the daily business operations of the Bank and is required to report to the Board and the Board of Supervisors on a regular basis. The president of the Bank shall be appointed by the Board and shall be accountable to the Board, which is responsible for the overall business operation and management of the Bank.

As of the end of the Reporting Period, the Bank strictly complied with the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the listing rules in relation to the disclosure of insider information. The Directors are not aware of any information which indicates that the Bank has not complied with the code provisions as stated in the Corporate Governance Code during the Reporting Period.

The Bank will continue to review and enhance corporate governance, for ensuring that our corporate governance continues to comply with the requirements under the Corporate Governance Code and to achieve a higher expectation from the Shareholders and investors.



Chapter 8 Corporate Governance Report

Board Diversity Policy

The increasing diversity at the Board level is the key factor for the Bank to achieve its sustainable development, fulfill its strategic objectives and maintain good corporate governance.

The Board diversity policy of the Bank specifies that in designing the composition the Board, board diversity shall be considered from several aspects, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background. All Board members' appointment will be based on both capability and integrity, and candidates will be considered against objective criteria, with due regard given to the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background.

Members of the Board	Age 40 to 49	Age 50 to 59	Age above 60
Mr. DOU Rongxing		1	
Mr. WANG Jiong		1	
Mr. LI Yulin		1	
Mr. WEI Jie		1	
Mr. LI Qiaocheng		1	
Mr. LI Xipeng		1	
Mr. MI Hongjun	1		
Mr. LI Hongchang			1
Ms. PANG Hong			1
Mr. JIA Tingyu			1
Mr. CHAN Ngai Sang Kenny		1	



Chapter 8 Corporate Governance Report

3. Information Regarding the Convening of the Shareholders' General Meetings

Four Shareholders' general meetings were held during the Reporting Period, including two shareholders' class meetings.

On March 16, 2018, the Bank held the first extraordinary general meeting of 2018, the first domestic shareholders class meeting of 2018 in Zhengzhou, Henan, and the first H shareholders class meeting of 2018, at which eight proposals were considered and approved, including "Proposal on the Election of Directors for the Second Session of Board of Directors of Zhongyuan Bank Co., Ltd.", "Proposal on the Election of Non-employee Supervisors for the Second Session of Board of Supervisors of Zhongyuan Bank Co., Ltd." and "Proposal on Non-Public Issuance of Offshore Preference Shares by Zhongyuan Bank Co., Ltd.".

On May 16, 2018, the Bank held the 2017 annual general meeting in Zhengzhou, Henan, at which 7 proposals were considered and approved, including "Proposal on the Working Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2017", "Proposal on the Working Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2017", "Proposal on the Final Financial Accounts of Zhongyuan Bank Co., Ltd. for 2017" and "Proposal on the Financial Budgets of Zhongyuan Bank Co., Ltd. for 2018".

The convening, notice, holding and voting procedures of the aforesaid Shareholders' general meetings were in compliance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank.



Chapter 8 Corporate Governance Report

4. The Board

4.1 Operation of the Board

The Board of the Bank is responsible for the Shareholders' general meetings, and the directors are elected by the Shareholders' general meetings with a term of three years. The directors make decisions on the Bank's development strategy, experience plan and other matters mainly by form of board meetings. The board meetings are divided into regular board meeting and interim board meeting in accordance with the time of notice for convening. The board meeting can be convened in the form of a physical meeting or in the form of written resolutions, and regular board meeting shall be convened in the form of a physical meeting. The Board shall hold at least four regular meetings annually convened by the chairman of the Board. Notices of the Board meetings shall be sent to all directors and supervisors in writing fourteen (14) days before the meeting, and the meeting documents shall be sent to all directors and supervisors five (5) days before the meeting. The Board and the senior management have established a good and communication mechanism. All proposals submitted to the Board for approval are subject to careful review and active discussion by all Directors before making a decision.

The Board has set up an office as its daily working organization which is responsible for preparing the general meeting, the Board meetings and all the meetings of special committees under the Board, and is responsible for implementing all the matters assigned by the general meeting, the Board and the special committees under the Board.

The Board and the senior management exercise their authority in accordance with the requirements under our Articles of Association, and the Board of the Bank performs regular discussion on risk management and internal control system. The Board believes that the risk management and internal control system established and implemented by the Bank is sufficient and effective.

4.2 Composition of the Board

As of the end of the Reporting Period, the Board consists of 11 Directors, including 4 executive Directors, i.e. Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; 3 non-executive Directors, i.e. Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun; and four independent non-executive Directors, i.e. Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.



Chapter 8 Corporate Governance Report

4.3 Functions and Powers of the Board

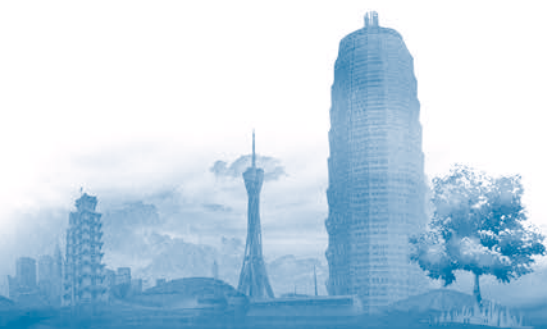
The Board shall be accountable to the Shareholders' general meeting and shall exercise the following functions and powers:

1. convening Shareholders' general meetings and reporting its performance at the general meetings;
2. implementing resolutions of the Shareholders' general meetings;
3. deciding on development strategies, operational plans and investment programs of the Bank;
4. working out annual financial budget plans and final account plans of the Bank;
5. formulating profit distribution plans and plans for recovery of losses of the Bank;
6. formulating proposals for increases in or reductions of registered share capital, issuance of bonds or other securities and listing plans of the Bank;
7. formulating proposals for repurchase of the Bank's shares, merger, separation, change of the nature of the Bank and dissolution or liquidation;
8. within the scope of authority of the Shareholders' general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major equity investment and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
9. within the scope of authority of the Shareholders' general meeting or within the powers prescribed by our Articles of Association, considering matters in relation to major asset acquisition and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
10. deciding on the establishment of the internal management structure of the Bank;



Chapter 8 Corporate Governance Report

11. appointing or removing senior management, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management, including vice presidents, assistants to the president and finance officers of the Bank, based on the recommendations of the president; and deciding on matters relating to their emoluments and awards or punishment;
12. establishing the basic management system of the Bank;
13. formulating proposals for any amendment to our Articles of Association;
14. managing the disclosure of information of the Bank;
15. proposing the appointment or replacement of accounting firms to the Shareholders' general meetings for the auditing of the Bank;
16. reviewing working reports of the president of the Bank and examining the performance of the president;
17. formulating capital replenishment plans;
18. formulating medium and long term incentive plans, such as equity incentive plans and employee stock ownership plans;
19. The Board of Directors shall establish a supervisory system to ensure that the management will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels to promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;



Chapter 8 Corporate Governance Report

20. The Board of Directors shall establish a reporting system to require the senior management to report operational issues of the Bank to the Board of Directors regularly. The following items shall be regulated under this system:
- (1) The contents and the basic standard of the information reported to the Board of Directors;
 - (2) The frequency of the report;
 - (3) The form of the report;
 - (4) The responsible bodies of the report and the responsibilities for delay or incompleteness of the report;
 - (5) The confidentiality of the report.
21. Exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules or the Articles of Associations and authorized by the shareholders' general meetings

The Board is also responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employee Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this report.

4.4 Director's Responsibility for the Preparation of the Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of our Bank for the year ended December 31, 2018, which give a true and fair view of the state of affairs and results of the Bank. In doing so, the Directors opted for suitable accounting policies and applied them consistently and used accounting estimates as appropriate in the circumstances. With the assistance of the accounting and finance staffs, the Directors ensured that the financial statements of the Bank are prepared in accordance with statutory requirements and appropriate financial reporting standards. The statement of the external auditors with regard to their reporting responsibilities on the Group's financial statements is set out on page 198 to page 210 in the Independent Auditors' Report.



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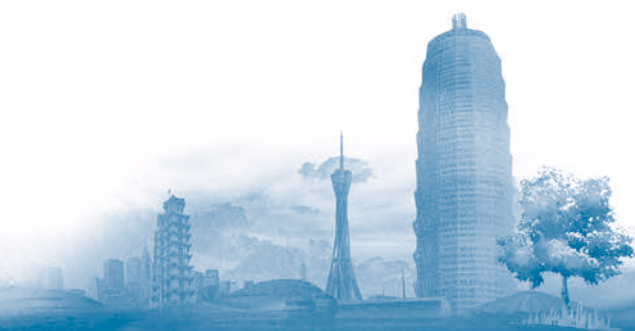
4.5 Meetings of the Board of Directors and the Directors' Attendance

During the Reporting Period, all Directors of the first session of the Board have attended the first extraordinary general meeting of 2018, the first domestic shareholders class meeting of 2018, and the first H shareholders class meeting of 2018 of the Bank. LI Yulin, a Director, did not attend the 2017 annual general meeting due to other business, and all other Directors of the second session of the Board have attended the 2017 annual general meeting. During the Reporting Period, the chairman of the Bank held one meeting with independent non-executive directors.

During the Reporting Period, our Bank held 10 board meetings, which considered and approved 65 resolutions.

The details of the board meetings are set out below:

Session of meeting	Date of meeting	Form of meeting
The 23rd meeting of the first session of the Board	January 20, 2018	On-site
The 1st meeting of the second session of the Board	March 16, 2018	On-site
The 2nd meeting of the second session of the Board	March 27, 2018	On-site
The 3rd meeting of the second session of the Board	June 28, 2018	On-site
The 4th meeting of the second session of the Board	August 24, 2018	On-site
The 5th meeting of the second session of the Board	September 25, 2018	Circulation of written proposal
The 6th meeting of the second session of the Board	November 23, 2018	Circulation of written proposal
The 7th meeting of the second session of the Board	December 12, 2018	On-site
The 8th meeting of the second session of the Board	December 21, 2018	On-site
The 9th meeting of the second session of the Board	December 28, 2018	Circulation of written proposal



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The attendance of each Director at the general meeting, board meeting and meetings of special committees under the Board during the Reporting Period is set out below:

Director		First	First general meeting of Domestic Shares of 2018	Annual general meeting of H Shares of 2018	Annual general meeting of 2017	Board	Strategy and Development Committee	Risk Management Committee	Audit Committee	Nomination	Related Party	Consumer
		extraordinary general meeting of 2018								meeting of	and Remuneration	Transactions Control
Executive Directors	DOU Rongxing	✓	✓	✓	✓	10/10	1/1	-	-	3/3	-	-
	HU Xiangyun ¹	✓	✓	✓	-	1/1	-	-	-	-	-	-
	WANG Jiong	✓	✓	✓	✓	10/10	1/1	1/1	-	3/3	8/8	2/2
	HAO Jingtao ¹	✓	✓	✓	✓	1/1	-	-	-	-	-	-
	LI Yulin ²	✓	✓	✓	-	7/7	-	0/1	-	-	-	1/1
Non-executive Directors	WEI Jie ³	✓	✓	✓	✓	7/7	-	0/1	-	-	7/7	-
	LI Qiaocheng	✓	✓	✓	✓	10/10	1/1	-	-	-	-	-
	LI Xipeng	✓	✓	✓	✓	10/10	1/1	-	-	-	-	-
Independent Non-executive Directors	MI Hongjun ⁴	✓	✓	✓	✓	7/7	-	-	-	-	-	-
	LI Hongchang	✓	✓	✓	✓	9/10	-	1/1	3/3	3/3	8/8	2/2
	PANG Hong	✓	✓	✓	✓	9/10	-	1/1	3/3	3/3	-	-
	JIA Tingyu	✓	✓	✓	✓	10/10	1/1	1/1	3/3	3/3	8/8	-
	CHAN Ngai Sang Kenny	✓	✓	✓	✓	10/10	-	-	3/3	-	-	2/2

Note:

1. On March 16, 2018, Ms. HU Xiangyun ceased to act as the Director and the vice chairman of the Board due to her retirement; and Mr. HAO Jingtao resigned as the Director of the Bank on January 20, 2018 and was elected as an employee representative Supervisor by the meeting of employee representatives of the Bank on March 6, 2018 and was elected as the Chairman of the second session of the Board of Supervisors of the Bank by the seventh meeting of the second session of the Board of Supervisors on March 28, 2019.
2. The qualification of Mr. LI Yulin as director has been approved by relevant banking regulatory authorities in the PRC on May 9, 2018;
3. The qualification of Mr. WEI Jie as director has been approved by relevant banking regulatory authorities in the PRC on May 9, 2018;
4. The qualification of Mr. MI Hongjun as director has been approved by relevant banking regulatory authorities in the PRC on May 9, 2018.

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4.6 Independent Non-Executive Director

The Board of the Bank currently has 4 independent non-executive Directors with a term of 3 years, which complies with the relevant requirements under the Hong Kong Listing Rules.

Independent non-executive Directors of the Bank undertake the obligation to observe the principle of good faith in accordance with the relevant applicable laws and the Articles of Association, to safeguard the interests of the Bank as a whole, and particularly ensure that the legitimate rights and interests of depositors and minority shareholders of the Bank are not prejudiced. Independent non-executive Director performs the duties and responsibilities independently, without any interference by controlling shareholders of the Bank, or other entities or individuals who have a material interest in the Bank. The independent non-executive Directors of the Bank also attended the annual general meeting of the Bank to listen to shareholders' opinions. In addition, they have also committed contribution positively in the development of the Bank's strategy and policies by providing independent, constructive and informed advises.

The Bank has received from each of the independent non-executive Directors an annual confirmation letter of independence pursuant to the requirements under the Hong Kong Listing Rules, which confirmed their independence in written, therefore, the Bank confirms that all the independent non-executive Directors have complied with the requirements under the Listing Rules in respect of their independence.

The independent non-executive Directors of the Bank have not raised any objections to the resolutions passed at the Board meetings or other meetings during the Reporting Period.



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4.7 Appointment, Re-election and Removal of Directors

The Bank's appointment, re-election and removal of Directors are subject to the requirements of the Hong Kong Listing Rules and the Bank's Articles of Association. The Nomination and Remuneration Committee of the Board of the Bank conducts a preliminary verification of the qualifications and conditions of candidates for the Board, and proposes the qualified candidates to the Board of Directors for consideration. After the Board considered and approved, the candidates for the Board will be presented to the general meeting by way of written proposal. The Bank's general meeting of shareholders may, through ordinary resolutions, appoint relevant persons who meet the qualifications as Directors. For independent Director candidates, the Nomination and Remuneration committee of the Board will conduct qualification review before the appointment, focusing on independence, expertise, experience and ability.

The term of office of the Directors of the Bank is three years and Directors can be re-elected and re-appointed upon expiration. The renewal term of independent non-executive directors shall not exceed six years.

Subject to relevant laws and administrative regulations, the shareholders' meeting may, in accordance with Articles 107 and 129 of the Bank's Articles of Association, remove any Directors whose term of office has not expired by an ordinary resolution before the expiration of the term of the Directors.



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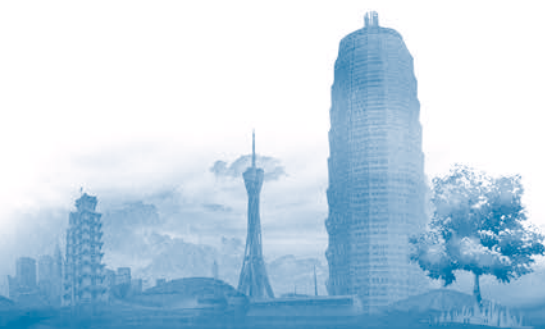
5. Committees Under the Board

As of the end of the Reporting Period, Our Bank currently has 6 special committees under the Board, which are the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and Consumer Rights Protection Committee, and one standing committee, which is the Executive Committee. Each special committee shall be accountable to the Board, which provides professional opinions to the Board or makes decisions for the professional matters as per the authorization of the Board.

5.1 Strategy and Development Committee

As of the end of the Reporting Period, the Strategy and Development Committee consists of 7 Directors, being Mr. DOU Rongxing, Mr. WANG Jiong, Mr. WEI Jie, Mr. LI Qiaocheng, Mr. LI Xipeng, Mr. MI Hongjun and Mr. JIA Tingyu. During the Reporting Period, Mr. HAO Jingtao and Ms. HU Xiangyun ceased to serve as members of the committee on January 20, 2018 and March 16, 2018, respectively. Mr. LI Qiaocheng and Mr. JIA Tingyu served as the members of the committee on March 16, 2018. Mr. WEI Jie and Mr. MI Hongjun both served as members of the committee on May 9, 2018. Mr. DOU Rongxing is the Chairman. The primary duties of the Strategy and Development Committee include the following:

1. studying and providing advice on our mid-term and long-term development strategies;
2. supervising, inspecting and evaluating the implementation of our development strategies;
3. providing advice on the adjustment of our development strategies according to variations of operational environment;
4. supervising and inspecting the implementation of our annual operational plans and investment plans;
5. studying and providing advice on the development of information technology and other specialized development strategies of our Bank;
6. studying and formulating strategies and policies of the social responsibilities of our Bank;
7. studying and implementing other significant matters relating to the strategic development of our Bank.



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During the Reporting Period, the Strategy and Development Committee of the second session of the Board has convened one meeting, Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. JIA Tingyu have participated on-site and considered the “Resolution on the 2017 Social Responsibility Report of Zhongyuan Bank Co., Ltd.”. Mr. WEI Jie and Mr. MI Hongjun did not attend the above meeting because their qualifications of Directors had not obtained approval from relevant banking regulatory authorities.

5.2 Audit Committee

As of the end of the Reporting Period, the Audit Committee consists of 4 independent non-executive Directors, being Mr. CHAN Ngai Sang Kenny, Ms. PANG Hong, Mr. LI Hongchang and Mr. JIA Tingyu. Mr. CHAN Ngai Sang Kenny is the Chairman. The primary duties of the Audit Committee include the following:

1. conducting inspections on our compliance, accounting policies, financial reporting procedures as well as our financial wellbeing;
2. publishing our annual audit work;
3. advising on the engagement or change of external auditors;
4. judging the truthfulness, accuracy and completeness of the financial reports during the audit process and submitting them to the Board of Directors for review;
5. conducting inspections on our internal control system;
6. performing other responsibilities in accordance with applicable laws and regulations;
7. performing other responsibilities as authorized by our Board of Directors.



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The Audit Committee continued to pay attention to the Bank's risk management and internal control through listening to reports and internal and external audit discussions, and then actively put forward professional opinions and suggestions to promote the continuous improvement in the Bank's risk control system. During the Reporting Period, the Audit Committee has convened three meetings. All members have attended the three meetings and considered 14 resolutions, including "Resolution on the Final Financial Accounts for 2017", and met with external auditor for communication and interaction in the absence of the executive Directors and the senior management of the Bank. On March 26, 2019, the 4th meeting of the Audit Committee of the second session of the Board has audited the audit financial statement for the year ended December 31, 2018. This statement was prepared pursuant to the international accounting standards and policies.

5.3 Related Party Transactions Control Committee

As of the end of the Reporting Period, the Related Party Transactions Control Committee consists of 5 Directors, being Mr. LI Hongchang, Mr. WANG Jiong, Mr. WEI Jie, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny. During the Reporting Period, Mr. HAO Jingtao and Ms. HU Xiangyun ceased to serve as members of the committee on January 20, 2018 and March 16, 2018, respectively. Ms. PANG Hong ceased to serve as a member of the committee on March 16, 2018. Mr. WANG Jiong and Mr. CHAN Ngai Sang Kenny served as members of the committee on March 16, 2018. Mr. WEI Jie served as a member of the committee on May 9, 2018. Mr. LI Hongchang is the Chairman. The primary duties of the Related Party Transactions Control Committee include the following:

1. managing our related party transactions and formulating internal policies in accordance with relevant laws and regulations;
2. identifying our related parties and reporting to the Board and the Board of Supervisors according to relevant laws and regulations;
3. defining and reviewing our related party transactions in accordance with relevant laws and regulations;
4. submitting material related party transactions to the Board for approval, and submitting related party transactions exceeding the authorization of the Board to the Shareholders' general meeting for approval;
5. reviewing disclosure of material related party transactions;
6. performing other responsibilities as authorized by the Board.



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During the Reporting Period, the Related Party Transactions Control Committee has convened seven meetings, which considered 8 resolutions, including “Resolution on the Special Report of the Related Party Transactions of Zhongyuan Bank Co., Ltd. for the Year of 2017”. Among which, Mr. WEI Jie did not attend the first meeting of the Related Party Transactions Control Committee of the second session of the Board because his qualification of Director had not obtained approval from relevant banking regulatory authorities, and the other Directors all attended in person to consider the above 8 resolutions.

5.4 Risk Management Committee

As of the end of the Reporting Period, the Risk Management Committee consists of 6 Directors, including Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, and Mr. JIA Tingyu, Ms. PANG Hong and Mr. LI Hongchang as independent non-executive Directors. During the Reporting Period, Mr. HAO Jingtao ceased to serve as a member of the committee from January 20, 2018. Both Mr. WEI Jie and Mr. LI Yulin served as members of the committee on May 9, 2018. Mr. WANG Jiong ceased to serve as the chairman of the committee from March 16, 2018. Mr. JIA Tingyu served as the Chairman on March 16, 2018. The primary duties of the Risk Management Committee include the following:

1. supervising our control over credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, and legal and compliance risk;
2. studying the macro-economic policies, analyzing market changes and putting forward management proposals on industry risks;
3. conducting periodic evaluation upon our risk management policies, management status as well as risk tolerance capabilities and advising on our risk management and internal control improvement;
4. studying risk prevention solutions for significant risk events incurred in our operation and management; and
5. performing other responsibilities as authorized by the Board of Directors.



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During the Reporting Period, the Risk Management Committee has convened one meeting, which considered 6 resolutions, including “Resolution on the Comprehensive Risk Analysis Report of Zhongyuan Bank Co., Ltd. for 2017”. Among which, Mr. LI Yulin and Mr. WEI Jie did not attend the meeting because their qualifications of Directors had not obtained approval from relevant banking regulatory authorities, and the other Directors all attended in person to consider the above 6 resolutions. The Risk Management Committee reviews the Bank’s risk management system by regularly listening to senior management’s report on risk management of the Bank, including credit risk, market risk, operational risk, compliance risk, liquidity risk, information technology risk and reputation risk. According to the changes in economic development trends and macro-control policies, and through combination with the actual situation of the Bank’s business development, the Bank put forward opinions and advice on improving the risk management of the Bank, and urged senior management to improve the risk management workflow.

5.5 Nomination and Remuneration Committee

As of the end of the Reporting Period, the Nomination and Remuneration Committee consists of 5 Directors, including Mr. DOU Rongxing and Mr. WANG Jiong as executive Directors, Ms. PANG Hong, Mr. LI Hongchang and Mr. JIA Tingyu as independent non-executive Directors. Ms. PANG Hong is the Chairman. The primary duties of the Nomination and Remuneration Committee include the following:

Nomination Duties:

1. reviewing the structure, size, composition and diversity (including skills, knowledge and experience) of the Board annually, and making recommendations on any proposed changes to the Board of Directors to complement the Bank’s corporate strategy;
2. formulating the criteria and procedures for selecting Directors and senior management members, and making recommendations to the Board;
3. extensively identifying qualified candidates for Directors and senior management members, and making recommendations to the Board;
4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection; and
5. assessing the independence of independent non-executive Directors.



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6. developing and, where appropriate, reviewing Board diversity policies.
7. performing other responsibilities as authorized by our Board of Directors.

According to Article 131 of the Articles of Associations of the Bank, the general procedures for nominating and electing a director of the Bank are as follows:

- (I) The Nomination and Remuneration Committee of the Board of Directors can nominate candidates for directors according to the number of directors to be elected to the extent of the number specified by the Articles of Associations; Shareholders individually or jointly holding above 3% of the Bank's total shares in issue with voting rights can also nominate candidates for directors to the Board of Directors;
- (II) The Nomination and Remuneration Committee of the Board of Directors shall conduct preliminary verification on the qualification and conditions of appointment of the candidates for directors, and propose the qualified candidates to the Board of Directors for consideration. The Board of Directors shall propose the candidates for directors to the shareholders' general meeting by way of written proposal after they are considered and approved by the Board of Directors;
- (III) The candidates for directors shall, before the convening of the shareholders' general meeting, make written undertakings, expressing their consent to their nomination, confirming the truthfulness and completeness of the publicly disclosed information and undertaking that they will duly perform their duties upon being elected;
- (IV) The Board of Directors shall, before the convening of the shareholders' general meeting, disclose the detailed information on the candidates for directors to the shareholders of the Bank in accordance with law and regulations and the Articles of Associations, so as to ensure that the shareholders will have sufficient knowledge on the candidates when casting their votes;
- (V) Each candidate for director shall be voted for on a separate basis at the shareholders' general meeting;



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- (VI) When an additional director is temporarily nominated, the Nomination and Remuneration Committee of the Board of Directors or the shareholders satisfying the conditions for making such nomination shall propose a candidate to the Board of Directors for consideration. The shareholders' general meeting elects or replaces the Director.

In accordance with the nomination policy adopted by the Bank, the selection and appointment of Board members will be based on a range of diversification criteria, taking into account the diversity of Board members from a variety of measurable aspects, including but not limited to gender, age, regional and industry experience, skills, knowledge and educational background to ensure Board members have the skills, experience and diverse perspectives needed to meet the banking business and maintain a balance of board views, qualifications and skills.

Remuneration and Appraisal Duties:

1. contemplating the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisal reports to the Board;
2. reviewing the system and policy of our remuneration management, contemplating and reviewing the policy and plan for all Directors' and senior management's remuneration and contemplating the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board which will finalize the remuneration packages;
3. reviewing and approving compensations payable to Directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
4. reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate.

During the Reporting Period, the Nomination and Remuneration Committee has convened four meetings. All members have attended the four meetings and considered 8 resolutions, including "Resolution on the Report of the Board of Directors on the Performance Evaluation of Directors and Senior Executives in 2017". During the Reporting Period, the Nomination and Remuneration Committee has reviewed the occupations, education backgrounds, titles and experiences of the relevant director candidates when nominated and nominated them to act as the directors of the Bank in accordance with the Board diversity policy and the procedures for nominating directors of the Bank, as well as recommended to shareholders for election at the general meeting.

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5.6 The Consumer Rights Protection Committee

The Bank set up a consumer rights protection committee on March 16, 2018. As of the end of the Reporting Period, the Consumer Rights Protection Committee consists of 4 Directors, being Mr. WANG Jiong, Mr. LI Yulin, Mr. LI Hongchang and Mr. CHAN Ngai Sang Kenny. Mr. LI Yulin served as a member of the committee on May 9, 2018. Mr. WANG Jiong is the Chairman. The primary duties of the Consumer Rights Protection Committee include the following:

1. to formulate the Bank's strategies, policies and objectives of consumer protection, to incorporate consumer protection into corporate governance and business development strategies; and to guide the senior management to reinforce in overall planning the construction of a corporate culture enabling consumer protection;
2. to supervise the management to effectively implement relevant work of consumer protection, to receive special reporting from the senior management on the Bank's consumer protection work on a regular basis, to deliberate and adopt relevant special reports;
3. to supervise and evaluate the Bank's consumer protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties;
4. in accordance with the Bank's overall strategy, to deliberate proposals on consumer protection for the consideration of the Board of Directors, and make recommendations to the Board of Directors;
5. to provide periodic reports to the Board;
6. other matters as required by laws and regulations, Articles of Associations, and the Board of Directors.

During the Reporting Period, the Consumer Rights Protection Committee has convened two meetings, which considered 2 resolutions, including "Resolution on Administrative Measures for Consumer Rights Protection of Zhongyuan Bank Co., Ltd.". Among which, Mr. LI Yulin did not attend the above two meetings because his qualification of Director had not obtained approval from relevant banking regulatory authorities, and the other Directors all attended the two meetings in person and considered the above 2 resolutions.



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5.7 Executive Committee

As of the end of the Reporting Period, the Executive Committee consists of 4 Directors, being Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie, and three senior management members (excluding those who are also Directors), being Mr. LIU Kai, Mr. ZHAO Weihua and Mr. ZHOU Litao. During the Reporting Period, Mr. HAO Jingtao and Ms. HU Xiangyun ceased to serve as members of the committee on January 20, 2018 and March 16, 2018, respectively. Mr. WEI Jie and Mr. LI Yulin served as members of the committee on May 9, 2018. Mr. DOU Rongxing is the Chairman, and Mr. WANG Jiong is the Vice Chairman. The primary duties of the Executive Committee include the following:

1. thoroughly implementing the Board's decisions on our development strategies, business plans, investment proposals and etc.;
2. considering any single significant equity investment or disposal of less than 5% (inclusive) of our latest audited net asset value and handling relevant matters;
3. reviewing annual authorization plans relating to business, personnel, and financial affairs, and reviewing our operational and management systems and code of business conduct;
4. determining establishment of internal management organizations under the Board's authorization, formulating general layout plans, and determining establishment of our branches according to the Board's decision;
5. reviewing appointment and dismissal proposals of heads of internal management institutions and branches;
6. preparing and formulating our medium and long term incentive schemes and implementation proposals, remuneration systems and policies;
7. recommending senior executives of the Bank;
8. other responsibilities as stipulated by the Articles of Associations or delegated by the Board.



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6. Board of Supervisors

6.1 Composition of Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors of the Bank consists of 9 Supervisors, which shall include three employee representative Supervisors, namely Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian; three external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin; and three shareholder representative Supervisors, namely Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin.

The 5th meeting of the first employee representative meeting of the Bank elected Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian as employee representative Supervisors of the second session of the Board of Supervisors of the Bank on March 6, 2018 and elected Mr. HAO Jingtao and Ms. JIA Jihong as the Chairman and Vice Chairman of the second session of the Board of Supervisors of the Bank on March 28, 2019. The Bank's first extraordinary general meeting of 2018 re-elected Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin as Shareholder representative Supervisors; re-elected Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin as external Supervisors on March 16, 2018. For details of the changes of relevant Supervisors, please refer to the Bank's announcements dated January 20, 2018, March 6, 2018 and March 16, 2018 and the circular date February 22, 2018.

On January 17, 2019, Mr. ZHAO Ming, a shareholder representative Supervisor, resigned as a shareholder representative Supervisor and member of the Supervision Committee of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank and the proposed election was submitted to the general meeting of the Bank for approval. For details, please refer to the announcement published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn) on January 17, 2019.

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



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6.2 Powers of Board of Supervisors

1. to examine our financial activities;
2. to supervise the behaviors of the Directors and senior management personnel in their performance of their duties in our Bank and to propose the removal of directors and senior management personnel who have violated laws, administrative regulations, our Articles of Association or resolutions of the Shareholders' general meetings;
3. when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;
4. to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the Shareholders' general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms etc. if necessary to assist its duties at the expenses of the Bank;
5. to negotiate with a Director or bring actions against a Director on behalf of our Bank;
6. to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings under the PRC Company Law;
7. to propose the convening of provisional board meetings and to submit proposals to the Shareholders' general meetings;
8. to exercise any other authorities as authorized by our Articles of Association or the Shareholders' general meetings.



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The Board of Supervisors of the Bank performs its duties mainly through, including, convening regular Supervisors' meetings, attending general meetings and the Board meetings, to be in-attendance at the relevant meetings of the senior management, reviewing various documents and materials from the senior management, receiving the work report and project report of the senior management, evaluating the annual performance of Directors and the senior management, conducting study and research on branch institutions, carrying out a variety of special investigations, 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 supervised the performance of the Board of Directors, the Directors, the senior management and their members of the Bank in 2018, and gave feedback to the Board of Directors and the senior management.

6.3 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Bank has held six meetings of the Board of Supervisors, which considered and approved 33 resolutions.

The following are the details of meetings of the Board of Supervisors:

Session of meeting	Date of meeting	Form of meeting
The 15th meeting of the first session of the Board of Supervisors	January 20, 2018	On-site
The first meeting of the second session of the Board of Supervisors	March 16, 2018	On-site
The second meeting of the second session of the Board of Supervisors	March 23, 2018	On-site
The third meeting of the second session of the Board of Supervisors	June 23, 2018	On-site
The fourth meeting of the second session of the Board of Supervisors	August 23, 2018	On-site
The fifth meeting of the second session of the Board of Supervisors	December 11, 2018	On-site



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The attendance of each Supervisor at the meetings of Board of Supervisors during the Reporting Period is set out below:

Members of the Board of Supervisors	Required attendance of the meeting	Attendance in person	Attendance by proxy
Mr. MA Guoliang ¹	1	1	0
Mr. HAO Jingtao ²	5	5	0
Ms. JIA Jihong	6	5	1
Mr. SI Qun ¹	1	1	0
Mr. ZHANG Yixian ²	5	5	0
Mr. ZHAO Ming ³	6	6	0
Ms. LI Weizhen	6	6	0
Mr. LI Wanbin	6	4	2
Mr. LI Xiaojian	6	6	0
Mr. HAN Wanghong	6	6	0
Mr. SUN Xuemin	6	6	0

Note:

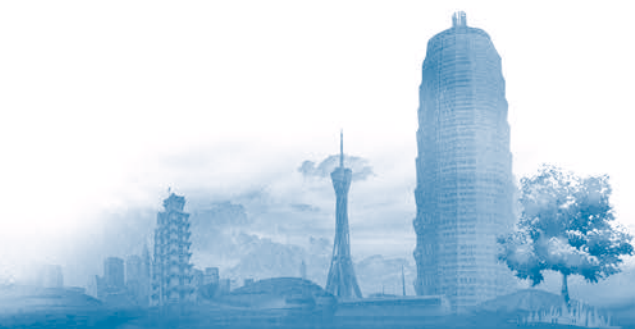
1. Mr. MA Guoliang and Mr. SI Qun resigned as employee Supervisors of the Bank on March 16, 2018.
2. Mr. HAO Jingtao and Mr. ZHANG Yixian were elected as employee Supervisors of the second session of the Board of Supervisors of the Bank on March 6, 2018;
3. Mr. ZHAO Ming resigned as a shareholder representative Supervisor of the Bank on January 17, 2019.

Attendance at general meetings during the Reporting Period

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

Attendance at the meetings of the Board during the Reporting Period

During the Reporting Period, the Supervisors attended physical meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors.



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7. Committees under the Board of Supervisors

7.1 Nomination Committee

As of the end of the Reporting Period, there were a total of 6 members in the Nomination Committee of the Board of Supervisors, including Mr. HAN Wanghong, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. LI Xiaojian and Mr. SUN Xuemin. The chairman was acted by Mr. HAN Wanghong, an external Supervisor. The major duties and responsibilities of the Nomination Committee were:

1. making recommendations to the Supervisors on the scale and composition of the Board of Supervisors;
2. studying into the standard and procedures of selection of Supervisors and making recommendations to the Supervisors;
3. identifying extensively qualified candidates for supervisors;
4. conducting preliminary review on the qualification and conditions of candidates proposed by Directors and making recommendations;
5. studying and formulating the remuneration policy and plans of Supervisors, and submitting to the Shareholders' general meetings for approval upon review by the Board of Supervisors;
6. any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee convened a total of 3 meetings, at which four resolutions including the "Resolution on Change of Session of the Board of Supervisors and Nomination of Candidates for employee Supervisors of Zhongyuan Bank Co., Ltd." were considered with all the members present at the meeting of the Nomination Committee.



Chapter 8 Corporate Governance Report

7.2 Supervision Committee

As of the end of the Reporting Period, there were a total of 9 members in the Supervision Committee, namely Mr. LI Xiaojian, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. HAN Wanghong, Mr. SUN Xuemin, Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin. The chairman was acted by Mr. LI Xiaojian, an external supervisor. The major duties and responsibilities of the Supervision Committee are:

1. formulating plans for supervision of financial activities of the Bank and making relevant recommendations to the Board of Supervisors;
2. supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situation of the Bank;
3. monitoring and reviewing the operation strategy, risk management and internal control of the Bank;
4. any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened a total of 1 meeting, at which 7 resolutions in relation to the “2017 Comprehensive Risk Analysis Report of Zhongyuan Bank Co., Ltd.” were considered with all the members present at the meeting.



Chapter 8 Corporate Governance Report

8 Training and Research Of Directors And Supervisors During The Reporting Period

Training and research of Directors:

Each Director has participated in continued professional development of the bank through various means to develop and update his or her knowledge and skills. During the Reporting Period, executive Directors of the Bank Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie, attended trainings about financial technology development, risk and regulation, macro and policy orientation, strategy and development direction. In addition, the Bank organized a training named “the Latest Macro-economic Situation and Regulatory Focus Analysis & Corporate Governance Practice, development Strategies Guidelines and Share Option Incentive for Small and Medium Commercial Banks”, and independent non-executive Directors Mr. LI Hongchang and Mr. JIA Tingyu participated in the training. Independent non-executive Directors Ms. PANG Hong, Mr. CHAN Ngai Sang Kenny, non-executive Directors Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun studied related books about industry and regulation.

During the Reporting Period, the Board conducted a research on branches in which all of our Directors participated.

Training and research of Supervisors:

During the Reporting Period, the Bank organized a training named “the Latest Macro-economic Situation and Regulatory Focus Analysis & Corporate Governance Practice, development Strategies Guidelines and Share Option Incentive for Small and Medium Commercial Banks”, and our Supervisors participated in the training.

During the Reporting Period, the Board of Supervisors conducted a research in branches such as Nanyang branch in which our Supervisors participated.



Chapter 8 Corporate Governance Report

9 Senior Management

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The Bank has one president and several vice presidents and assistants to the president, who are appointed or dismissed by the Board of Directors, and are responsible for implementing the decisions of the Board of Directors and are required to report to the Board of Directors of the Bank. The senior management has the powers as delegated and authorized by our Board to manage our daily operations. The division of authority between the senior management and the Board of Directors is carried out in accordance with the corporate governance documents such as the Bank's Articles of Association.

The senior management, with the president as its representative, perform their duties in accordance with the terms of reference as stipulated in the Articles of Association of the Bank, their main duties include manage operating activities of the Bank, manage daily administration, business and finance works, and report regularly to the Board with respect to the operating matters of the Bank.

9.1 Chairman and President

During the Reporting Period, the roles and duties of the Chairman and the President of the Bank were taken up by different individuals and there was a clear division of duties and responsibilities in compliance with the recommendations of the Hong Kong Listing Rules.

As at the end of the Reporting Period, Mr. DOU Rongxing acted as the Chairman and secretary of the party committee, and took charge of administrative work of the Bank. Mr. WANG Jiong acted as the President of the Bank, responsible for the general operation and management of the Bank, and administered the human resources department, strategic development department, information technology department, and data bank department.

10. Financial, Business and Family Relationship among Directors, Supervisors and Senior Management

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

11. Company Secretary under the Listing Rules

The Bank appointed Mr. Zhang Ke and Ms. Leung Wing Han Sharon, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, as the joint company secretaries. The major associate of Ms. Leung in the Bank is Mr. Zhang Ke, the other joint company secretary. Both Ms. Leung Wing Han Sharon and Mr. Zhang Ke have been in compliance with Rule 3.29 of the Listing Rules that they received at least 15 hours of relevant professional training for the year ended December 31, 2018.

Chapter 8 Corporate Governance Report

12. Communication with Shareholders

12.1 Investors Relationship

The Bank attaches importance to communication with Shareholders, for which it formulated Measures on Management of Investors Relationship of Zhongyuan Bank Co., Ltd., and seeks to improve mutual understanding and enhance communication with Shareholders through various channels including general meeting, roadshows, press conference, official website, e-mail and telephone.

For enquiries to the Board, investors may contact: The Office of Board of Directors and Supervisors of Zhongyuan Bank Co., Ltd.

Address: Room 2625, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, PRC

Telephone no: +86-371-85517898

Fax no.: +86-371-85517892

e-mail: Dongjianban@zybank.com.cn

12.2 Information Disclosure

The Board of Directors and senior management place great importance to information disclosure. They rely on good corporate governance and internal controls to ensure investors obtain information in a timely, accurate and fair manner.

In accordance with the requirements of the Listing Rules, Measures for the Information Disclosure of Commercial Banks and Measures for the Information Disclosure of Zhongyuan Bank Co., Ltd., the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full version of the relevant reports is available for download on the website of the Bank. Meanwhile, the annual report and interim reports are available for review by the investors and stakeholders in The Office of Board of Directors and Supervisors and principal outlets of the Bank.



Chapter 8 Corporate Governance Report

12.3 Shareholders' Rights

Procedure for Shareholders to Convene Extraordinary General Meeting

The Bank strictly complies with the applicable laws and regulations, the Hong Kong Listing Rules, the Articles of Associations of the Bank and the corporate governance system, for practically safeguarding the rights of the Shareholders. Pursuant to the requirements under the Articles of Associations of the Bank and the rules of procedures of the general meeting: the shareholders who individually or jointly hold more than 10% of the total voting rights shares for at least 90 consecutive days may make a written request to the Board to convene an extraordinary general meeting or class meeting, and to illustrate the subject of the meetings. In respect of such proposal, the Board shall, in accordance with the laws, administrative regulations and the Articles of Association of the Bank, make a written response as to whether or not it agrees to convene the extraordinary general meeting or class meeting within 10 days of receiving the proposal. The shareholding of the above Shareholders is based on their shareholdings on the date of such request is proposed to the Board in writing. If the Board agrees to convene an extraordinary general meeting or a separate class meeting, the Board shall deliver a notice of convening a General meeting or a separate class meeting within five days from the adoption of the resolution of the Board. Any change to the original request contained in the notice shall be made with the consent of relevant shareholders. Where the Board disagrees to convene an extraordinary general meeting or a separate class meeting or fails to give any feedback within ten days after the receipt of such request, shareholders individually or jointly holding 10% or more of shares are entitled to propose to the Board of Supervisors to convene an extraordinary general meeting or a separate class meeting by submitting a request in writing. Where the Board of Supervisors agrees to convene an extraordinary general meeting or a separate class meeting, it shall, within five days after the receipt of such request, deliver a notice of convening an extraordinary general meeting or a separate class meeting. Any change to the original request in the notice shall be made with the consent of relevant shareholders. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a separate class meeting within the specified period, the Board shall be deemed not to convene or preside over such aforesaid meeting. Such shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least 90 consecutive days may at their discretion convene and preside over such aforesaid meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.



Chapter 8 Corporate Governance Report

Procedure of Proposing a Resolution at the General Meeting

Shareholders individually or in aggregate holding 3% or more of the Bank's voting shares may propose an interim proposal and submit it to the convener before ten days of the General meeting. The convener shall review such proposal, issue a supplemental notice of the General meeting and announce the proposal if it satisfies the provisions as otherwise specified in the Articles of Association of the Bank within two days after receiving the proposal. If the Hong Kong Listing Rules specifies otherwise, the procedures of submitting a proposal to the General meeting shall follow such provisions. Except as provided in the precedent paragraph, the convener shall not alter the proposals in the notice of the General meeting or add new proposals after the issuance of the notice of the General meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

Raise Enquiries to the Board of Directors

Shareholders have the right to supervise the operation of the Bank, and to make suggestions or enquiries.

Shareholders are entitled to access relevant information in accordance with the laws, administrative regulations, departmental rules, regulatory documents, relevant provisions stipulated by the securities regulatory authorities in the locality where the Bank' shares are listed and the requirements of the Articles of Association of the Bank, including audited accounting reports, personal information of the Directors, Supervisors, president and other senior management personnel, share capital of the Bank, etc. Where a shareholder requests to inspect and read the relevant information, this shareholder shall provide the Bank with written documents evidencing the class and number of shares of the Bank they hold, and the Bank shall provide such documentation as required by the Shareholders upon verification of their identities.



Chapter 8 Corporate Governance Report

13. External Auditors and Auditor's Remuneration

The Bank engaged KPMG and KPMG Huazhen LLP to act as domestic auditor and international auditor for the year of 2018, respectively, at the 2017 annual general meeting convened by the Bank on May 16, 2018, to carry out auditing in accordance with the International Accounting Standards and China Accounting Standards.

In 2018, the remuneration agreed to be paid by the Bank to KPMG Huazhen LLP and KPMG for the audit of financial statements was RMB4.13 million in aggregate (not including non-audit expense).

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

The accountants of the Bank have not changed in the past three years.

14. Amendments to the Articles of Association

On January 20, 2018, the Resolution on the Amendments to the Articles of Association of Zhongyuan bank Co., Ltd for Issuance of Preferential Shares Overseas, and the Resolution on the Amendments to the Articles of Association of Zhongyuan bank Co., Ltd. were considered and approved at the 23rd meeting of the first session of the Board of the Bank and were submitted to the 2018 first extraordinary general meeting of the Bank for consideration. The amendments were considered and approved at the general meeting on March 16, 2018. On May 9, 2018, the Bank received the approval from the CBRC Henan office for amendments to the Articles of Association of the Bank.

The amended Articles of Association of the Bank has been published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on May 14, 2018, November 21, 2018 and January 7, 2019, respectively, and are updated on the official website of the Bank (www.zybank.com.cn).



Chapter 8 Corporate Governance Report

15. Risk Management and Internal Control

15.1 Risk Management

Procedures for identification, assessment and management of material risks

Based on the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macroeconomic environment. Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, market risk, operational risk, liquidity risk, interest risk in bank accounts, compliance risk, legal risk and reputation risk, and subsequently making assessment and analysis on them with risk measurement approaches and techniques.



Chapter 8 Corporate Governance Report

Risk management duties of the Board of Directors

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks (《商業銀行全面風險管理指引》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) as well as relevant requirements of the Hong Kong Stock Exchange, the Board of the Bank has formulated the Policies of Overall Risk Management in Zhongyuan Bank (《中原銀行全面風險管理政策》), Measures for Credit Exposure Management in Zhongyuan Bank (《中原銀行授信集中度管理辦法》), Basic Requirements for Internal Control of Measures for Risk Limit Management in Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司內部控制基本規定》). It not only established and implemented risk management and internal control system, but is also responsible for timely reviewing the effectiveness of such rules and system. The Board of the Bank is of the opinion that the risk management and internal control system established and implemented by the Bank is adequate and effective. The risk management and internal control system of the Bank is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and only provides reasonable but not absolute assurance for not making material misstatement and losses. The Board shall guarantee a review of internal control and risk management system at least once a year. The Board ensures that the resources, staff qualifications and experience, training programmes and budget of the Company ' s accounting, internal audit and financial reporting functions are adequate. The Bank evaluated the overall risk situation on a quarterly basis and evaluated the quality of internal control on an annual basis. The Bank's risk management and internal control systems are scientific and effective, which provides a safeguard for the stable operation of the Bank.

15.2 Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.



Chapter 8 Corporate Governance Report

The Bank has established its own internal control governance and organisational structure, comprising the Board, the Board of Supervisors, the senior management, the internal control management departments at the bank's head office, internal audit department and other business line management departments, with reasonable division of duties and clear reporting lines. The Bank insists in and continues to optimize the defense mechanism comprising of three lines for internal control. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

Following the principle of "prudential operation with risk-based supervision", the Bank continued to streamline its processes and risks, constantly improved its internal control compliance and various management tools in relation to operational risks, and developed and launched an integrated management platform with highly integrated internal control, compliance and operational risk management to achieve effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to improve its rules and regulations system. In accordance with its operational management and business development needs, the Bank has established internal control systems relating to various businesses and management activities, including credit businesses, counter business, treasury business, financial accounting, information system and intermediary business, and has established an internal control system assessment mechanism, the Bank has been constantly modified and improved such systems in accordance with changes of external laws and regulations and regulatory requirements, ensuring compliance with external laws and regulations, regulatory requirements, and providing basis and assurance for the operation and management, business operation and effective risk prevention and control of the Bank.



Chapter 8 Corporate Governance Report

The Bank continued to promote the culture building of internal control compliance and actively organized compliance training courses and campaigns for all of its staffs, with a view to refine its long-term mechanism for compliance education and further strengthen its effectiveness of internal control by organizing case study education and compliance training courses and campaigns. The Board of the Bank is of the view that there are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern during the Reporting Period.

15.3 Internal Audit

In accordance with the requirements of the Guidelines on Internal Audit of Commercial Banks, the Bank established a sound internal audit operating mechanism. Firstly, an independent and vertical internal audit management system was established. The Board of Directors is the highest leader in terms of internal audit work, and bears ultimate responsibility for the independence and effectiveness of internal audit. The audit Committee of the Board shall perform its duties under the authorization of the Board. The head office has established the audit department, regional audit department I and regional audit department II. All branches have set up institutions to independently conduct auditing business. The head of the audit department of the head office is appointed and dismissed by the Board of Directors, and regularly reports to the Board of Directors and its audit Committee and the Board of Supervisors, and informs the senior management. Secondly, a relatively mature internal audit system and audit model were established. Based on the Articles of Association on Audit of Zhongyuan Bank Co., Ltd., a system comprising general standards, business standards and work norms has been established. The audit model featuring a combination of specific audits and regular audits, a combination of on-site audits and off-site audits, and a combination of audit projects and audit investigation projects has been formed. In accordance with the laws and regulations of the PRC, regulations and rules of the Bank, the Bank shall monitor, audit and assess the operation and management activities, risk status and effectiveness of internal control of the Bank, and track and verify the rectification of problems identified in the audit and facilitate the implementation of rectification and implementation results of the problems identified in the audit.



Chapter 8 Corporate Governance Report

During the Reporting Period, adhering to the audit philosophy of “risk-oriented”, the Bank took the initiative to adapt to the current strict regulatory environment, attach importance to the regulatory focus of “rectification of market disorder” and the work focus of the Bank’s on “quality and efficiency enhancement and sustainable development”, coordinate the audit coverage requirements, reasonably arrange audit resources and orderly conduct audit projects. We will actively innovate and improve the audit methods, step up off-site audits, and provide accurate and clear directions for on-site audits; The Bank will take a variety of means including supervision, tracking and verification, and assessment to enhance the effectiveness of audit rectification, fully leverage audit’s advantages of professionalism, wide touch and quick response, to identify potential risks in a timely manner and issue warnings to prevent major risks.

15.4 Anti-Money Laundering

During the Reporting Period, the Bank met its anti-money laundering obligations in accordance with the laws, held regular anti-money laundering leadership group meetings to improve the construction of anti-money laundering working mechanism, effectively carried out client identification, storage of client identity information and transaction records, large-sum transactions and suspicious transaction reporting work, strengthened staff training, actively organized social promotions and strictly complied with the defense lines of money laundering and terrorist financing risks. During the year, 37 anti-money laundering business trainings were conducted, 12.59 million large-sum transactions were reported to the China Anti-Money Laundering Monitoring and Analysis Center, and 3,500 suspicious transactions were reported, 19 social promotion activities were organized, safeguarding the Bank’s steady and compliant operation.



Chapter 8 Corporate Governance Report

16 Management of Inside Information

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

To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司信息披露管理辦法》) based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law of the People's Republic of China (中華人民共和國公司法), the Securities Law of the People's Republic of China (中華人民共和國證券法), Measures for Information Disclosure Management of Commercial Banks (商業銀行信息披露管理辦法), and the Listing Rules. The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd., which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc. When relevant events or circumstances arise, the Bank would quickly assess the possible impact on the stock price and consciously decide whether the events or circumstances are inside information that should be disclosed and conduct the relevant disclosure accordingly. During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.



Chapter 8 Corporate Governance Report

17. Dividend Policy

Article 255 and Article 258 of the Articles of Association of the Bank specifies the requirements for profit distribution:

The Bank may make profit distribution if it has distributable profits for each year after making up for the losses, contributing to the statutory reserve, general reserve and paying dividends to the preference shareholders provided that the capital adequacy ratio of the Bank meets regulatory requirements. The Bank may distribute dividend in the form of cash or share. The profit distribution of the Bank attaches the emphasis on the reasonable return on the investment of investors. The Bank's profit distribution policy should maintain a certain continuity and stability, and the Bank shall distribute dividends in the profitable year. The total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Bank of the last three years, when making profits distribution. Distribution of dividends in form of stock shall be approved by general meeting of shareholders and subject to approval by the banking regulatory authority of the State Council.

The payment of dividends on the preference shares of the Bank shall be made in accordance with the laws, regulations, departmental rules, relevant regulations of the securities regulatory authorities of the place where the shares of the Bank are listed and the preference shares are issued or listed and the requirements of the Articles of Association of the Bank. The dividend rate for the issued and outstanding preference shares of the Bank consists of the benchmark rate and the fixed spread. The dividend rate may be adjusted at different intervals. Preference shareholders shall rank in priority to ordinary shareholders in terms of dividends distributed in accordance with the agreed dividend rate and profit distribution terms. The Bank paid dividends in cash to the preference shareholders. After the relevant resolutions are approved at the general meeting, the Bank shall have the right to cancel dividends in whole or in part that have been proposed to be distributed on the interest payment date in the manner prescribed under the conditions.



Chapter 9 Report of the Board of Directors

1. Principal Business

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

2. Business Review and Outlook

2.1 Business Review of the Bank

The business review of the Bank during the Reporting Period was set out in “Management Discussion and Analysis – 9. Business Review” of this annual report.

2.2 Results

The results of the Bank for the year ended December 31, 2018 and the financial position of the Group as at that date are set out in the financial statements and notes section of this annual report.

3. Dividend

3.1 Dividends of preference shares

For dividends of preference shares during the Reporting Period, please refer to “Changes in Share Capital and Information on Shareholders – 7.3 Profit Distribution of Offshore Preference Shares”.

3.2 Dividends of ordinary shares

The Board of Directors has recommended the payment of a final dividend of RMB0.35 (including tax) per ten shares for the year ended December 31, 2018 in cash. The total amount paid is approximately RMB703 million. The final dividend is subject to approval by shareholders at the upcoming 2018 annual general meeting of the Bank. If approved by the 2018 annual general meeting of the Bank, the payment of the final dividend is expected to be brought forward on June 28, 2019.



Chapter 9 Report of the Board of Directors

4. Tax on Dividends

4.1 Holders of domestic Shares

Pursuant to Article 3 and Article 12 of the individual income tax Law of the PRC, the Bank shall withhold and pay individual income tax at the rate of 20% on behalf of the individual shareholders in the PRC in respect of interest, dividends and bonuses paid to the domestic individual shareholders.

4.2 Holders of H Shares

Withholding foreign non-resident enterprise income tax

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC and the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which are Overseas Non-resident Enterprises (Guoshuihan [2008] No. 897), when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold enterprise income tax at the rate of 10%. In case the relevant non-resident enterprise holders are actual beneficial-owners who meet the requirements of the tax treaty (arrangement), the Bank will follow the Notice of Tax to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

Withholding foreign non-resident individual shareholder's individual income tax

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC and the Circular of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident taxpayers under Tax Treaties (SAT Circular [2015] No. 60) (the "Tax Treaty Circular"), the Bank will withhold and pay individual income tax for holders of H Shares according to the following arrangements.



Chapter 9 Report of the Board of Directors

For individual holder of H Shares who is a resident of Hong Kong, Macau or other country/region who are resident of a country or region that has signed a tax treaty with the PRC stipulating a dividend rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such H Shares individual holders when distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of lower than 10%, the Bank will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such holders of H Shares while distributing the final dividend. In case the relevant holders of H Shares is to apply for refund of the extra withholding tax, the Bank will follow the Tax Treaty Circular to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials as required in Tax Treaty Circular to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

For individual holder of H Shares who is a resident of a country/region who has signed a tax treaty with the PRC stipulating a dividend rate higher than 10% but lower than 20%, the Bank will withhold and pay the individual income tax at the actual rate stipulated in the relevant tax treaty while distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of 20% or has no tax treaty with China or otherwise, the Bank will withhold and pay the individual income tax at the rate of 20% while distributing the final dividend.

The Bank will generally follow the above arrangements to withhold and pay individual income tax on behalf of holders of H Shares, but if relevant tax authorities require otherwise, the Bank will follow such requirements for arrangements.



Chapter 9 Report of the Board of Directors

5. Annual General Meetings

The Bank intends to convene the 2018 annual general meeting on Monday, May 20, 2019. In order to determine the shareholders who are entitled to attend and vote at the 2018 annual general meeting, the register of members of the Bank will be closed from Friday, April 19, 2019 to Monday, May 20, 2019 (both days inclusive), during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the bank on Monday, May 20, 2019 are entitled to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged for registration with the Board office of the Bank (for holders of domestic Shares) at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, PRC, or the H Share Registrar of the Bank (for holders of H Shares), Computershare Hong Kong Investor services Limited, at shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen' s Road East, Wanchai, Hong Kong, no later than 4: 30 p.m. on Thursday, April 18, 2019. The Bank will despatch the notice and circular for the 2018 annual general meeting in due course.

6. Exposure to Major Risks

Please refers to “Management Discussion and Analysis – 10. Risk Management” for the major risks the Bank had been exposed to during the Reporting Period.

7. Future Development

A review of certain aspects of future development affecting the Bank is set out in “Management Discussion and Analysis – 1. Past Economy and Financial Environment and Future Prospects” in this annual report.



Chapter 9 Report of the Board of Directors

8. Relationship between the Bank and its Major Employees, Customers and Suppliers

The Bank has been promoting a market-oriented human resources system and continually strengthen its incentive assessments, training, and other complementary mechanisms, and has adopted a distinctive training system that could serve different needs of various groups of employees, which is characterized with a multiple-level training structure. As a result, it managed to cultivate a highly qualified, aggressive and efficient workforce. The Bank also believes career planning of individual employees to be of great importance and have developed a clear career development path for different roles, which is believed could further encourage its employees to endeavor to maximize his or her value. In addition, the Bank's concept of "people-oriented, performance-oriented (以人為本,業績導向)" exemplifies its corporate culture and best practice, creating an outlook and code of conduct for all employees of the Bank to follow.

The Bank's labor union represents the interests of the employees and works closely with its management on labor-related issues. During the Reporting Period, the Bank has not experienced any material labor disputes that have affected its operation and the Bank believes that the relationship between its management and the labor union has been satisfactory.

The Bank has established long-term strategic cooperative relationships with a number of quality enterprises and medium and small enterprises focusing on technology innovation.

9. Major Depositors and Borrowers

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



Chapter 9 Report of the Board of Directors

10. Share Capital

For details of the Bank's share capital, please refer to Chapter 6 "Changes in Share Capital and Information on Shareholders".

Pre-emptive rights

During the Reporting Period, pursuant to the Articles of Association of the Bank and the relevant laws, the Bank did not stipulate any requirements for granting pre-emptive right to shareholders.

11. Substantial Shareholders

Details of the Bank's substantial Shareholders as at the end of the Reporting Period are set out in Chapter 6 "Changes in Share Capital and Information on Shareholders".

12. Use of Proceeds

For details of issuance and listing of the Shares conducted by the Bank during the Reporting Period and use of proceeds of the Bank, please refer to the section headed "Significant Events".

13. Property and Equipment

Details of the changes in property and equipment of the Bank for the year ended December 31, 2018 are set out in the Note 23 of the financial statement in this annual report.

14. Changes in the Reserves

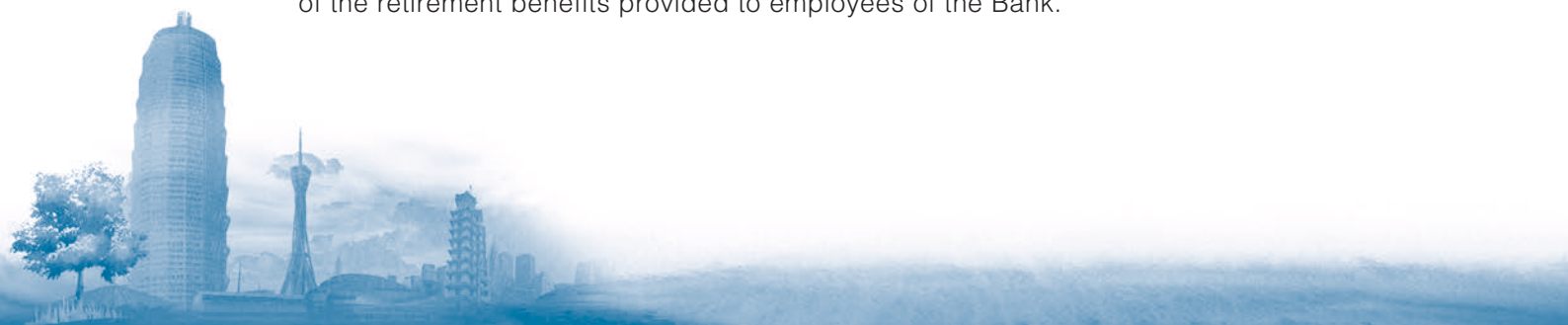
For the year ended December 31, 2018, the details of changes in the reserves of the Bank are set out in the Consolidated Statement of Changes in Equity in the financial statement of the Bank.

15. Purchase, Sale and Redemption of the Listed Securities of the Bank

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

16. Retirement Benefits

Please refer to Note 33(b) in the financial statements in this annual report for details of the retirement benefits provided to employees of the Bank.



Chapter 9 Report of the Board of Directors

17. Connected and Related Party Transactions

In the ordinary and usual course of business, the Bank provides commercial banking services and products to the public in China, including certain connected persons such as Shareholders, Directors, Supervisors, President and/or their respective associates. Pursuant to the Listing Rules, such transactions, being conducted on normal commercial terms in the ordinary and usual course of the business of the Bank, shall be exempt from reporting, annual review, disclosure and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the requirements under Chapter 14A of the Listing Rules.

The details of the related party transactions conducted by the Bank in the ordinary and usual course of business during the Reporting Period are set out in note 41 to the financial statements. The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Certain related party transactions set out in the notes to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitutes any discloseable connected transaction as defined under the Listing Rules.

18. Interests of Directors and Supervisors in Business in Competition with the Bank

As of the date of this annual report, Mr. LI Xipeng, a non – executive Director, indirectly held 9.88% of the equity interests in Fanxian Rural Commercial Bank, a rural commercial bank established in Puyang, Henan Province, the PRC, through Henan Shengrun Group Co., Ltd., and Mr. Li has been a director of Fanxian Rural Commercial Bank since January 2017. Our Directors are of the view that, there is no competition or only minimal potential competition between Fanxian Rural Commercial Bank and our Bank arising from Mr. Li's interests and position in Fanxian Rural Commercial Bank for the following reasons: 1) Fanxian Rural Commercial Bank conducts its business mainly within Puyang, Henan Province, whereas the business of our Bank operates across all 18 provincial cities in Henan Province. Furthermore, Fanxian Rural Commercial Bank, as compared to our Bank, is of a smaller scale, thus the potential competition between Fanxian Rural Commercial Bank and our Bank is minimal; 2) Mr. Li serves as a non-executive director in both our Bank and Fanxian Rural Commercial Bank, and is not involved in the daily management of either our Bank or Fanxian Rural Commercial Bank; and 3) our Bank has appointed four independent non-executive Directors, representing more than one-third of the members of the Board to balance any potential conflict of interest in order to safeguard the interests of our Bank and the Shareholders as a whole.

Save as those disclosed in this annual report, none of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.

Chapter 9 Report of the Board of Directors

19. Directors

Please see the section “Directors, Supervisors, Senior Management and Employees” for biographies of incumbent directors, as well as information on changes of Directors during the Reporting Period.

20. Directors’ and Supervisors’ Service Contracts

During the Reporting Period, the Directors and Supervisors of the Bank did not have service contracts which are not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

21. Permitted Indemnity Provisions

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year 2018.

Save as disclosed above, at no time during the Reporting Period and as of the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors (whether made by the Bank or otherwise) or the Directors or Supervisors of an associated corporation of the Bank (if made by the Bank).

22. Directors’ and Supervisors’ Material Interests in Transactions, Arrangements or Contracts

During the Reporting Period, the Bank or its subsidiary did not have any transaction, arrangement or contract of significance in which the Directors or Supervisors (or entities connected with the Directors or Supervisors) directly or indirectly were materially interested.

23. Arrangements to Purchase Shares or Debentures

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

24. Management Contracts

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



Chapter 9 Report of the Board of Directors

25. Directors', Supervisors' and Chief Executive's Interest in Shares of the Bank

As of the end of the Reporting Period, the Directors, Supervisors and the chief executive of the Bank and their associates had interests and short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (See "Directors, Supervisors and Senior Management and Employees – 6. Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures" in chapter 7). Other than as disclosed above, none of the Directors, Supervisors, or chief executive of the Bank or their associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of December 31, 2018.

26. Corporate Governance

We are committed to maintaining high standards in corporate governance. Please refer to the "Corporate Governance Report" in this annual report.

27. Public Float

Based on the information available in the public and so far as our directors concerned, as of the date of this annual report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

28. Auditors

Please refer to the section "Corporate Governance Report – 13. External Auditors and Auditors' Remuneration" for the information on the auditors of the Bank.



Chapter 9 Report of the Board of Directors

29. Equity Linked Agreement

During the Reporting Period, the Bank did not enter into any other equity-linked agreements except for the Offshore Preference Shares.

Upon approvals by the CBRC Henan Office and the CSRC, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,395 million on November 21, 2018 through an non-public offering on the overseas market. Pursuant to regulations including the Measures on Capital Management of Commercial Banks (Trial) and the Trial Administrative Measures on Preference Shares, a commercial bank shall set up the provisions of coercive conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such trigger event happens when the common equity tier 1 capital adequacy ratio has decreased to 5.125% (or below) and when the CBRC determines that the Bank will not be able to exist if shares of the Bank are not transferred or written down, or when relevant regulators determine that the Bank will not be able to exist if there is no capital injection from public sectors or supports with coordinative effects. The Bank, according to relevant regulations, has formulated provisions of trigger events under which Offshore Preference Shares shall be coercively converted into H Shares. If such trigger events happen to the Bank and all Offshore Preference Shares need to be coercively converted into H Shares in accordance with their initial conversion price, the total amount of the Offshore Preference Shares which would be converted into H Shares will not exceed 4,416,050,404 H Shares. During the Reporting Period, the Bank did not experience any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

30. Preference Shares Issuance

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to section “changes in Share capital and Shareholders – 7. offshore non-public issuance of preference Shares”.



Chapter 9 Report of the Board of Directors

31. Bond Issuance

On April 25, 2018, the Bank publicly issued the first tranche of green financial bonds in the national inter-bank bond market with a size of RMB1.50 billion. The face value of the bond is RMB100 with an issuance price of RMB100 each for a term of three years at a coupon rate of 4.70%. In accordance with the approval from the regulatory authorities, the proceeds will be fully used for lending to green industry projects specified in the Green Bond Endorsed Project Catalogue prepared by the Green Finance Committee of the China Society for Finance and Banking.

On May 23, 2018, the Bank publicly issued financial bonds in the national inter-bank bond market with a size of RMB1.50 billion. The face value of the bond is RMB100 and issuance price is RMB100 each with a term of three years with a coupon rate of 4.79%. The proceeds will be used for lending to innovation and entrepreneurship enterprises(雙創企業) and innovation and entrepreneurship service enterprises (雙創服務企業) in Henan Province.

On September 26, 2018, the Bank issued the Qualified Tier 2 Capital Instruments in the aggregate principal amount of RMB10.00 billion in the national inter-bank market. The type is fixed rate bonds for a term of 10 years with the coupon rate of 5.20% and the issuer is entitled to redeem the bonds at the end of the fifth year. The proceeds from the issuance of the Qualified Tier 2 Capital Instruments will be used to replenish the tier 2 capital of the Bank in accordance with the applicable laws and the approvals of regulatory authorities.

For the issuance terms and relevant details of the bonds, please refer to the announcements made by the Bank on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

32. Donations

During the Reporting Period, the Bank made donations in a total amount of RMB1,988,134, which mainly used for poverty alleviation and assistance in difficulty of special groups and students.



Chapter 9 Report of the Board of Directors

33. Environmental Policy

During recent years, the Bank has proactively borne social responsibility in relation to environment policy. The Bank has sought to proactively develop business in green credit in line with national economic policy and regulatory trends. The Bank formulated the “Administrative Measures of Zhongyuan Bank Co., Ltd. for the Proceeds Raised by Green Financial Bonds” (《中原銀行股份有限公司綠色金融債券募集資金管理辦法》) and successfully issued green financial bonds.

In addition, the Bank has strictly implemented the management policies after granting of credit and specialized environmental assessment reporting in relation to some projects to identify environmental and social risks. At the same time, the Bank has made efforts to push forward the development of electronic banking, and actively implemented national policies to save energy costs. For more details of our environmental policy and performance, please refer to the “Environmental, Social and Governance Report” that the Bank would issue after the annual report.

34. Consumer Rights Protection

The Bank has always attached great importance to the protection of consumer rights and has established and implemented the “customer-oriented” business development philosophy to protect the legitimate rights and interests of consumers. In 2018, the Bank initiated the construction of the consumer rights protection system, institutional system, financial knowledge promotion, training and education, inspection and rectification to enhance its consumer rights protection standard.

The Board of the Bank establishes the consumer rights protection Committee, and senior management sets up a leading group for consumer rights protection, coordinate and deploy the Bank’s consumer rights protection work; A dedicated department and professional personnel for consumer rights protection were established to take charge of the protection of consumer rights of the Bank, and to continuously improve the organization and working mechanism for consumer rights protection.

The Bank has formulated and issued the Management Measures on Consumer Rights Protection of Zhongyuan Bank Co., Ltd., the Administrative Measures on Customer Complaints Handling of Zhongyuan Bank, the Administrative Measures on Disposal of Consumer Rights Protection Emergency Incident of Zhongyuan Bank, the Administrative Measures on Education of Financial Knowledge of Zhongyuan Bank and other aspects of the consumer rights protection system, which cover the organizational structure and operation mechanism of consumer rights protection, management of products and services, customer information protection, emergency plans, reporting of major events, complaints acceptance and handling procedures, education on promotion of financial knowledge, assessment and evaluation, employee behavior management, etc., to achieve the standardized management of consumer rights protection of the Bank.



Chapter 9 Report of the Board of Directors

The Bank continued to carry out promotion activities themed “3.15 Financial Consumer Rights Day”, “Popularizing Financial Knowledge and Guarding Your Money Bag”, “A Campaign for Spreading Financial Knowledge”, “One-month Campaign for Spreading Financial Knowledge and Delivering Financial Knowledge to Thousands of Families”, namely “Enhancement of Financial Quality and Strive to be Good Financial Netizens”, anti-money laundering, prevention of telecommunication fraud, prevention of illegal fund-raising, credit investigation and information security, etc., to continuously improve consumers’ awareness of financial risk prevention.

The Bank continuously conducts training on consumer rights protection to improve the protection level and skills of consumer rights of its employees.

35. Compliance with Relevant Laws and Regulations

The Bank has adopted internal control measures to monitor ongoing compliance with relevant laws and regulations, such as the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the SFO, the Listing Rules and other rules and regulations implemented in relevant jurisdictions. During the year, as far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the financial year ended December 31, 2018. The bank has continuously endeavoured to comply with all relevant laws and regulations.

36. Pledge of Significant Assets

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

37. Distributable Reserves

The distributable reserves of the Bank as of December 31, 2018 were RMB783 million.



Chapter 9 Report of the Board of Directors

38. Important events since the end of the Reporting Period

The Bank and Henan Wansong successfully bid for 100% shares of AB Leasing through public listing-for-sale procedures conducted by Shanghai United Assets and Equity Exchange. The Bank and Henan Wansong, as an Independent Third Party, (as the Assignee) entered into the Equity Transaction Agreement in respect of the Acquisition with CDRCB and AB Life Insurance (as the Assignor) after the trading time on February 19, 2019, at a total consideration of RMB4,735 million, RMB4,261.5 million and RMB473.5 million of which will be borne by the Bank and Henan Wansong, respectively. Upon completion of the Acquisition, the Bank and Henan Wansong will hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the share capital of AB Leasing, respectively. Upon the acquisition, AB Leasing will become a non-wholly owned subsidiary of the Bank and its accounts will be consolidated into the accounts of the Bank. For equity exchange terms and related details about acquisition of AB Leasing, please refer to the announcements published by the Bank on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn) on February 19, 2019.

The completion of the transaction is subject to (including but not limited to) whether the acquisition has been approved by the relevant regulatory authorities and the Bank of China Insurance Regulatory Commission or completed filing, so the acquisition may not be proceeded.

Save as disclosed above, there were no important events affecting the Bank that have occurred since the end of the Reporting Period.



Chapter 9 Report of the Board of Directors

39. Other Matters

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

As at the date of this report, the Bank was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

As at the date of this report, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

The Bank will publish an environmental, social and governance report for the Reporting Period, as and when appropriate, in compliance with the provisions under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules.

On behalf of the Board of Directors

Dou Rongxing

Chairman

Zhengzhou, China
March 28, 2019



Chapter 10 Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Bank performed its duties with due diligence pursuant to the Company Law, the Guidelines on Corporate Governance of Commercial Bank (《商業銀行公司治理指引》), the Guidelines on the Duties of the Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》), the Articles of Association of the Bank and the requirements of the rules and regulations of the Board of Supervisors and played an active role in improving corporate governance, promoting business development and strengthening risk control, and ensured the standard operation and healthy development of the Bank.

I. Supervision on operating results of the Bank during the Reporting Period

In 2018, faced with the complicated and changing economic and financial situation and the arduous transformation and development tasks, the Bank, under scientific decision of the Board and the unremitting efforts of the management, the Bank insisted on complying with laws and regulations, conducted stable operation, proactively participated in competition, actively planned for transformation, and achieved good operating results, realizing a good opening for the growth of the second three-years development. As at the end of 2018, the Bank had a total asset of RMB620.444 billion, representing an increase of RMB98.455 billion or 18.9% compared with the beginning of the year. The balance of proprietary deposits (excluding accrued interest) amounted to RMB346.189 billion, representing an increase of RMB39.481 billion or 12.9% compared to the beginning of the year. The balance of all loans (excluding accrued interest) amounted to RMB254.37 billion, representing an increase of RMB55.467 billion or 27.9% as compared to the beginning of the year; Net operating income amounted to RMB16.784 billion, representing a year-on-year increase of 31.0%; the non-performing loan ratio of the Bank was 2.44% ; and achieved net profits of RMB2.365 billion.

Taking advantage of the outstanding operating results, Zhongyuan Bank has witnessed a remarkable enhancement in its social influence and has been awarded as “Ten Best City Commercial Banks” by Financial Times for four consecutive years, “The Financial Science and Technology Innovation Bank Award” by China Times for two consecutive years, “The Ten Best Iron-horse Banks Award” by the “Modern Bankers”, “The Best Listed Company” Award in Golden Bauhinia Award of China Securities, “Best Small and Medium Bank of the Year with Financial Tachnology Value” in the 2019 Sustainable Development Financial Summit, namely Evergreen Award granting ceremony of Caijing Magazine, etc. In the list of 1,000 world banks for 2018 published by the Banker, the Bank ranked No. 196 in terms of total tier-one capital, ranked No. 31 among PRC banks on this list.



Chapter 10 Report of the Board of Supervisors

II Major Works of the Board of Supervisors In 2018

(I) Improving duty performance efficiency by mastering work focuses

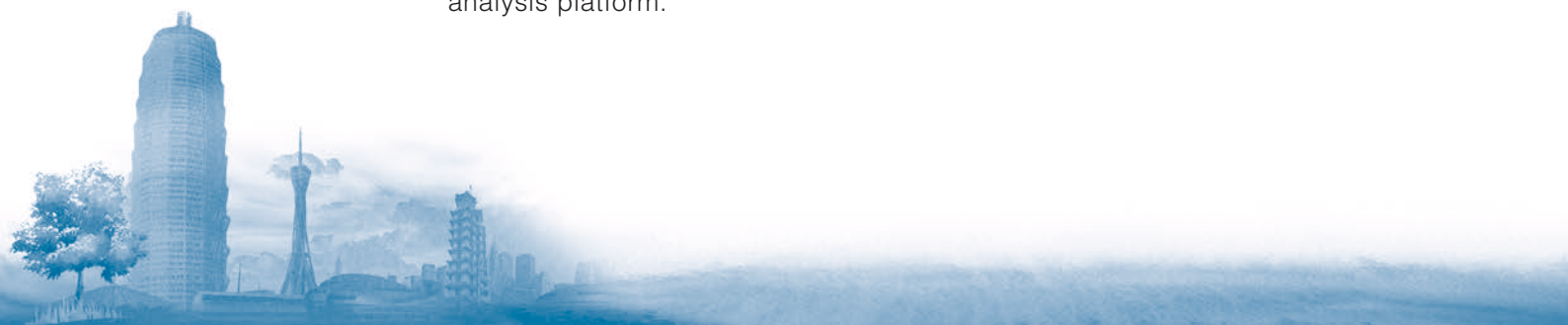
1. We convened meetings of the Board of Supervisors in accordance with laws and regulations. In 2018, the Board of Supervisors convened 6 meetings, reviewed a total of 33 resolutions, debriefed 3 reports, convened 4 meetings of special committees, considered 11 resolutions covering various important aspects of profit distribution, performance evaluation, financial budget and final accounts, system revision, supervisor election, issuance of bonds and Offshore Preference Shares, and conducted in-depth discussion on the annual business performance report, internal control evaluation report, comprehensive risk analysis report, rectification report of regulatory opinions and audit report of Shareholders' related transactions. Supervisors brought into full play their independent, professional and objective advantages, and proactively put forward professional opinions and helped facilitate the Bank's key tasks.
2. We conscientiously conduct supervision on performance of duties. Members of the Board of Supervisors effectively monitored the relevant decision-making process and the performance of duties of the Board through attending Board meetings; The Board of Supervisors carefully listened to the content of the meeting and discussed and exchanged with members of the Board when necessary and raised independent supervision opinions and recommendations in due course. Meanwhile, according to work requirements, representatives of the Supervisors also attended various important meetings such as operating work meetings and bank office meetings to keep abreast of the major issues in the operation and management of the Bank and supervised the operation managers' implementation of Board resolutions, digital transformation and risk management and control. In accordance with regulatory requirements, the Board of Supervisors carried out supervision and kept records in respect of Board of Directors and senior management's attendance of Board meetings, expression of independent opinions and the submission of reports, etc. They prepared a comprehensive and objective assessment report regarding the performance of duties after conducting performance evaluation, so as to supervise the Directors and senior management to perform due diligence and ensure the legal operation of corporate governance.



Chapter 10 Report of the Board of Supervisors

3. We continuously strengthen financial supervision. In 2018, by focusing on the preparation and disclosure of the annual and interim financial reports of the Bank as well as other significant financial activities, the Board of Supervisors conducted in-depth supervision so as to promote the continuous improvement of the financial management level of the Bank. First, we participated in three-party conversations among the Bank, Henan Office of CBIRC and KPMG on the audit of financial statements for 2017, and provided independent and professional advice on the improvement of the report. Secondly, we carefully reviewed the financial statements for 2017, the profit distribution plan for 2017 and the interim financial statements for 2018, and expressed audit opinions on the truthfulness and completeness of the financial statements and the profit distribution plan. Thirdly, we supervised the preparation and reporting procedures of the 2017 annual report and the decision-making process of the profit distribution plan.

4. We focused on enhancing risk prevention and control and internal control. First, according to changes in domestic and overseas economic conditions, we attach greater importance into preventing and resolving systemic risks, further pay close attention to credit risk, market risk, operational risk, liquidity risk and prevention and control, in order to promote the implementation of risk management responsibilities and risk management and control mechanism at the corporate governance level. For the risk-prone aspect, we urge the management personnel to strengthen the policy observation, improve the risk system, deepen the research and application of big data and strengthen the risk measurement, so as to promote the establishment of a risk control network featuring the whole process, full coverage, online and digitization. Secondly, the construction of internal control was solidly carried out. In order to achieve clear information communication channels and diversify duty performance measures and promote the institutionalization and standardization of supervision, in 2018, the Board of Supervisors focused on the research and consideration of systems such as the Basic Rules for Internal Control of Zhongyuan bank Co., Ltd., the Administrative Measures for the Evaluation of Internal Control of Zhongyuan bank Co., Ltd., which further improved the internal control system. We exchanged opinions with the management on regulating the management process of internal control system and improving the organizational structure of internal control compliance, urged the formation of the internal control compliance and operational risk management information system, and built an integrated working platform for internal control compliance and management with high and unified standards, management platform and information sharing and analysis platform.



Chapter 10 Report of the Board of Supervisors

5. We implement and monitor the regulatory policies. First, we earnestly conformed with the work requirements of the regulatory authorities in relation to classification of assets and reduction of non-performing assets, supervised the arrangement, implementation and effectiveness of asset classification and rectification and disposal of non-performing assets by way of hearing reports and on-site supervision, and conduct research and coordinate significant problems and difficulties arising from the non-performing loan reduction of business units to deal with it in a timely manner; We strengthened communication and contacts with regulatory authorities, issue a special report on classification of assets and reduction of non-performing assets to regulatory authorities on a regular basis, and work with the Board to supervise the fulfillment of the goal of confirming the quality of credit assets by the management in 2018. Second, We took the initiative to pay attention to and actively promoted the “regulation and treatment of turmoils in banking market”, “self-evaluation of consumer rights protection work”, “inspection of employee behavior and operation risk”, “special rectification for illegal fundraising” and established rectification supervision mechanism to timely remind potential risks for the problems found in external inspection, regulatory reporting, special governance and self-inspection.

(II) Enriching duty performance measures to improve ability of duty performance

1. Proactively carry out on-site investigation. We will closely focus on business development and risk prevention and control, strengthen various types of work investigations and research through visiting the community level and conducting off-site inspections, to provide reference for our operation and development. In 2018, the Supervisors emphasized on the development of online business, reduction and control of non-performing assets, financial poverty alleviation and other key work, conducted on-site investigation and research in the Nanyang Branch, Xiasi Village of Baihe town in Song County and direct sales banks, and listened reports from relevant departments of the branches and the head office. The Supervisors organized staff meetings and made selective investigation on operating units, comprehensively and truly understand the actual problems and potential risks existing in the operating units through tapping into grassroots level, put forward pertinent opinions and suggestions, and feed back to the Board and senior management on the difficulties, problems and suggestions reflected by the grassroots level, thus facilitating in-depth study and scientific decision-making process on issues.



Chapter 10 Report of the Board of Supervisors

2. Strengthen cooperation with auditing institutions. On one hand, we strengthened the communication with the external auditor, listened to the audit's opinion on the annual financial statements of the Bank by KPMG and thoroughly discussed and supervised the financial activities and financial condition of the Bank; On the other hand, we established a connection mechanism between the Board of Supervisors and internal auditors, and appointed members to participate in the audit projects, completed audit and investigation works including senior management's economic responsibility audit, loan risk classification management audit, related transaction audit, consumer rights protection audit and employee behavior management audit, and conducted joint supervision through information communication and sharing with the audit department, which advanced a better performance of the audit as a third defense line of internal control.

(III) Strengthening self-construction and enhancing duty performance guarantee

1. Satisfactory completion of election of the new session of the Board of Supervisors. According to the relevant laws and regulations and the relevant provisions of the Articles of Association of the Bank, the election of the new session of the Board of Supervisors was completed in the first half of 2018. In compliance with the requirements of diversification, specialty and streamlining to achieve high efficiency, and after consideration and approval at the fifth meeting of the first session of the employee representative meeting, the 15th meeting of the first session of the Board of Supervisors and the first extraordinary general meeting in 2018, a total of 9 supervisors were elected, in which 3 employee Supervisors, 3 shareholder Supervisors and 3 external Supervisors, who were professionals familiar with finance and economy.
2. Optimization of members of the committees. Upon consideration and approval at the first meeting of the second session of the Board of Supervisors, supervisory committee and nomination committee of the second session of the Board of Supervisors were established, consisting of 9 and 6 members respectively, and the chairmen of the committees were both acted by external Supervisors, who provided basic safeguard for the objective and independent duty performance of the Board of Supervisors.



Chapter 10 Report of the Board of Supervisors

3. Active participation in training sessions. We invited Paul Hastings and KPMG to conduct training for the Supervisors, and set a solid foundation for carrying out supervision through continuous study on various domestic and overseas regulatory systems and documents. We also organized Supervisors to attend special meetings on corporate governance, further strengthened their ability to predict the macro-economic situation and interpretation ability on the regulatory focus, reinforced their understanding of corporate governance operation to small and medium commercial banks, and effectively improved their duty performance ability and level. Meanwhile, we communicated with Huishang Bank, Bank of Gansu, Guiyang Bank, Jincheng Bank, etc. regarding the work of the board of supervisors to learn experience from other peers.

III Opinions of the Board of Supervisors on the Supervision and Evaluation of Major Issues

(I) Compliance with laws and regulations in operations

In 2018, the Bank operated in a stable and well-managed manner. Its operating activities in compliance with the requirements of the Company Law of the PRC, the Commercial Banking Law and the Articles of Association of Zhongyuan Bank Co., Ltd. The process of business decision making was legitimate and the operating results were objective and true. No Directors and senior management were found to have acts in violation of laws and regulations and detrimental to the interests of the shareholders of the Bank.

(II) Financial statement

The 2018 financial statement of the Bank truthfully and fully reflected the financial position and operating results of the Bank, and was audited by KPMG Huazhen LLP and KPMG engaged by the Board of Directors of the Bank and a standard audit report with unqualified opinions was issued.



Chapter 10 Report of the Board of Supervisors

(III) Related Party Transactions

In 2018, the Board of Supervisors supervised the management of our related party transactions and considered that the management of our related party transactions was relatively standardized, which formed a standardized procedure for the management of related party transactions. With regard to related party transactions, we adhered to the principle of fairness and did not find any act that will damage the interests of our Bank and its shareholders.

(IV) Internal Control

The Bank emphasizes its internal control system and there were no significant defects found in the internal control system or its implementation.

(V) Execution of resolutions of general meetings

During the Reporting Period, the Bank convened one general meeting, one extraordinary general meeting, one domestic shareholder class meeting and one H shareholder class meeting. The Board of Supervisors organized its members to attend the meetings, and had no objection to the reports and proposals submitted by the Board of Directors of the Bank to the general meeting for consideration. The Board of Supervisors oversaw the execution of the resolutions of the general meeting and considered that the Board of Directors of the Bank was able to conscientiously implement the relevant resolutions of the general meeting.



Chapter 10 Report of the Board of Supervisors

IV. The overall working thoughts of the Board of Supervisors in 2019

In 2019, taking into account the internal and external environment of the current banking industry operation and development, the Board of Supervisors will conscientiously adhere to the relevant provisions of the relevant laws and regulations of the PRC, rules and regulations and the Articles of Association of the Bank, take a responsible attitude to the general meetings, perform its duties of protecting interests of listed companies and shareholders and effectively perform its supervisory functions, further improve the efficiency of the Bank ' s operation and management, and ensure the steady operation of various businesses.

(I) Strictly perform duties and strictly comply with regulations and rules

1. Perform strict supervision on national macro policies. We will pay close attention to the changes in the economic and financial situation, and perform supervision works focusing on enhancing the quality and efficiency for serving the real economy, enhancing financial risk prevention and control capabilities, and undertaking the financial reform task, facilitating the Bank to focus on its principal business. On the one hand, we will strictly implement various resolutions of the general meeting, support and cooperate with the Board and the management, and offer constructive opinions to the Board and the management in accordance with the macro policies of the PRC, and become more initiative, forward-looking and independent in the supervision. On the other hand, we will participate in all types of meetings and activities of the "Three Boards and One Layer", and convene meetings of the Board of Supervisors in compliance with laws and regulations to ensure smooth progressing of the meetings and scientific decision-making. Meanwhile, we will attend the general meetings, Board meetings and various meetings of the management to earnestly perform our supervisory duties.



Chapter 10 Report of the Board of Supervisors

2. Strictly supervise according to regulatory policies in the banking industry. Compliance with laws and regulations is a prerequisite and code for the operation and management of Zhongyuan Bank. In 2019, the Board of Supervisors will further strengthen the communication with banking regulatory authorities, timely understand regulatory policies and regulatory focus, actively participate in regulatory meetings, strive for more policy guidance and regulatory support, and pertinently conduct supervision works taking into account the Bank's actual situation. Firstly, we will continuously improve our rules and systems, refine the operational procedures and enhance the level and effectiveness of our supervision and management work with reference to the domestic and overseas new regulations. Second, we will pay attention to the rectification and implementation of internal and external inspections, debrief the rectification progress of regulatory reporting, internal control review and risk audit, urge the establishment of rectification ledger to improve the overall effectiveness of rectification.
3. Closely supervise according to the strategic direction determined by the Board. The Board of Supervisors will participate in the implementation of various arrangements based on the decisions made by the Board of Directors, and strive to enhance the promotional effect of supervision on the operation and business development. 2019 is the last year of harvest for the Bank's first medium and long-term strategic development plan – "2015–2019 strategic development plan", the Board of Supervisors will conduct comprehensive assessment against the process of implementation and the results of implementation of the development strategies in due course and conduct supervision and inspection of the implementation of the strategic planning objectives. Meanwhile, we will closely track all areas of strategic execution and risk management and control of the Bank, organize and conduct special supervision, such as implementation of strategies, case prevention and control, reduction of previous non-performing loans and controlling of new ones, with an understanding of the real situation. We will collect and sort out cases and discuss countermeasures and recommendations.

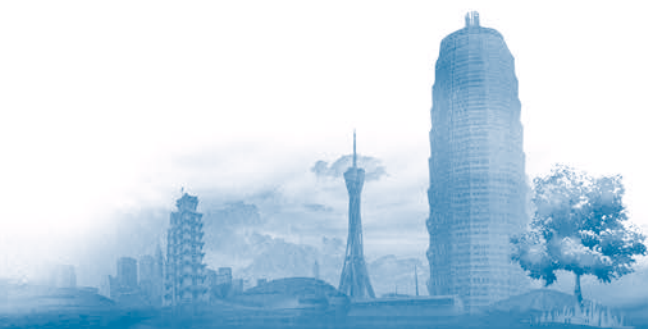


Chapter 10 Report of the Board of Supervisors

4. Strictly supervise focusing on the work targets of the management. Centering on the work targets and work measures formulated by the management, we will continue to implement the research and investigation plans covering 18 branches of the Bank, mainly focusing on the implementation of strategies, the establishment of management mechanisms, and the prevention and control of risks of the branches, ensuring the same criteria and integrity of the Bank. Focusing on the key areas of operation and risk-prone aspects, external supervisors and relevant departments are engaged to conduct special inspections, and constantly enhance the effectiveness of internal control compliance management through measures such as enhanced supervision and compliance rectification.

(II) Emphasis on overall effectiveness and implementation of scientific supervision

1. Further diversify duty performance measures and build a “comprehensive supervision landscape” with high efficiency and synergy. Apart from intensifying regular supervision measures such as reviewing reports, attending meetings and investigation, the Board of Supervisors will comprehensively carry out supervision through off-site monitoring, inspection, inquiries and interviews, to not only supervise whether the Bank stepped into “prohibited areas”, but also pay attention to whether the Bank duly perform its duties. The Board of Supervisors will further enhance the network level of the supervision works, strengthen the collection, study and analysis of various types of information by virtue of audit information system, risk early warning system, big data risk control model, strengthen the application and transformation of results, give risk alerts in a timely manner, and continue to improve the online risk control system featuring whole-course and full coverage. Internal and external Supervisors will be organised to strengthen the compliance supervision on key areas and risk-prone areas. Multiple efforts in auditing, compliance and monitoring will be integrated, so as to build an “comprehensive supervision pattern” with high efficiency and synergy through information sharing and overall linkage.



Chapter 10 Report of the Board of Supervisors

2. We will enhance internal and external communication and cooperation and focus on the overall effectiveness of the supervision of the Board of Supervisors. We will give full play to the political core function of the party organization, focus on party building, and facilitate the effective performance of supervisory duties by the Board of Supervisors to ensure the Board of Supervisors is properly carrying out its duties without deviation. We will build a smooth communication channel between the Board of Supervisors and the shareholders, strengthen communication with the shareholders to safeguard the legal interests of the shareholders, in particular the minority shareholders. We will strengthen communication with peers, especially listed banks, to jointly address key issues, such as the organization structure of the Board of Supervisors, the position of responsibility, the methods of duty performance and methods of supervision, with a view to constantly improving the work of the Board of Supervisors.
3. Strengthen self-construction and constantly improve the supervision level of the Board of Supervisors. The Board of Supervisors will improve its construction and enhance the scientificity and effectiveness of its supervision through further summarizing its duties, fulfilling energy and reinforcing learning. First, we will cooperate with professional consulting institutions to comprehensively streamline the structure and system of the Board of Supervisors, to determine the boundary of responsibility and establish a standardized tool for the operational procedures of the Board of Supervisors; we also cooperate with universities and institutions to initiate research projects, explore the supervisory work methodology of the Board of Supervisors, make diagnosis and analysis on the work practices of the Board of Supervisors of the Bank and propose the detailed optimization recommendations. Second, we will actively assign supervisors to participate in various types of training organized by regulatory authorities and the Bank, strengthen supervisors' study of regulatory policies and understanding of the macroeconomic situation, and constantly improve the performance capabilities and standard of supervisors. Third, strictly evaluating duty performance and regulating the performance of duties by Supervisors; the Board of Supervisors conducted self-evaluation and mutual evaluation to further improve the effectiveness of its performance.



Chapter 10 Report of the Board of Supervisors

(III) Promote innovative transformation and develop prudent tolerance

In 2019, the Bank will further promote the transformation of digitalization and innovation will become a normal operation and management model of the Bank. The Board of Supervisors will carry out a series of multi-level and diversified compliance construction events in a planned and targeted manner, invite external Supervisors, industry experts, domestic and overseas lawyers and regulatory experts to conduct compliance training and marketing, establish a normalized compliance education mechanism and create a sound compliance cultural atmosphere for innovation and transformation. At the same time, we will also further optimize the supervision philosophy and supervision mode, properly grasp new situations and new problems emerging in innovation and transformation, create a favorable environment that encourages innovation, supports accountability, allows errors, and promote the elimination of mind burden of being unwilling and dare not to innovate.

On behalf of the Board of Supervisors

HAO Jingtao

Chairman of the Board of Supervisors

Zhengzhou, China
March 28, 2019



Chapter 11 Important Events

1. Use of Proceeds

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. For details of the use of proceeds from this issue of preference shares, please refer to “Changes in Share Capital and Information on Shareholders – 7.1 The Issuance and Listing of Offshore Preference Shares”.

2. Profits and Dividends

The income and financial position of the Bank for 2018 are set out in the annual financial statements of this annual report. The Board has recommended the payment of a final dividend in cash of RMB0.35 (tax included) per ten shares for the year ended December 31, 2018. The total amount paid is approximately RMB703 million. The final dividend is subject to approval by shareholders at the forthcoming 2018 annual general meeting of the Bank. Upon approval by the annual general meeting of the Bank, the payment of the final dividend is expected to be brought forward on June 28, 2019.

3. Material Connected Transactions

As of the end of the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

4. Material Litigations and Arbitrations

4.1 Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of December 31, 2018, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved a claim over RMB10.0 million with an aggregate loan principal of RMB123.9 million.

As of December 31, 2018, plaintiff's claims had been rejected in 2 effective judgements, and plaintiff has withdrawn the suit of 2 cases, 11 cases had been appealed upon receipt of first judgements, while 34 cases were still pending for first judgements or under retrial.



Chapter 11 Important Events

4.2 Litigation against the Puyang branch in relation to alleged lending and borrowing

In July 2016, the plaintiff of the case filed a lawsuit against the Puyang branch of the Bank for alleged lending and borrowing. On June 21, 2017, the Puyang branch received the judgement of second instance from Puyang Intermediate People's Court, in which the court determining that, the Puyang branch shall be liable for the compensations up to half of the principal and accrued interest that the Borrower could not repay. The Puyang branch of the Bank has applied for retrial before the Henan High People's Court. As of December 31, 2018, Henan High People's Court has ruled that the case will be arraigned.

4.3 Property rights dispute of Zhoukou Branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou Branch for property rights dispute. Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. In September 2016, the Zhoukou branch appealed to the Henan High People's Court. In December 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Zhoukou Intermediate People's Court re-examined the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. As of December 31, 2018, Zhoukou branch had once again appealed to the Henan High People's Court.



Chapter 11 Important Events

4.4 Litigation against Lushi Zhongyuan County Bank Co., Ltd. in relation to alleged lending and borrowing

Lushi Zhongyuan County Bank was sued in April 2015 and March 2017 respectively, for two cases regarding alleged lending and borrowing.

In April 2016, Luoyang Intermediate People's Court rendered judgment of first instance on the former case against the Lushi Zhongyuan County Bank, which later appealed to Henan High People's Court. In May 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Luoyang Intermediate People's Court re-examined Lushi Zhongyuan County Bank to repay the borrowings and the accrued interest. As of December 31, 2018, Lushi Zhongyuan County Bank had once again appealed to the Henan High People's Court.

In the latter case, after the first-instance trial of the Luoyang Intermediate People's Court, the plaintiff did not pay the litigation fees on time. In July 2018, the Luoyang Intermediate People's Court ruled the case as plaintiff withdrawal.

5. Penalties for Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank's Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.



Chapter 11 Important Events

6. Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

The Bank's major Shareholders, their related parties and persons acting in concert have issued to the Bank a statement on the conditions and requirements for investment in the Bank, a statement on the equity relationship, a statement on the tax situation, a statement on the purpose of the shareholding and the source of funds, a statement on non-occurrence of non-compliance related party transactions, a statement on non-significant violations, a statement on the authenticity of materials, a statement on compliance holdings, and a statement on equity status and shareholder performance. They have also made commitment on compliance with laws and regulations, the Bank's Articles of Association and other relevant provisions, legal exercise of rights and performance of obligations and other matters.

7. Material Contracts and their Performance

No material contracts (including provision of relevant services) in relation to the Bank's business to which the Bank or its subsidiaries was a party and in which any of the Directors, the Supervisors of the Bank or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

8. Material Investment, Material Acquisitions and Disposals of Assets and Business Mergers

The Bank was not engaged in any material investment, material acquisition or disposal of assets or business mergers during the Reporting Period.

9. Profit Distribution During the Reporting Period

The 2017 profit distribution plan of the Bank was considered and approved at the 2017 annual general meeting of the Bank held on May 16, 2018, which decided to distribute dividends in cash of RMB0.71 (tax included) per ten shares to all of the Shareholders. The 2017 final dividends has been distributed on June 29, 2018.

10. Audit Review

The financial statements for 2018 prepared by the Bank according to the IFRSs has been audited by KPMG, Certified Public Accountants, and the auditor's reports were unqualified. The 2018 Annual Report of the Bank has been reviewed and approved by the Audit Committee of the Board and the Board of Directors of the Bank.



Chapter 12 Independent Auditor's Report

Zhongyuan Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 211 to 384, which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the Hong Kong Institute of Certified ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(A)(ii).

The key audit matter	How the matter was addressed in our audit
<p>The Group has adopted IFRS 9 Financial Instruments ("IFRS 9") since 1 January 2018 and developed a new impairment model for financial assets.</p>	<p>Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following:</p>
<p>The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.</p>	<ul style="list-style-type: none"> • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment; • assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;
<p>In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.</p>	



Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(A)(ii). (Continued)

The key audit matter	How the matter was addressed in our audit
<p>Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.</p>	<ul style="list-style-type: none"> assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;
<p>We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.</p>	<ul style="list-style-type: none"> for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement.

Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(A)(ii). (Continued)

The key audit matter	How the matter was addressed in our audit
	<p>We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;</p> <ul style="list-style-type: none"> <li data-bbox="815 831 1364 1227">• for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information of corporate customers for selected samples; <li data-bbox="815 1279 1364 1861">• evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples in industries more vulnerable to the current economic situation and checking the loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses;

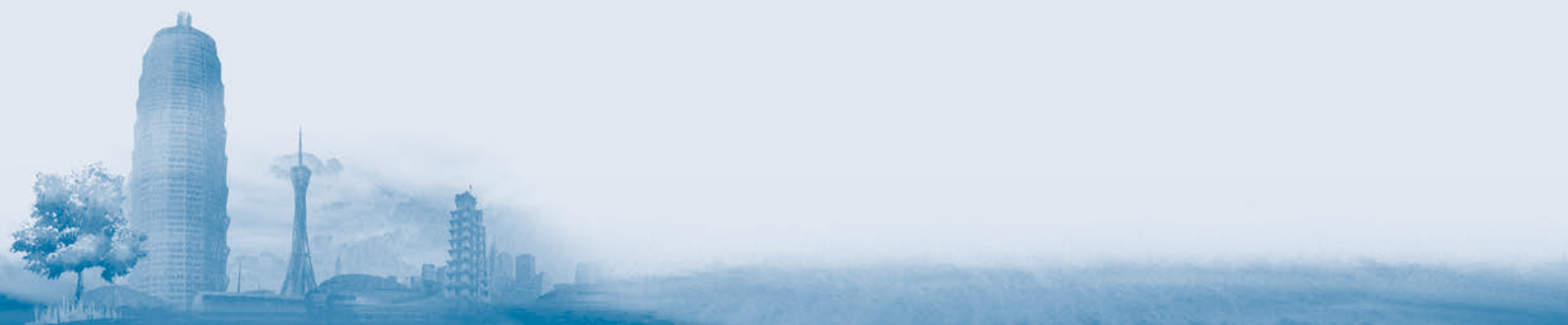


Chapter 12 Independent Auditor's Report

Loss allowances of loans and financial investments measured at amortized cost (Continued)

Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(A)(ii).(Continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li data-bbox="810 645 1366 1301">• for selected samples of loans and advances to customers and financial investments measured at amortized cost that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; and <li data-bbox="810 1352 1366 1563">• evaluating whether the disclosures on impairment of loans and financial investments measured at amortized cost meet the disclosure requirements in prevailing accounting standards.

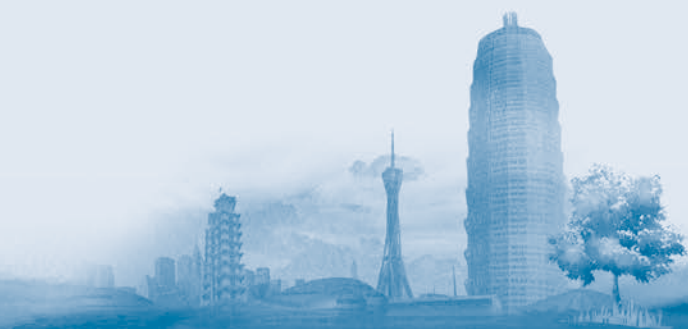


Chapter 12 Independent Auditor's Report

Fair value of financial instruments

Refer to note 44 to the consolidated financial statements and the accounting policies in note 2(9)(D).

The key audit matter	How the matter was addressed in our audit
<p>Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income.</p>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p>
<p>The valuation of the Group's financial instruments, carried at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from active market readily available data. For level 2 financial instruments in the fair value hierarchy, the valuation techniques use quoted market prices and observable inputs.</p>	<ul style="list-style-type: none"> • understanding and assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;
<p>The Group has developed its own models to value certain financial instruments, which also involve significant management judgement.</p>	<ul style="list-style-type: none"> • involving our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation models of the Group with our valuation methods, and developing parallel models to revalue; and
<p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<ul style="list-style-type: none"> • assessing whether the disclosures in the consolidated financial statements with reference to the requirements of the related financial reporting standards, and appropriately reflected the Group's exposure to financial instrument valuation risk.



Chapter 12 Independent Auditor's Report

Consolidation of structured entities

Refer to note 38 to the consolidated financial statements and the accounting policies in note 2(28).

The key audit matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to a structured entity through issuing a wealth management product, or act as an investor to a structured entity through investing in an asset management plan, a trust plan or an asset-backed security.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p>
<p>In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.</p>	<ul style="list-style-type: none"> • making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard; • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: <ul style="list-style-type: none"> – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
<p>We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.</p>	



Chapter 12 Independent Auditor's Report

Consolidation of structured entities (Continued)

Refer to note 38 to the consolidated financial statements and the accounting policies in note 2(28). (Continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li data-bbox="887 607 1362 1003">– reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; <li data-bbox="887 1055 1362 1491">– reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; <li data-bbox="887 1543 1362 1675">– assessing management's judgement over whether the structured entity should be consolidated or not; <li data-bbox="815 1727 1362 1899">• assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.



Chapter 12 Independent Auditor's Report

Transition adjustments and disclosures in relation to IFRS 9

Refer to note 2(3) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group has adopted IFRS 9 since 1 January 2018.</p>	<p>Our audit procedures relating to the transition to IFRS 9 included the following:</p>
<p>IFRS 9 has amended the previous classification and measurement framework of financial instruments and introduced a more complex expected credit loss model to assess impairment. The Group is required to retrospectively apply the classification and measurement (including impairment) requirements and recognise any difference between the original carrying amount and new carrying amount at the date of initial application (1 January 2018) in the opening retained earnings or other comprehensive income.</p>	<ul style="list-style-type: none"> • understanding and assessing the key internal controls of the financial reporting process related to IFRS 9. • evaluating the accuracy of the classification of financial instruments. We obtained information on how management applied the classification requirements of IFRS 9 and the classification results. On a sample basis we assessed the contractual cash flow characteristics of the financial assets and relevant documents in relation to the business model. • for financial assets that are measured at fair value due to changes in classification, we obtained information on the valuation method and key parameters used, selected samples to evaluate the validity of the valuation method and key parameters with the involvement of our internal valuation specialists and in light of industry practice. • assessing the reliability of the expected credit loss model used by management in determining loss allowances on transition and assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model.
<p>We identified the transition adjustments and disclosures in relation to IFRS 9 as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatment, application of new data and management judgment.</p>	

Chapter 12 Independent Auditor's Report

Transition adjustments and disclosures in relation to IFRS 9 (Continued)

Refer to note 2(3) to the consolidated financial statements. (Continued)

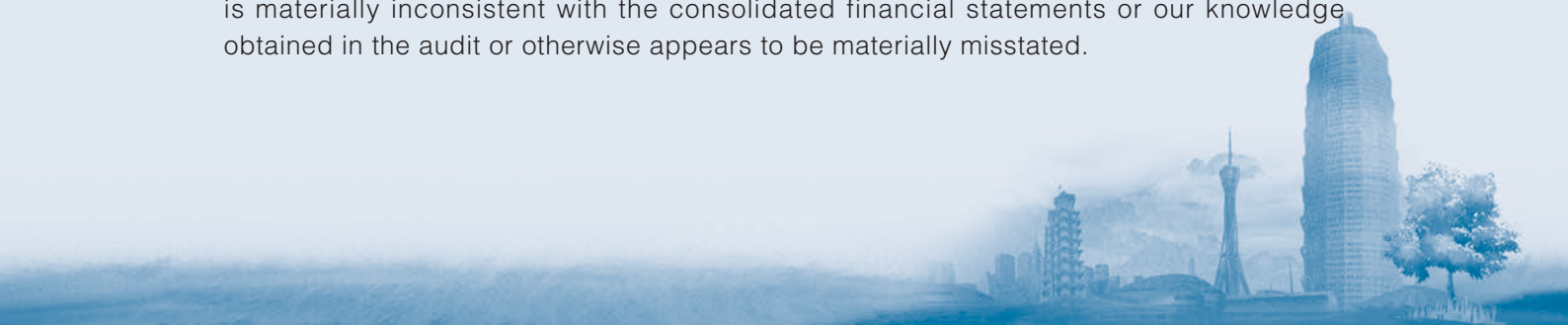
The Key Audit Matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li data-bbox="812 568 1362 1003">• obtaining journal entries relating to adjustments made on transition to IFRS 9 and compared the list of classification of financial instruments, the original carrying amounts, the list of journal entries and new carrying amounts of the financial instruments to assess if the journal entries have been entirely put through the system accurately. We selected samples to assess if the accounting treatment is in accordance with IFRS 9. <li data-bbox="812 1055 1362 1265">• selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balance at the date of initial application (1 January 2018). <li data-bbox="812 1317 1362 1413">• assessing whether the relevant disclosures in relation to transition are in compliance with IFRS 9.

Information other than the consolidated financial statements and our auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include 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.



Chapter 12 Independent Auditor's Report

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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



Chapter 12 Independent Auditor's Report

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

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



Chapter 12 Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

March 28, 2019



Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Interest income		25,241,459	21,250,182
Interest expense		(11,497,271)	(9,048,914)
Net interest income	4	13,744,188	12,201,268
Fee and commission income		1,479,439	903,834
Fee and commission expense		(199,206)	(134,264)
Net fee and commission income	5	1,280,233	769,570
Net trading gains/(losses)	6	365,206	(379,285)
Net gains/(losses) arising from investment securities	7	1,303,532	(375)
Other operating income	8	90,451	224,284
Operating income		16,783,610	12,815,462
Operating expenses	9	(6,957,515)	(5,759,025)
Impairment losses on assets	12	(6,851,545)	(2,028,081)
Profit before tax		2,974,550	5,028,356
Income tax	13	(609,292)	(1,122,678)
Net profit for the year		2,365,258	3,905,678
Net profit attributable to:			
Equity shareholders of the Bank		2,414,576	3,838,703
Non-controlling interests		(49,318)	66,975
		2,365,258	3,905,678
Basic and diluted earnings per share (in RMB)	14	0.12	0.21

The notes on pages 220 to 384 form part of these financial statements.



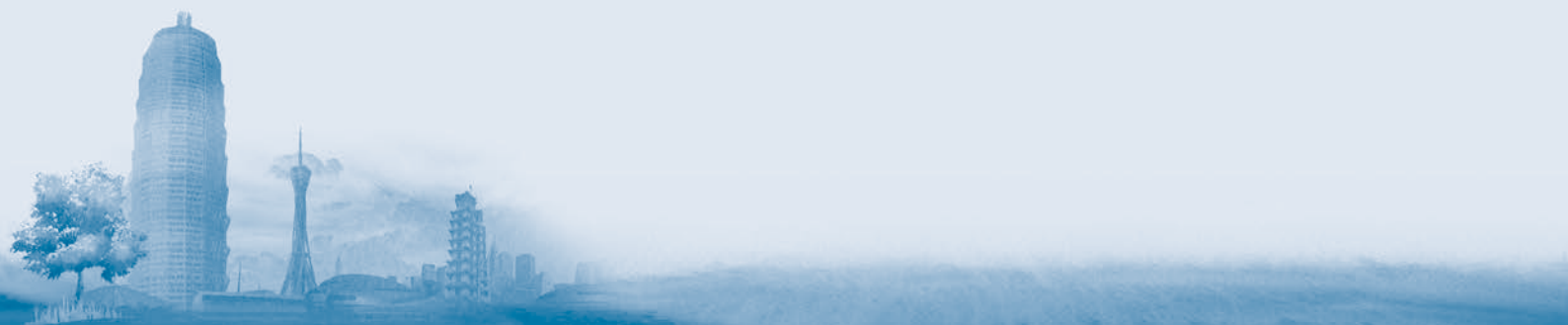
Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Net profit for the year		2,365,258	3,905,678
Other comprehensive income			
Other comprehensive income net of tax attributable to equity shareholders of the Bank			
Items that may be reclassified subsequently to profit or loss:			
– Available-for-sale financial assets: net movement in the fair value reserve		–	(364,051)
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	35(a)(i)	488,339	–
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	35(a)(ii)	285,908	–
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	35(a)(iii)	(597)	(1,514)
Other comprehensive income net of tax attributable to non-controlling interests		1,398	–
Other comprehensive income, net of tax		775,048	(365,565)
Total comprehensive income		3,140,306	3,540,113
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,188,226	3,473,138
Non-controlling interests		(47,920)	66,975
		3,140,306	3,540,113

The notes on pages 220 to 384 form part of these financial statements.



Consolidated statement of financial position

as at December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Assets			
Cash and deposits with the central bank	15	64,544,522	64,369,403
Deposits with banks and other financial institutions	16	15,863,539	8,923,751
Placements with banks and other financial institutions	17	10,032,008	1,363,355
Derivative financial assets	18	43,096	–
Financial assets held under resale agreements	19	16,345,184	12,988,617
Loans and advances to customers	20	246,551,689	191,708,835
Financial investments:	21		
Financial investments at fair value through profit or loss		43,869,291	9,865,812
Financial investments at fair value through other comprehensive income		43,693,209	–
Financial investments at amortised cost		165,083,362	–
Available-for-sale financial assets		–	94,558,846
Held-to-maturity investments		–	23,735,307
Debt securities classified as receivables		–	98,764,236
Property and equipment	23	4,115,409	4,606,622
Deferred tax assets	24	3,502,648	2,045,918
Goodwill	25	468,397	468,397
Other assets	26	6,331,915	8,590,727
Total assets		620,444,269	521,989,826

The notes on pages 220 to 384 form part of these financial statements.



Consolidated statement of financial position

as at December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Liabilities and equity			
Liabilities			
Borrowing from the central bank		9,247,544	1,322,887
Deposits from banks and other financial institutions	28	60,801,955	39,650,832
Placements from banks and other financial institutions	29	12,729,210	5,717,105
Derivative financial liabilities	18	228,084	–
Financial assets sold under repurchase agreements	30	33,527,896	40,809,848
Deposits from customers	31	349,386,955	306,708,284
Income tax payable		1,054,847	984,900
Debt securities issued	32	93,277,576	74,128,630
Other liabilities	33	4,512,446	6,576,729
Total liabilities		564,766,513	475,899,215
Equity			
Share capital	34	20,075,000	20,075,000
Other equity instruments			
– Preference shares	37	9,632,791	–
Capital reserve	35(a)	14,981,317	13,535,519
Surplus reserve	35(b)	1,500,620	1,258,065
General reserve	35(c)	7,884,326	6,386,313
Retained earnings	36	783,400	4,014,023
Total equity attributable to equity shareholders of the Bank		54,857,454	45,268,920
Non-controlling interests		820,302	821,691
Total equity		55,677,756	46,090,611
Total liabilities and equity		620,444,269	521,989,826

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

Dou Rongxing

Chairman of the Board
of Directors
Executive Director

Wang Jiong

President
Executive Director

Li Yulin

Vice President in charge of
accounting affairs

Zhang Yi

General Manager of the
Planning and Finance
Department

(Company chop)

The notes on pages 220 to 384 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Attributable to equity shareholders of the Bank							Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at December 31, 2017	20,075,000	-	13,535,519	1,258,065	6,386,313	4,014,023	45,268,920	821,691	46,090,611
Impact on initial application of IFRS 9	2(3)	-	-	836,027	-	-	(2,479,306)	(1,643,279)	(1,643,279)
Balance at January 1, 2018	20,075,000	-	14,371,546	1,258,065	6,386,313	1,534,717	43,625,641	821,691	44,447,332
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	2,414,576	2,414,576	(49,318)	2,365,258
Other comprehensive income	-	-	773,650	-	-	-	773,650	1,398	775,048
Total comprehensive income	-	-	773,650	-	-	2,414,576	3,188,226	(47,920)	3,140,306
Capital invested by other equity instrument holders									
37	-	9,632,791	-	-	-	-	9,632,791	-	9,632,791
Capital contributed to subsidiary									
-	-	-	(7,235)	-	-	-	(7,235)	7,235	-
Purchase of non-controlling interests									
-	-	-	(156,644)	-	-	-	(156,644)	65,144	(91,500)
Appropriation to surplus reserve									
36	-	-	-	242,555	-	(242,555)	-	-	-
Appropriation to general reserve									
36	-	-	-	-	1,498,013	(1,498,013)	-	-	-
Appropriation to shareholders									
36	-	-	-	-	-	(1,425,325)	(1,425,325)	(25,848)	(1,451,173)
Balance at December 31, 2018	20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302	55,677,756

The notes on pages 220 to 384 form part of these financial statements.



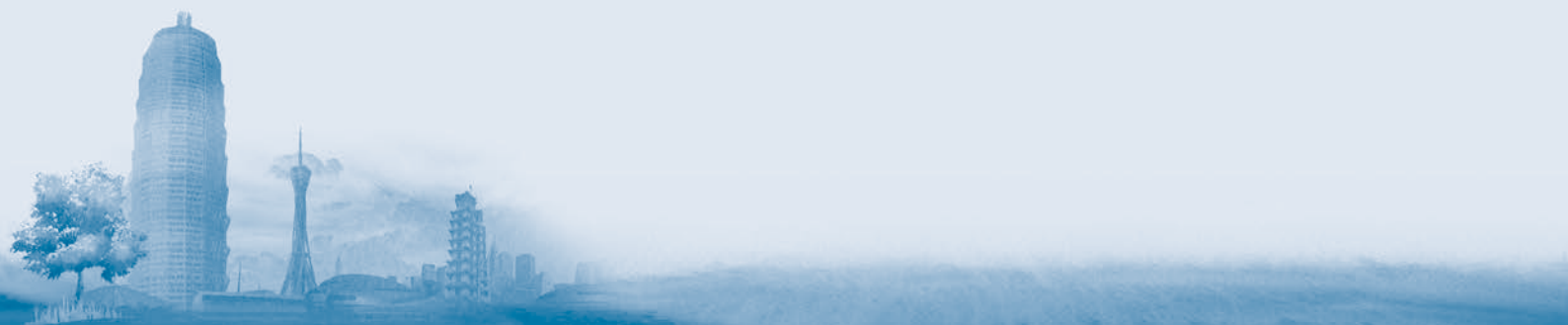
Consolidated statement of changes in equity

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank						Non-controlling interests	Total	
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			Subtotal
Balance at January 1, 2017		16,625,000	10,274,466	877,063	5,134,776	1,807,859	34,719,164	779,475	35,498,639
Changes in equity for the year:									
Net profit for the year		-	-	-	-	3,838,703	3,838,703	66,975	3,905,678
Other comprehensive income		-	(365,565)	-	-	-	(365,565)	-	(365,565)
Total comprehensive income		-	(365,565)	-	-	3,838,703	3,473,138	66,975	3,540,113
Issue of H-shares		3,450,000	3,626,202	-	-	-	7,076,202	-	7,076,202
Purchase of non-controlling interests		-	416	-	-	-	416	(416)	-
Appropriation to surplus reserve	36	-	-	381,002	-	(381,002)	-	-	-
Appropriation to general reserve	36	-	-	-	1,251,537	(1,251,537)	-	-	-
Appropriation to shareholders	36	-	-	-	-	-	-	(24,343)	(24,343)
Balance at December 31, 2017		20,075,000	13,535,519	1,258,065	6,386,313	4,014,023	45,268,920	821,691	46,090,611

The notes on pages 220 to 384 form part of these financial statements.



Consolidated cash flow statement

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Profit before tax	2,974,550	5,028,356
Adjustments for:		
– Impairment losses on assets	6,851,545	2,028,081
– Depreciation and amortization	845,271	722,491
– Depreciation of investment properties	7,470	8,358
– Unwinding of discount	(82,039)	(50,741)
– Unrealized foreign exchange (gains)/losses	(49,912)	222,329
– Net gains on disposal of property and equipment	(2,147)	(14,778)
– Net trading (gains)/losses	(316,307)	156,956
– Net losses arising from fair value of derivatives	1,013	–
– Net (gains)/losses on disposal of investment securities	(1,303,532)	375
– Interest expense on debts securities issued	3,153,731	2,589,377
	12,079,643	10,690,804
<i>Changes in operating assets</i>		
Net decrease/(increase) in deposits with the central bank	3,140,315	(9,050,567)
Net increase in deposits with banks and other financial institutions	(9,381,327)	(2,080,801)
Net decrease/(increase) in financial asset held for trading	6,221,409	(5,815,698)
Net decrease in placements with banks and other financial institutions	–	300,000
Net increase in loans and advances to customers	(59,860,670)	(34,918,467)
Net increase in derivatives	(440)	–
Net increase in other operating assets	(991,715)	(1,494,331)
	(60,872,428)	(53,059,864)

The notes on pages 220 to 384 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	2018	2017
Changes in operating liabilities		
Net increase/(decrease) in borrowing from central bank	7,837,009	(3,194,161)
Net increase/(decrease) in deposits from banks and other financial institutions	20,736,652	(5,303,942)
Net increase/(decrease) in placements from banks and other financial institutions	6,931,073	(4,682,895)
Net (decrease)/increase in financial assets sold under repurchase agreements	(7,301,680)	13,229,281
Net increase in deposits from customers	39,480,711	61,355,530
Income tax paid	(1,996,075)	(1,281,533)
Net increase/(decrease) in other operating liabilities	1,433,784	(16,807)
	67,121,474	60,105,473
Net cash flows generated from operating activities	18,328,689	17,736,413
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	321,263,315	283,747,985
Proceeds from disposal of property and equipment, intangible assets and other assets	270,004	81,522
Payments on acquisition of investments	(351,009,240)	(322,824,187)
Payments on acquisition of property and equipment, intangible assets and other assets	(766,497)	(553,389)
Net cash flows used in investing activities	(30,242,418)	(39,548,069)

The notes on pages 220 to 384 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Cash flows from financing activities			
Proceeds received from issuance of H-shares		–	7,076,202
Proceeds received from issuance of preference shares		9,632,791	–
Proceeds from issued debt securities		133,825,208	128,341,495
Acquisition of non-controlling interests		(91,500)	–
Repayment of debts securities issued		(114,855,345)	(112,302,024)
Interest paid on debts securities issued		(2,974,649)	(1,887,976)
Dividends paid		(1,148,997)	(63,460)
Net cash flows generated from financing activities		24,387,508	21,164,237
Effect of foreign exchange rate changes on cash and cash equivalents			
		158,583	(13,835)
Net increase/(decrease) in cash and cash equivalents	40(a)	12,632,362	(661,254)
Cash and cash equivalents as at January 1		43,080,066	43,741,320
Cash and cash equivalents as at December 31	40(b)	55,712,428	43,080,066
Interest received		24,828,628	20,412,896
Interest paid (excluding interest expense on debts securities issued)		(7,277,866)	(5,900,242)

The notes on pages 220 to 384 form part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities.

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license No. 410000100034311 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 01216).

As at December 31, 2018, the Bank has one head office and 18 branches across Henan Province, 9 subsidiaries which are county banks and 1 subsidiary which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the former CBRC.

2 Significant accounting policies

(1) Statement of compliance

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(1) Statement of compliance (Continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(2) Basis of preparation of the financial statements

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

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(28).

The measurement basis used in the preparation of the financial statements is the historical basis, except that the financial instruments classified as fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) and derivative financial instruments (see Note 2(9)(C)) are stated at their fair value as explained in the accounting policies.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Group.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. The principal effects of new and revised IFRSs (including International Accounting Standards (“IASs”)) are as follows:

IFRS 15, “Revenue from contracts with customers”

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

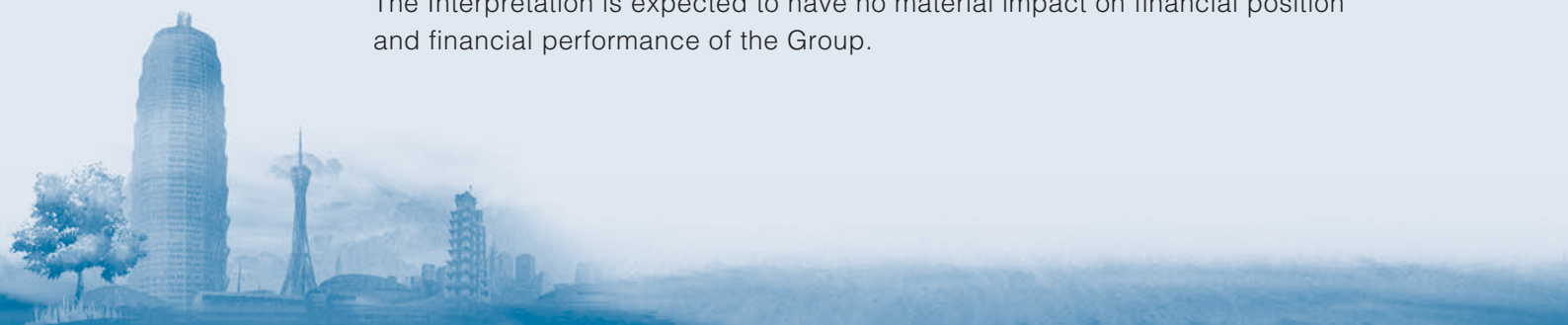
The adoption will not have any material impact on the financial position and the financial result of the Group.

IFRIC 22, “Foreign currency transactions and advance consideration”

The Interpretation provides guidance on how to determine “the date of the transaction” when applying IAS 21, the effects of changes in foreign exchange rates to situations where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability.

The Interpretation clarifies that “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The Interpretation is expected to have no material impact on financial position and financial performance of the Group.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 9, “Financial instruments”

IFRS 9 Financial Instruments (“IFRS 9”) introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis and includes an exception from the requirement to restate comparative information.

Classification and measurement

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

- The classification for debt instruments is determined based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity’s business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 9, “Financial instruments” (Continued)

Impairment

The new impairment model in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Disclosure

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from January 1, 2018. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of net assets at January 1, 2018.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 9, “Financial instruments” (Continued)

Transition (Continued)

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

	IAS 39 December 31, 2017	Reclassification	Remeasurement	IFRS 9 January 1, 2018
Assets				
Cash and deposits with central bank	64,369,403	-	-	64,369,403
Deposits with banks and other financial institutions	8,923,751	-	(894)	8,922,857
Placements with banks and other financial institutions	1,363,355	-	(419)	1,362,936
Financial assets held under resale agreements	12,988,617	-	(1,302)	12,987,315
Loans and advances to customers	191,708,835	-	(470,574)	191,238,261
Available-for-sale financial assets	94,558,846	(94,558,846)	-	-
Held-to-maturity investments	23,735,307	(23,735,307)	-	-
Debt securities classified as receivables	98,764,236	(98,764,236)	-	-
Financial investments at fair value through profit or loss	9,865,812	44,039,215	(55,607)	53,849,420
Financial investments at fair value through other comprehensive income	-	36,032,339	16,448	36,048,787
Financial investments at amortised cost	-	136,986,835	(1,675,428)	135,311,407
Property and equipment	4,606,622	-	-	4,606,622
Deferred tax assets	2,045,918	-	597,458	2,643,376
Goodwill	468,397	-	-	468,397
Other assets	8,590,727	-	-	8,590,727
Total assets	521,989,826	-	(1,590,318)	520,399,508

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 9, “Financial instruments” (Continued)

Transition (Continued)

	IAS 39 December 31, 2017	Reclassification	Remeasurement	IFRS 9 January 1, 2018
Liabilities				
Borrowing from the central bank	1,322,887	–	–	1,322,887
Deposits from banks and other financial institutions	39,650,832	–	–	39,650,832
Placements from banks and other financial institutions	5,717,105	–	–	5,717,105
Financial assets sold under repurchase agreements	40,809,848	–	–	40,809,848
Deposits from customers	306,708,284	–	–	306,708,284
Income tax payable	984,900	–	–	984,900
Debt securities issued	74,128,630	–	–	74,128,630
Other liabilities	6,576,729	–	52,961	6,629,690
Total liabilities	475,899,215	–	52,961	475,952,176
Equity				
Share capital	20,075,000	–	–	20,075,000
Capital reserve	13,535,519	–	836,027	14,371,546
Surplus reserve	1,258,065	–	–	1,258,065
General reserve	6,386,313	–	–	6,386,313
Retained earnings	4,014,023	–	(2,479,306)	1,534,717
Total equity attributable to equity shareholders of the Bank	45,268,920	–	(1,643,279)	43,625,641
Non-controlling interests	821,691	–	–	821,691
Total equity	46,090,611	–	(1,643,279)	44,447,332

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

IFRS 9, “Financial instruments” (Continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group’s impairment allowance balance as at January 1, 2018.

	IAS 39 December 31, 2017	Remeasurement	IFRS 9 January 1, 2018
Loans and advances to customers	7,194,114	621,089	7,815,203
Available-for-sale financial assets	1,018,444	(1,018,444)	–
Debt securities classified as receivables	704,488	(704,488)	–
Financial investments at fair value through other comprehensive income	–	21,472	21,472
Financial investments at amortised cost	–	4,232,749	4,232,749
Credit commitments	–	52,961	52,961
Deposits with banks and other financial institutions	–	894	894
Placements with banks and other financial institutions	19,027	419	19,446
Financial assets held under resale agreements	–	1,302	1,302
Total	8,936,073	3,207,954	12,144,027

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests

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

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

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(5)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(18)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(5) Associates and joint ventures

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

A joint venture is an arrangement whereby the Group or the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(18)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(5) Associates and joint ventures (Continued)

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(9)).

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(6) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(18)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(7) Translation of foreign currencies

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

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(7) Translation of foreign currencies (Continued)

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each reporting period. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments at fair value through other comprehensive income which are recognized in capital reserve.

(8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(9)(A)(ii).

(9) Financial instruments

(A) Policy applicable from 1 January 2018

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 44. These financial instruments are subsequently accounted for as follows, depending on their classification.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

Financial instruments other than equity investments

Non-equity financial instruments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial instrument is calculated using the effective interest method (see note 2(23)(i)).
- fair value through other comprehensive income (FVOCI) (recycling), if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value through profit or loss (FVTPL), if the financial instrument does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognised in profit or loss.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss.

(ii) Credit losses and impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers, and financial investments at amortised cost);
- debt securities measured at FVOCI (recycling);
- loan commitments issued, which are not measured at FVTPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(23)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018

(i) Recognition and measurement of financial assets and liabilities

The Group classified financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

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

Financial assets and financial liabilities were categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading).

A financial asset or financial liability was classified as at fair value through profit or loss if it was acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it was designated at fair value through profit or loss.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

Financial assets and financial liabilities were designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities were managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument was prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss were measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein were recognized in profit or loss.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

- Held-to-maturity investments

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group had the positive intention and ability to hold to maturity, other than

(a) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or

(b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments were stated at amortized cost using the effective interest method.

- Loans and receivables

Loans and receivables were non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that were not quoted in an active market, other than

(a) those that the Group intended to sell immediately or in the near-term, which would be classified as held for trading;

(b) those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

- Loans and receivables (Continued)

(c) those where the Group might not recover substantially all of its initial investment, other than because of credit deterioration, which would be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables were stated at amortized cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that were designated upon initial recognition as available-for-sale and other financial assets which did not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets were measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, were recognized directly in other comprehensive income. Investments in available-for-sale equity instruments that did not have a quoted price in an active market and whose fair value cannot be reliably measured, were measured at cost less impairment losses, if any. When an investment was derecognized, the cumulative gain or loss in other comprehensive income was reclassified to the profit or loss.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss were classified as other financial liabilities.

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

(ii) Credit losses and impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss were reviewed by the Group at the end of each reporting period to determine whether there was objective evidence of impairment. If any such evidence exists, impairment loss was provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and had impact on the estimated future cash flows of the asset, which could be estimated reliably.

Objective evidence included the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- disappearance of an active market for financial assets because of financial difficulties;

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- Loans and receivables

The Group used two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which were considered individually significant, were assessed individually for impairment. If there was objective evidence of impairment of loans and receivables, the amount of loss was measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses were recognized in profit or loss.

It might not be possible to identify a single, discrete event that caused the impairment but it might be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables were not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value was immaterial.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- Loans and receivables (Continued)

Individual assessment (Continued)

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which were assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which were not considered individually significant and not assessed individually. Loans and receivables were grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly included that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there was observable evidence indicating that there was a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that were not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilized a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflected the current economic conditions and judgment based on management's historical experience.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- Loans and receivables (Continued)

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which were individually significant and therefore had been individually assessed but for which no objective evidence of impairment could be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, were grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covered those loans and advances that were impaired at the end of each reporting periods but which would not be individually identified as such until sometime in the future.

The collective impairment loss was assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification was determined by management based on the historical experience of the markets where the Group operates.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- Loans and receivables (Continued)

As soon as information was available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets were removed from the portfolio of financial assets. Assets that were individually assessed for impairment and for which an impairment loss was or continues to be recognized were not included in a collective assessment for impairment.

The Group periodically reviewed and assessed the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment loss was recognized, the impairment loss was reversed through profit or loss. The reversal should not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

When the Group determined that loans and receivables had no reasonable prospect of recovery after the Group had completed all the necessary legal or other claim proceedings, the loans and receivables were written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off were recovered, the amount recovered was recognized in profit or loss through impairment losses.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- Loans and receivables (Continued)

Rescheduled loans were loans that had been restructured due to deterioration in the borrower's financial position to the extent that the borrower was unable to repay according to the original terms and where the Group had made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans were assessed individually and classified as impaired loans upon restructuring. Rescheduled loans were subject to ongoing monitoring. Once a rescheduled loan met specific conditions, it was no longer considered as impaired.

- Held-to-maturity investments

The impairment loss was calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that had not been incurred) discounted at the original effective interest rate. All impairment losses were recognized in profit or loss.

If, in a subsequent period the amount of an impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment loss was recognized, the impairment loss was reversed through profit or loss. The reversal should not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

- Available-for-sale financial assets

When an available-for-sale financial asset was impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income was reclassified to the profit or loss even though the financial asset had not been derecognized.

The amount of the cumulative loss that was removed from equity was the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, after an impairment loss had been recognized on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognized, the impairment loss was reversed through profit or loss. An impairment loss recognized for an equity instrument classified as available-for-sale was not reversed through profit or loss but recognized directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss was measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Impairment losses for equity instruments carried at cost were not reversed.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(C) Derivative financial instruments

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(D) Fair value measurement principles

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(E) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(F) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(10) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(9)(A)(ii).

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

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

(11) Preference share

Preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Interest and dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(12) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(18)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

(13) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%

(14) Property and equipment and construction in progress

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

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(18)).



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(14) Property and equipment and construction in progress (Continued)

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

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

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

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

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(14) Property and equipment and construction in progress (Continued)

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

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3–10 years	3%	9.70%–32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(15) Operating leases

Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(16) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(18)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

(17) Repossessed assets

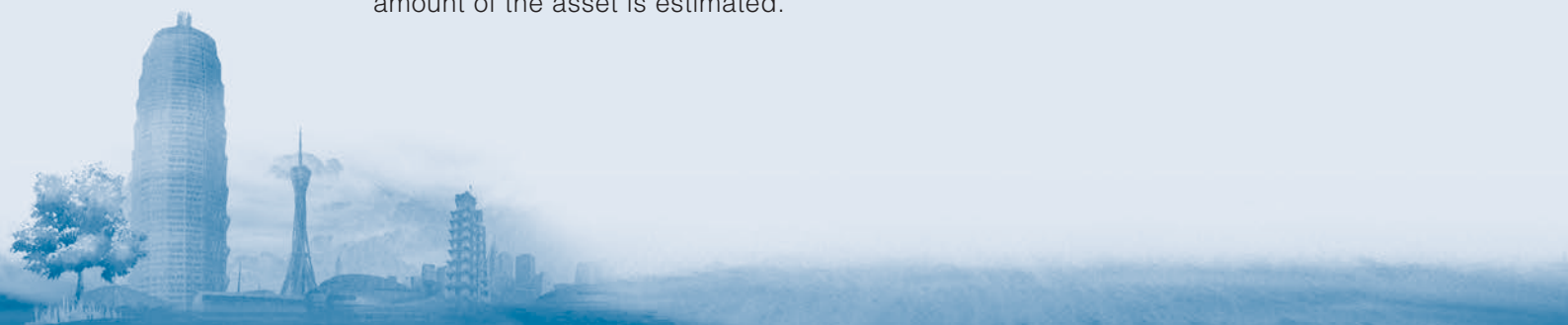
Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

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

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

- property and equipment;
- construction in progress;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and associates; and
- goodwill.

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



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

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

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

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

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

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognized in prior periods.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Employee benefits

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

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

The defined contribution retirement plans of the Group include the social pension schemes.

Social pension schemes

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

Housing fund and other social insurances

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

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Employee benefits (Continued)

(ii) *Supplementary retirement benefits*

Early retirement plan

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

Supplementary retirement plan

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

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax (Continued)

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(21) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(21)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(22) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group’s ordinary activities when the inflows result in increase in shareholders’ equity, other than increase relating to contributions from shareholders.

For performance obligations being satisfied, revenue is recognised by the Group when the customer obtains control of the relevant goods or services.

When one of the following conditions are met, the Group perform its performance obligations over time, and otherwise, at a point in time:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations performed over time, the Group recognises revenue over time according to the performance progress. When the performance progress cannot be determined, The Group is expected to be reimbursed for the costs already incurred and recognise the revenue based on the costs already incurred until the performance progress can be reasonably determined.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

For performance obligations performed at a point in time, the Group recognises revenue at the point when the customer obtains control of the promised good or service. When judging whether the customer obtains control of the promised good or service, the Group should consider the following indications:

- The Group has a present right to payment for the good or service;
- The Group has transferred physical possession of the good to the customer;
- The Group has transferred legal title or the significant risks and rewards of ownership of the good to the customer;
- The customer has accepted the good or service.

The specific accounting policies related to the revenue of Group's principal activities are described below:

(i) Interest income

Interest income for financial assets is recognized in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(i) Interest income (Continued)

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(9)(A)(ii)).

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Other income

Other income is recognized on an accrual basis.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(24) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(25) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each reporting period are not recognized as a liability at the end of each reporting period but disclosed separately in the notes to the financial statements.

(26) Related parties

(a) *A person, or a close member of that person's family, is related to the Group if that person:*

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) *An entity is related to the Group if any of the following conditions applies:*

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(26) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(27) Segment reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(28) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as property and equipment and intangible assets (see Notes 23 and 26(b)) and provision for impairment of various types of assets (see Notes 16, 17, 19, 20, 21(b), 21(c), 21(d), 21(e), 21(f), 23, 25, 26). Other significant accounting estimates and judgements are as follows:

- Note 24: Recognition of deferred tax assets;
- Note 33(b): Supplementary retirement benefits payable;
- Note 38: Equity in a structured entity not included in the consolidation scope; and
- Note 44: Fair value measurements of financial instruments.

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3%–6%
City maintenance and construction tax	Based on VAT paid	5%–7%
Corporate income tax	Based on taxable profits	25%



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	2018	2017
Interest income arising from		
Deposits with the central bank	690,109	639,719
Deposits with banks and other financial institutions	291,115	162,770
Placements with banks and other financial institutions	215,151	74,684
Loans and advances to customers		
– Corporate loans and advances	7,590,385	7,191,893
– Personal loans and advances	5,603,589	3,453,153
– Discounted bills	552,685	277,714
Financial assets held under resale agreements	392,752	221,991
Financial investments	9,905,673	9,228,258
Sub-total	25,241,459	21,250,182
Interest expenses arising from		
Borrowing from the central bank	(135,408)	(62,438)
Deposits from banks and other financial institutions	(1,964,766)	(1,705,406)
Placements from banks and other financial institutions	(377,505)	(114,047)
Deposits from customers	(5,283,759)	(3,931,670)
Financial assets sold under repurchase agreements	(582,102)	(645,976)
Debts securities issued	(3,153,731)	(2,589,377)
Sub-total	(11,497,271)	(9,048,914)
Net interest income	13,744,188	12,201,268

Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended December 31, 2018 amounted to RMB25,241.46 million (2017: RMB20,838.40 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended December 31, 2018 amounted to RMB11,497.27 million (2017: RMB9,048.91 million).

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	2018	2017
Fee and commission income		
Custodial services fees	421,780	230,598
Wealth management business fees	240,228	169,780
Underwriting fees	205,725	113,753
Settlement and clearing services fees	205,475	89,825
Agency services fees	103,196	93,102
Acceptance and guarantee services fees	99,022	60,724
Advisory and consulting fees	98,522	109,622
Bank card services fees	105,491	36,430
Sub-total	1,479,439	903,834
Fee and commission expense	(199,206)	(134,264)
Net fee and commission income	1,280,233	769,570

6 Net trading gains/(losses)

	Note	2018	2017
Net gains/(losses) from debt securities	(a)	316,307	(156,956)
Fair value of derivatives	(b)	(1,013)	-
Net foreign exchange gains/(losses)	(c)	49,912	(222,329)
Net trading gains/(losses)		365,206	(379,285)

(a) Net gains/(losses) from debt securities include losses arising from the buying and selling of, and changes in the fair value of financial assets held for trading.

(b) Fair value of derivatives include the fair value of interest rate swaps and foreign exchange forwards.

(c) Net foreign exchange gains/(losses) mainly include gains from translation of foreign currency monetary assets and liabilities into Renminbi.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains/(losses) arising from investment securities

	Note	2018	2017
Net gains of financial investments at fair value through profit or loss	(a)	1,241,703	–
Net gains of financial investments at fair value through other comprehensive income		63,775	–
Net losses on disposal of financial investments at amortised cost		(1,947)	–
Net losses on disposal of available-for-sale financial assets		–	(978)
Net gains on disposal of debt securities classified as receivables		–	600
Others		1	3
Total		1,303,532	(375)

(a) Net gains of financial investments at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

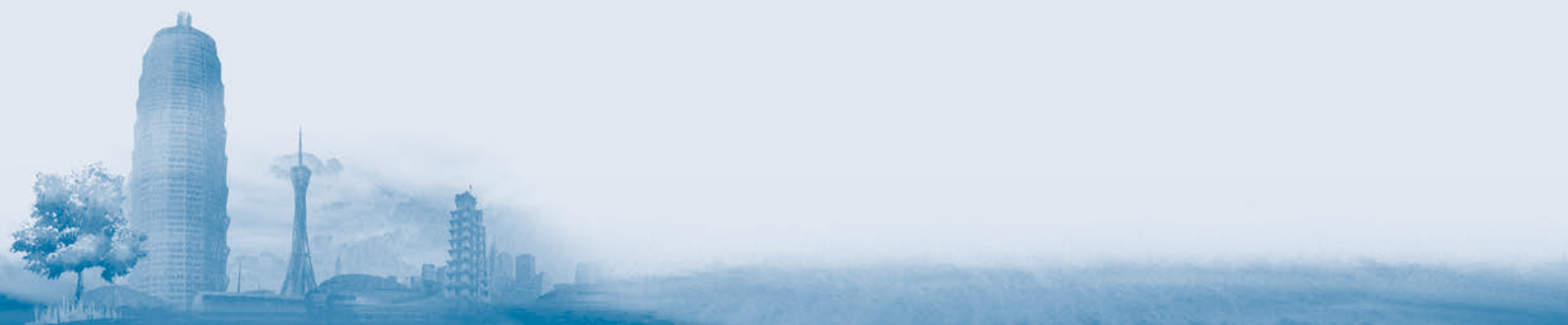
	2018	2017
Government grants	32,169	134,748
Rental income	30,044	34,216
Net gains on disposal of property and equipment	2,147	20,545
Others	26,091	34,775
Total	90,451	224,284

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	2018	2017
Staff costs		
– Salaries, bonuses and allowances	2,736,777	2,343,946
– Employee education expenses and labor union expenses	94,222	103,271
– Staff welfares	241,690	215,321
– Housing allowances	159,902	129,725
– Social insurance and annuity	516,937	376,986
– Supplementary retirement benefits	14,078	(1,229)
– Others	78,278	62,200
Sub-total	3,841,884	3,230,220
Office expenses	1,297,535	1,025,984
Taxes and surcharges	144,296	120,170
Rental and property management expenses	329,399	278,905
Depreciation and amortization	845,271	722,491
Other general and administrative expenses	499,130	381,255
Total	6,957,515	5,759,025



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Note	2018						
		Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing	(1)	-	375	1,631	307	2,313	1,290	1,023
Hu Xiangyun	(2)	-	201	44	81	326	-	326
Wang Jiong		-	1,275	2,968	290	4,533	1,484	3,049
Wei Jie	(3)	-	735	1,290	273	2,298	645	1,653
Li Yulin	(3)	-	940	2,193	273	3,406	1,097	2,309
Non-executive directors								
Li Xipeng		65	-	-	-	65	-	65
Mi Hongjun	(3)	33	-	-	-	33	-	33
Li Qiaocheng		62	-	-	-	62	-	62
Independent non-executive directors								
Pang Hong		413	-	-	-	413	-	413
Li Hongchang		447	-	-	-	447	-	447
Jia Tingyu		447	-	-	-	447	-	447
Chan Ngai Sang		408	-	-	-	408	-	408
Supervisors								
Ma Guoliang	(2)	-	181	51	65	297	-	297
Hao Jingtao	(3)	-	940	1,724	273	2,937	862	2,075
Jia Jihong		-	630	1,056	239	1,925	528	1,397
Si Qun	(2)	-	130	145	61	336	-	336
Zhang Yixian	(3)	-	353	1,087	220	1,660	435	1,225
Zhao Ming		70	-	-	-	70	-	70
Li Weizhen		70	-	-	-	70	-	70
Li Wanbin		65	-	-	-	65	-	65
Li Xiaojian		-	250	-	-	250	-	250
Han Wanghong		-	250	-	-	250	-	250
Sun Xuemin		-	235	-	-	235	-	235
Total		2,080	6,495	12,189	2,082	22,846	6,341	16,505

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

	2017							
	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Dou Rongxing		-	1,306	4,207	234	5,747	775	4,972
Hu Xiangyun	(2)	-	842	2,650	208	3,700	355	3,345
Wang Jiong		-	1,212	3,659	225	5,096	587	4,509
Hao Jingtao	(2)	-	960	2,950	208	4,118	465	3,653
Zhang Bin	(2)	-	916	1,148	94	2,158	-	2,158
Non-executive directors								
Li Xipeng		45	-	-	-	45	-	45
Li Qiaocheng		15	-	-	-	15	-	15
Independent non-executive directors								
Li Hongchang		439	-	-	-	439	-	439
Pang Hong		430	-	-	-	430	-	430
Jia Tingyu		3,351	-	-	-	3,351	-	3,351
Chan Ngai Sang		245	-	-	-	245	-	245
Supervisors								
Ma Guoliang	(2)	-	950	2,920	225	4,095	435	3,660
Jia Jihong		-	614	1,095	183	1,892	227	1,665
Si Qun	(2)	-	521	1,157	191	1,869	374	1,495
Zhao Ming		50	-	-	-	50	-	50
Li Weizhen		60	-	-	-	60	-	60
Li Wanbin		45	-	-	-	45	-	45
Li Xiaojian		-	240	-	-	240	-	240
Han Wanghong		-	245	-	-	245	-	245
Sun Xuemin		-	225	-	-	225	-	225
Total		4,680	8,031	19,786	1,568	34,065	3,218	30,847

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

Notes:

- (1) The final remunerations for Dou Rongxing, the Chairperson of the Bank, are still undergoing final confirmation.
- (2) Zhang Bin resigned as executive director of the Bank from December 26, 2017. Hu Xiangyun resigned as executive director of the Bank from March 16, 2018. Hao Jingtao resigned as executive director of the Bank from January 20, 2018. Ma Guoliang resigned as deputy Supervisor of the Bank from March 16, 2018. Si Qun resigned as deputy Supervisor of the Bank from March 16, 2018.
- (3) At the shareholders' general meeting held on March 16, 2018, Li Yulin and Wei Jie were elected as executive directors of the Bank, Mi Hongjun was elected as non-executive director of the Bank. At the Bank's employee representative assembly held on March 6, 2018, Hao Jingtao and Zhang Yixian were elected as deputy supervisors of the Bank.

There was no amount paid during the years ended December 31, 2018 and 2017 to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended December 31, 2018 and 2017.

11 Individuals with highest emoluments

For the year ended December 31, 2018, the five individuals with highest emoluments included 2 directors and 1 Supervisor of the Bank (2017: 4 directors and 1 supervisor). Their emoluments are disclosed in Note 10. The emoluments for the other highest paid individuals is as follows:

	2018	2017
Salaries and other emoluments	1,880	–
Discretionary bonuses	4,287	–
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	381	–
Total	6,548	–

The individual's emoluments before individual income tax is within the following bands:

	2018	2017
RMB3,000,001–3,500,000	2	–

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Impairment losses on assets

	2018	2017
Loans and advances to customers	6,082,741	1,221,913
Financial investments	584,444	45,427
Credit commitments	33,177	–
Deposits with banks and other financial institutions	560	–
Placements with banks and other financial institutions	2,108	(634)
Financial assets held under resale agreements	(445)	–
Others	148,960	761,375
Total	6,851,545	2,028,081

13 Income tax

(a) Income tax:

	Note	2018	2017
Current tax		1,631,809	1,517,671
Deferred tax	24(b)	(1,022,517)	(394,993)
Total		609,292	1,122,678

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Income tax (Continued)

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2018	2017
Profit before tax		2,974,550	5,028,356
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		743,638	1,257,089
Non-deductible expenses			
– Staff welfare expenses		4,829	9,193
– Others		14,511	6,850
Non-taxable income	(i)	(190,779)	(150,241)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		37,093	(213)
Income tax		609,292	1,122,678

- (i) The non-taxable income mainly represents the interest income from the PRC government bonds.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Basic and diluted earnings per share

	Note	2018	2017
Net profit attributable to equity shareholders of the Bank		2,414,576	3,838,703
Weighted average number of ordinary shares (in thousands)	(i)	20,075,000	18,151,301
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.12	0.21

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(i) Weighted average number of ordinary shares (in thousands)

	2018	2017
Number of ordinary shares as at January 1	20,075,000	16,625,000
New added weighted average number of ordinary shares	–	1,526,301
Weighted average number of ordinary shares	20,075,000	18,151,301

15 Cash and deposits with the central bank

	Note	2018	2017
Cash on hand		1,473,473	1,523,007
Deposits with the central bank			
– Statutory deposit reserves	(a)	37,215,816	40,374,116
– Surplus deposit reserves	(b)	24,455,110	21,112,137
– Fiscal deposits		1,378,128	1,360,143
Sub-total		63,049,054	62,846,396
Accrued interest		21,995	–
Total		64,544,522	64,369,403

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Cash and deposits with the central bank (Continued)

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at December 31, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2018	2017
Reserve ratio for RMB deposits	11.00%	13.50%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

16 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	2018	2017
Deposits in mainland China		
– Banks	10,057,066	4,366,639
– Other financial institutions	263,541	134,644
Sub-total	10,320,607	4,501,283
Deposits outside mainland China		
– Banks	5,484,680	4,422,468
Total	15,805,287	8,923,751
Accrued interest	59,706	–
Less: Provision for impairment losses	(1,454)	–
Net carrying amount	15,863,539	8,923,751

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	2018	2017
Placements in mainland China		
– Banks	1,370,266	669,768
– Other financial institutions	8,507,675	712,614
Total	9,877,941	1,382,382
Accrued interest	175,621	–
Less: Provision for impairment losses	(21,554)	(19,027)
Net carrying amount	10,032,008	1,363,355

18 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

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

	Notional amount	2018 Fair value	
		Assets	Liabilities
Interest rate swaps	29,238,000	43,096	43,669
Foreign exchange forwards	3,437,750	–	184,415
Total		43,096	228,084

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	2018	2017
In mainland China		
– Banks	11,327,164	10,909,078
– Other financial institutions	5,009,446	2,079,539
Total	16,336,610	12,988,617
Accrued interest	9,431	–
Less: Provision for impairment losses	(857)	–
Net carrying amount	16,345,184	12,988,617

(b) Analyzed by type of security held

	2018	2017
Debt securities	16,336,610	12,988,617
Accrued interest	9,431	–
Less: Provision for impairment losses	(857)	–
Net carrying amount	16,345,184	12,988,617

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers

(a) Analyzed by nature

	2018
Loans and advances to customers measured at amortised cost	
Corporate loans and advances	130,175,627
Personal loans and advances	
– Residential mortgage	50,865,672
– Personal consumption loans	29,032,224
– Personal business loans	20,905,941
– Others	4,366,661
Sub-total	105,170,498
Accrued interest	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(9,313,961)
Sub-total	227,527,699
Loans and advances to customers measured at fair value through other comprehensive income	
Corporate loans and advances	105,230
Discounted bills	18,918,760
Sub-total	19,023,990
Net loans and advances to customers	246,551,689

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(a) Analyzed by nature (Continued)

	2017
Corporate loans and advances	112,849,592
Personal loans and advances	
– Residential mortgage	39,977,289
– Personal business loans	20,208,988
– Personal consumption loans	13,494,014
– Others	250,847
Sub-total	73,931,138
Discounted bills	12,122,219
Gross loans and advances to customers	198,902,949
Less: Provision for impairment losses	
– Individually assessed	(1,864,974)
– Collectively assessed	(5,329,140)
Total provision for impairment losses	(7,194,114)
Net loans and advances to customers	191,708,835

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector

	2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	29,135,108	11.45%	8,423,643
Renting and business activities	25,941,014	10.20%	11,763,228
Wholesale and retail trade	18,001,407	7.08%	7,734,830
Real estate	16,958,760	6.67%	13,764,111
Construction	9,885,250	3.89%	3,864,271
Water, environment and public utility	7,473,606	2.94%	2,804,550
Production and supply of electric power, gas and water	4,367,632	1.72%	1,082,464
Agriculture, forestry, animal husbandry and fishery	4,103,726	1.61%	963,814
Accommodation and catering	3,271,273	1.29%	1,807,094
Education	2,920,534	1.15%	1,349,180
Mining	2,157,823	0.85%	262,491
Transportation, storage and postal services	2,122,313	0.83%	1,029,095
Others	3,942,411	1.54%	1,166,488
Sub-total of corporate loans and advances	130,280,857	51.22%	56,015,259
Personal loans and advances	105,170,498	41.35%	81,387,437
Discounted bills	18,918,760	7.43%	13,265,203
Gross loans and advances to customers	254,370,115	100.00%	150,667,899

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

	2017		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	30,642,527	15.42%	8,059,591
Wholesale and retail trade	18,984,248	9.54%	8,908,906
Renting and business activities	16,556,287	8.32%	7,103,720
Real estate	11,424,047	5.74%	8,449,793
Construction	8,856,739	4.45%	3,318,807
Water, environment and public utility	4,615,113	2.32%	2,014,040
Agriculture, forestry, animal husbandry and fishery	4,283,426	2.15%	975,296
Production and supply of electric power, gas and water	3,920,081	1.97%	1,177,357
Accommodation and catering	3,223,148	1.62%	1,719,112
Mining	2,384,758	1.20%	404,770
Education	2,270,378	1.14%	1,169,119
Transportation, storage and postal services	2,084,724	1.05%	1,060,625
Others	3,604,116	1.82%	1,356,482
Sub-total of corporate loans and advances	112,849,592	56.74%	45,717,618
Personal loans and advances	73,931,138	37.17%	59,973,753
Discounted bills	12,122,219	6.09%	9,735,446
Gross loans and advances to customers	198,902,949	100.00%	115,426,817

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(c) Analysed by type of collateral

	2018
Unsecured loans	22,309,757
Guaranteed loans	81,392,459
Collateralised	115,649,217
Pledged	35,018,682
Gross loans and advances to customers	254,370,115
Accrued interest	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(9,313,961)
Net loans and advances to customers	246,551,689
	2017
Unsecured loans	9,202,443
Guaranteed loans	74,273,689
Collateralised	89,632,833
Pledged	25,793,984
Gross loans and advances to customers	198,902,949
Less: Provision for impairment losses	
– Individually assessed	(1,864,974)
– Collectively assessed	(5,329,140)
Total provision for impairment losses	(7,194,114)
Net loans and advances to customers	191,708,835

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(d) Overdue loans analyzed by overdue period

	2018				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	341,175	145,091	5,280	1,656	493,202
Guaranteed loans	2,516,079	1,625,290	1,312,993	183,809	5,638,171
Collateralised	1,670,363	906,866	1,296,242	115,397	3,988,868
Pledged	271,262	25,300	14,356	483,616	794,534
Total	4,798,879	2,702,547	2,628,871	784,478	10,914,775
As a percentage of gross loans and advances to customers	1.89%	1.06%	1.03%	0.31%	4.29%

	2017				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	199,824	10,227	21,952	1,094	233,097
Guaranteed loans	1,466,103	2,705,975	1,426,981	173,440	5,772,499
Collateralised	801,001	1,471,694	1,382,734	95,142	3,750,571
Pledged	29,924	30,436	737,456	–	797,816
Total	2,496,852	4,218,332	3,569,123	269,676	10,553,983
As a percentage of gross loans and advances to customers	1.26%	2.12%	1.79%	0.14%	5.31%

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

- (i) As at December 31, 2018, detailed information of Loans and advances to customers and provision for impairment losses is as follows:

	2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	219,650,701	9,933,139	5,762,285	235,346,125
Accrued interest	1,495,535	-	-	1,495,535
Less: Provision for impairment losses	(3,198,320)	(2,267,952)	(3,847,689)	(9,313,961)
Carrying amount of loans and advances to customers measured at amortised cost	217,947,916	7,665,187	1,914,596	227,527,699
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	18,548,918	1,091	473,981	19,023,990
Total carrying amount of loans and advances to customers	236,496,834	7,666,278	2,388,577	246,551,689

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses (Continued)

- (ii) As at December 31, 2017, detailed information of Loans and advances to customers and provision for impairment losses is as follows:

	2017			Total	Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed	Impaired loans and advances for which provision are collectively assessed	Impaired loans and advances for which provision are individually assessed		
Gross loans and advances to customers	195,260,403	1,055,725	2,586,821	198,902,949	1.83%
Less: Provision for impairment losses	(4,498,017)	(831,123)	(1,864,974)	(7,194,114)	
Net loans and advances to customers	190,762,386	224,602	721,847	191,708,835	

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

- (i) As at December 31, 2018, movements of provision for impairment of loans and advances to customers measured at amortised cost:

	2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	1,774,462	1,004,139	4,886,086	7,664,687
Transferred:				
– to expected credit losses over the next 12 months	306,800	(63,528)	(243,272)	–
– to lifetime expected credit losses: not credit-impaired loans	(194,699)	378,318	(183,619)	–
– to lifetime expected credit losses: credit-impaired loans	(47,604)	(160,947)	208,551	–
Charge for the year	1,359,361	1,109,970	3,388,437	5,857,768
Transfer out	–	–	(15,412)	(15,412)
Recoveries	–	–	187,396	187,396
Write-offs	–	–	(4,298,439)	(4,298,439)
Unwinding of discount	–	–	(82,039)	(82,039)
As at December 31	3,198,320	2,267,952	3,847,689	9,313,961

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

- (ii) As at December 31, 2018, movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	8,321	1	142,194	150,516
Charge/(release) for the year	11,682	(1)	213,292	224,973
As at December 31	20,003	–	355,486	375,489

- (iii) As at December 31, 2017, movements of provision for impairment losses is as follows:

	2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	
As at January 1	4,106,671	833,971	1,400,604	6,341,246
Charge for the year	391,346	167,057	663,510	1,221,913
Recoveries	–	5,181	99,019	104,200
Write-offs	–	(175,086)	(247,418)	(422,504)
Unwinding of discount	–	–	(50,741)	(50,741)
As at December 31	4,498,017	831,123	1,864,974	7,194,114

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB8,623.80 million to asset management companies and institutional investors at a consideration of RMB8,270.01 million. As at December 31, 2018, the Group has received cash of RMB6,950.17 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

21 Financial investments

	Note	2018	2017
Financial investments at fair value through profit or loss	(a)	43,869,291	9,865,812
Financial investments at fair value through other comprehensive income	(b)	43,693,209	–
Financial investments at amortised cost	(c)	165,083,362	–
Available-for-sale financial assets	(d)	–	94,558,846
Held-to-maturity investments	(e)	–	23,735,307
Debt securities classified as receivables	(f)	–	98,764,236
Total		252,645,862	226,924,201

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(a) Financial investments at fair value through profit or loss

	Note	2018	2017
Debt securities	(i)		
– Government		52,813	582,167
– Policy banks		420,676	952,922
– Banks and other financial institutions		6,236,589	8,041,970
– Corporate		4,153	288,753
Sub-total		6,714,231	9,865,812
Listed		56,968	601,796
Unlisted		6,657,263	9,264,016
Sub-total		6,714,231	9,865,812
Wealth management products issued by financial institutions		28,455,054	–
Investment management products managed by securities companies		5,998,555	–
Investment fund managed by public fund manager		2,701,451	–
Total		43,869,291	9,865,812

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 27(a)). No other investment were subject to material restrictions in the realization.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income

	Note	2018
Debt securities	(i)	
– Government		8,752,046
– Policy banks		14,634,462
– Banks and other financial institutions		10,148,454
– Corporate		5,321,131
Sub-total		38,856,093
Listed		9,046,714
Unlisted		29,809,379
Sub-total		38,856,093
Investment portfolio managed by financial institutions		4,115,759
Investment management products managed by trust plans		154,564
Sub-total		4,270,323
Accrued interest		542,897
Equity investments	(ii)	23,896
Total		43,693,209

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 27(a)). No other investment were subject to material restrictions in the realization.

(ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. As at December 31, 2018, the fair value of such equity investments was RMB23.90 million. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income (Continued)

(iii) As at December 31, 2018, movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	21,472	-	-	21,472
Transfers:				
- to lifetime expected credit losses credit-impaired	(125)	-	125	-
(Release)/charge for the period	(14,431)	-	75,366	60,935
Balance at December 31	6,916	-	75,491	82,407

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost

	Note	2018
Debt securities	(i)	
– Government		19,818,153
– Policy banks		13,018,795
– Banks and other financial institutions		3,971,656
– Corporate		8,903,860
Sub-total		45,712,464
Listed		19,448,305
Unlisted		26,264,159
Sub-total		45,712,464
Investment management products managed by trust plans		90,128,796
Investment fund managed by private fund manager		18,321,803
Investment management products managed by securities companies		5,444,414
Debt investment plans		5,685,000
Investment fund managed by financial institutions		2,306,021
Sub-total		121,886,034
Accrued interest		1,486,487
Less: Provision for impairment losses	(ii)	(4,001,623)
Total		165,083,362

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 27(a)). No other investment were subject to material restrictions in the realization.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

- (ii) As at December 31, 2018, movements of provision for impairment of financial investments at amortised cost are as follows:

	2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	260,342	95,627	3,876,780	4,232,749
Transfers:				
– to lifetime expected credit losses not credit-impaired	(2,415)	2,415	–	–
– to lifetime expected credit losses credit-impaired	(2,953)	(63,742)	66,695	–
(Release)/charge for the period	(7,836)	56,995	474,350	523,509
Write-offs	–	–	(754,635)	(754,635)
Balance at December 31	247,138	91,295	3,663,190	4,001,623

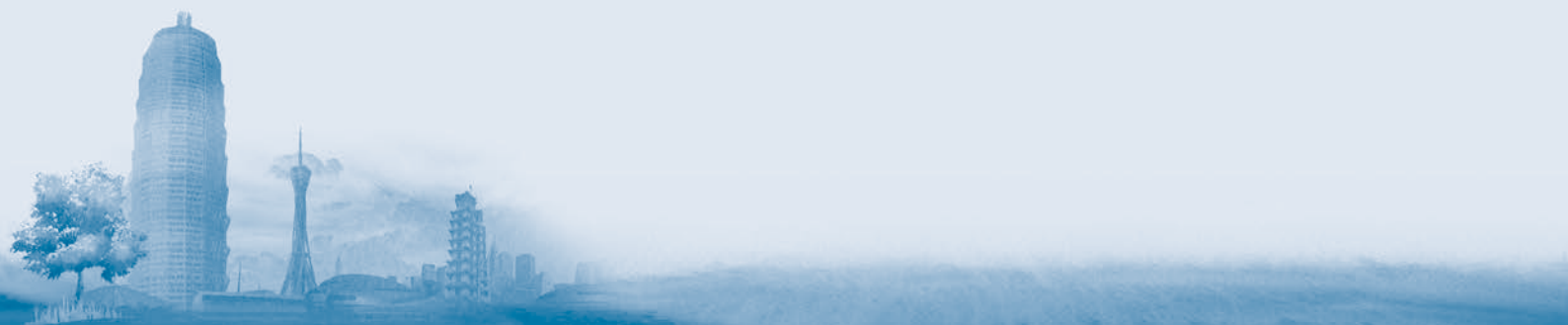
Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(d) Available-for-sale financial assets

	Note	2017
Equity investments at cost		
– unlisted	(i)	23,896
Debt securities		
– Government		8,227,603
– Policy banks		13,121,945
– Banks and other financial institutions		15,130,459
– Corporates		5,974,810
Subtotal		42,454,817
Listed		8,537,790
Unlisted		33,917,027
Subtotal		42,454,817
Investment management products managed by securities companies and trust plans		
– unlisted		11,177,367
Wealth management products issued by financial institutions		
– unlisted		31,471,850
Investment fund managed by private fund manager		
– unlisted	(ii)	4,691,463
Investment fund managed by financial institutions		
– unlisted		2,295,306
Investment portfolio managed by financial institutions		
– unlisted	(iii)	2,444,147
Total		94,558,846



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(d) Available-for-sale financial assets (Continued)

- (i) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.
- (ii) The underlying assets of investment fund managed by private fund manager are the beneficial rights of certain loans. The principal of the investment fund is guaranteed by an asset management company in the PRC.
- (iii) Investment portfolio managed by financial institutions represented investments in funds, bonds, trust schemes, and wealth management products.
- (iv) As at December 31, 2017, certain available-for-sale financial assets were pledged for repurchase agreements (Note 27(a)). No other investments were subject to material restrictions on the realization.

(e) Held-to-maturity investments

	Note	2017
Debt securities issued by the following institutions in mainland China		
– Government		12,504,577
– Policy banks		9,243,571
– Banks and other financial institutions		836,206
– Corporates		1,150,953
Total	(i)	23,735,307
Listed		12,134,737
Unlisted		11,600,570
Total	(ii)	23,735,307
Fair value		22,874,827

- (i) As at December 31, 2017, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 27(a)).
- (ii) The Group did not dispose of material held-to-maturity debt investments prior to their maturity dates for the year ended December 31, 2017.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(f) Debt securities classified as receivables

	2017
Investment management products managed by trust plan	66,216,954
Investment management products managed by securities companies	10,588,900
Investment management products managed by private fund manager	19,985,954
Private debt financing plans	1,900,000
Debt securities funds managed by financial institutions	776,916
Total	99,468,724
Less: Provision for impairment losses	(704,488)
Net carrying amount	98,764,236



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Investments in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

	Note	2018	2017
Xiping Fortune County Bank Co., Ltd. (“西平 財富村鎮銀行股份有限公司”)	(a)	176,686	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (“信陽平橋中原村鎮銀行股份有限 公司”)	(b)	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. (“淇 縣中原村鎮銀行股份有限公司”)	(c)	41,531	41,531
Henan Xinxiang Xinxing County Bank Co., Ltd. (“河南新鄉新興村鎮銀行股份有限公 司”)	(d)	150,306	58,806
Linzhou Defeng County Bank Co., Ltd. (“林州 德豐村鎮銀行股份有限公司”)	(e)	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. (“濮陽中原村鎮銀行股份有限公司”)	(f)	30,736	30,736
Lushi Zhongyuan County Bank Co., Ltd. (“盧 氏中原村鎮銀行股份有限公司”)	(g)	32,497	32,497
Xiangcheng Huipu County Bank Co., Ltd. (“襄城匯浦村鎮銀行股份有限公司”)	(h)	28,250	28,250
Suiping Zhongyuan County Bank Co., Ltd. (“遂平中原村鎮銀行股份有限公司”)	(i)	35,084	35,084
Henan Zhongyuan Consumer Finance Corp., Ltd. (“河南中原消費金融股份有限公司”)	(j)	625,000	325,000
Total		1,188,202	796,702

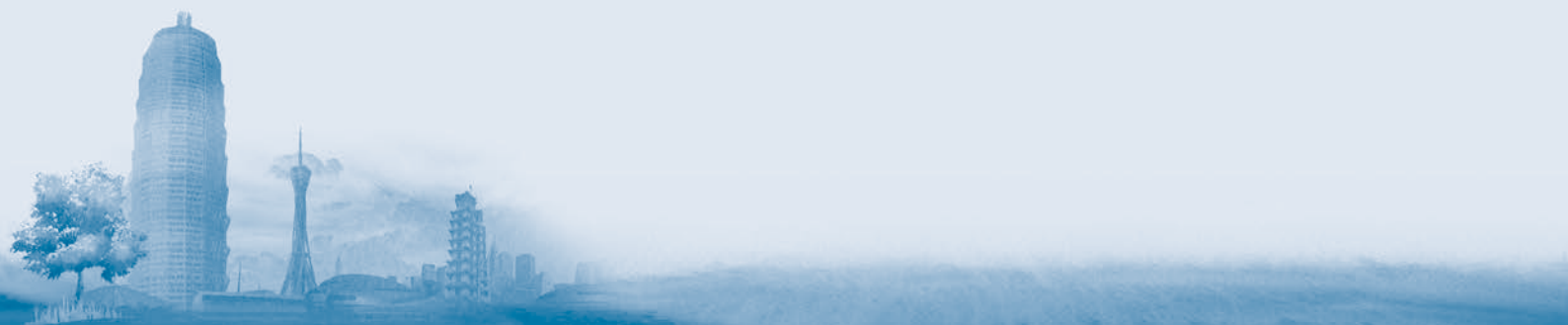
Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Investments in subsidiaries (Continued)

Notes:

- (a) Xiping Fortune County Bank Co., Ltd. (“Xiping Fortune”) was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest of Xiping Fortune as at December 31, 2018 (2017: 43.69%). According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (b) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (“Xinyang Pingqiao”, formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB83.52 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao as at December 31, 2018 (2017: 51.72%).
- (c) Qixian Zhongyuan County Bank Co., Ltd. (“Qixian Zhongyuan”, formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan as at December 31, 2018 (2017: 51%).
- (d) Henan Xinxiang Xinxing County Bank Co., Ltd. (“Xinxiang Xinxing”) was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB130.00 million. The principal activities of Xinxiang Xinxing are the provision of corporate and retail banking services. After purchased a portion of minority shareholders’ right and interest amounting to RMB91.50 million in November 26, 2018, the Bank holds 78.46% of equity interest and voting rights of Xinxiang Xinxing as at December 31, 2018 (2017: 31.54%). According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Xinxing, Xinxiang Xinxing was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014, prior to the purchase of minority interests in 2018.
- (e) Linzhou Defeng County Bank Co., Ltd. (“Linzhou Defeng”) was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB75.00 million. The principal activities of Linzhou Defeng are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Linzhou Defeng as at December 31, 2018 (2017: 51%).



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Investments in subsidiaries (Continued)

Notes: (Continued)

- (f) Puyang Zhongyuan County Bank Co., Ltd. (“Puyang Zhongyuan”, formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan as at December 31, 2018 (2017: 51%).
- (g) Lushi Zhongyuan County Bank Co., Ltd. (“Lushi Zhongyuan”, formerly known as Lushi Defeng County Bank Co., Ltd.) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB60.00 million. The principal activities of Lushi Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Lushi Zhongyuan as at December 31, 2018 (2017: 51%).
- (h) Xiangcheng Huipu County Bank Co., Ltd. (“Xiangcheng Huipu”) was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu as at December 31, 2018 (2017: 41%). According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (i) Suiping Zhongyuan County Bank Co., Ltd. (“Suiping Zhongyuan”, formerly known as Suiping Hengsheng County Bank Co., Ltd.) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Zhongyuan as at December 31, 2018 (2017: 51.02%).
- (j) Henan Zhongyuan Consumer Finance Corp., Ltd. (“Consumer Finance”) was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB500.00 million. After the capital injection of RMB300.00 million by the Bank on February 9, 2018, the registered capital of Consumer Finance increases to RMB800.00 million, and the Bank holds 78.13% of equity interest and voting rights of Consumer Finance as at December 31, 2018 (2017: 65%).

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
At January 1, 2017	5,349,802	158,493	936,410	32,687	363,433	450,797	7,291,622
Additions	37,364	-	172,992	402	51,278	112,054	374,090
Disposals	(34,008)	(34,422)	(14,626)	(3,296)	(1,692)	-	(88,044)
Transfers out of construction in progress	-	-	-	-	-	(13,457)	(13,457)
As at December 31, 2017	5,353,158	124,071	1,094,776	29,793	413,019	549,394	7,564,211
Additions	8,280	-	136,838	1,458	67,422	168,133	382,131
Disposals	(424,075)	(51,181)	(56,104)	(6,579)	(32,267)	-	(570,206)
Transfers out of construction in progress	-	-	-	-	-	(97,454)	(97,454)
As at December 31, 2018	4,937,363	72,890	1,175,510	24,672	448,174	620,073	7,278,682
Accumulated depreciation							
At January 1, 2017	(1,546,394)	(68,777)	(639,150)	(27,224)	(211,355)	-	(2,492,900)
Additions	(298,993)	(8,358)	(148,146)	(2,068)	(37,343)	-	(494,908)
Disposals	12,733	17,927	8,245	3,033	1,327	-	43,265
As at December 31, 2017	(1,832,654)	(59,208)	(779,051)	(26,259)	(247,371)	-	(2,944,543)
Additions	(288,492)	(7,470)	(172,908)	(1,611)	(41,667)	-	(512,148)
Disposals	187,623	27,183	53,872	6,422	29,550	-	304,650
As at December 31, 2018	(1,933,523)	(39,495)	(898,087)	(21,448)	(259,488)	-	(3,152,041)

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Property and equipment (Continued)

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Impairment							
At January 1, 2017	(8,476)	-	(2,463)	(283)	(2,032)	-	(13,254)
Disposals	92	-	60	54	2	-	208
As at December 31, 2017	(8,384)	-	(2,403)	(229)	(2,030)	-	(13,046)
Disposals	1,714	-	3	-	97	-	1,814
As at December 31, 2018	(6,670)	-	(2,400)	(229)	(1,933)	-	(11,232)
Net book value							
As at December 31, 2017	3,512,120	64,863	313,322	3,305	163,618	549,394	4,606,622
As at December 31, 2018	2,997,170	33,395	275,023	2,995	186,753	620,073	4,115,409

The carrying amount of the premises with incomplete title deeds as December 31, 2018 was RMB919.58 million (2017: RMB1,061.60 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Group are of the opinion that there would be no significant cost in obtaining the title deeds.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Property and equipment (Continued)

The net book values of premises as at December 31 are analyzed by the remaining terms of the leases as follows:

	2018	2017
Held in mainland China		
– Long-term leases (over 50 years)	772,547	1,138,337
– Medium-term leases (10 – 50 years)	1,581,666	1,701,974
– Short-term leases (less than 10 years)	642,957	671,809
Total	2,997,170	3,512,120

The net book value of investment properties as at December 31 are analyzed by the remaining terms of the leases as follows:

	2018	2017
Held in mainland China		
– Medium-term leases (10 – 50 years)	33,395	64,863

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Deferred tax assets

(a) Analyzed by nature

	2018		2017	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/ (liabilities):				
Allowance for impairment losses	14,402,760	3,600,690	7,357,152	1,839,288
Accrued staff cost payable	1,060,780	265,195	849,284	212,321
Supplemental retirement benefits	112,208	28,052	123,016	30,754
Fair value changes of financial assets	(613,856)	(153,464)	1,369,184	342,296
Deferred income	589,376	147,344	429,832	107,458
Assets appraisal and related depreciation	(1,776,440)	(444,110)	(2,044,228)	(511,057)
Others	235,764	58,941	99,432	24,858
Net balances	14,010,592	3,502,648	8,183,672	2,045,918

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Deferred tax assets (Continued)

(b) Movements of deferred tax assets

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2017	1,507,171	258,811	37,136	208,290	55,070	(557,034)	20,130	1,529,574
Recognized in profit or loss	332,117	(46,490)	(6,382)	12,655	52,388	45,977	4,728	394,993
Recognized in other comprehensive income	-	-	-	121,351	-	-	-	121,351
December 31, 2017	1,839,288	212,321	30,754	342,296	107,458	(511,057)	24,858	2,045,918
Impact on initial application of IFRS 9	788,748	-	-	(204,531)	-	-	13,241	597,458
January 1, 2018	2,628,036	212,321	30,754	137,765	107,458	(511,057)	38,099	2,643,376
Recognized in profit or loss	972,654	52,874	(2,702)	(127,984)	39,886	66,947	20,842	1,022,517
Recognized in other comprehensive income	-	-	-	(163,245)	-	-	-	(163,245)
December 31, 2018	3,600,690	265,195	28,052	(153,464)	147,344	(444,110)	58,941	3,502,648

25 Goodwill

Goodwill

Cost:

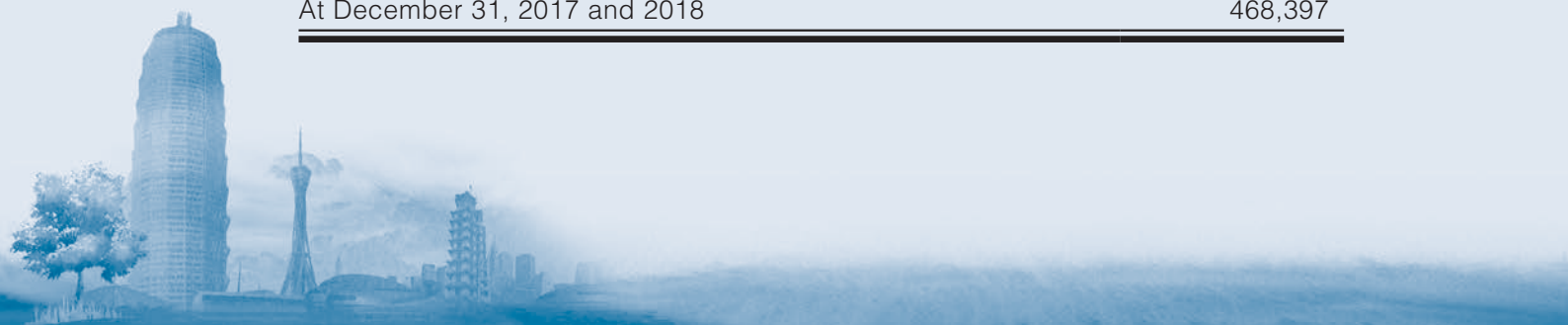
At December 31, 2017 and 2018 468,397

Accumulated impairment losses:

At December 31, 2017 and 2018 -

Carrying amount:

At December 31, 2017 and 2018 468,397



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Goodwill (Continued)

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2018	2017
Corporate banking	309,219	309,219
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	468,397	468,397

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 9.92% at December 31, 2018 (2017: 13.05%). Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Other assets

	Note	2018	2017
Interests receivable	(a)	363,811	3,516,149
Receivables from disposal of loans	20(g)	1,200,317	1,387,381
Intangible assets	(b)	1,258,659	1,264,170
Repossessed assets		1,771,214	1,114,820
Leasehold improvements		569,133	464,401
Other receivables		1,168,781	843,806
Total		6,331,915	8,590,727

(a) Interests receivable

	2018	2017
Interests receivable arising from:		
Investments	138,629	2,236,107
Loans and advances to customers	293,357	1,188,808
Others	–	91,234
Total	431,986	3,516,149
Less: Provision for impairment losses	(68,175)	–
Net carrying amount	363,811	3,516,149

As at December 31, 2018, Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Other assets (Continued)

(b) Intangible assets

	Land use rights	Computer software	Total
Cost			
As at January 1, 2017	1,190,046	378,843	1,568,889
Additions	5,860	138,284	144,144
Disposals	-	(10,997)	(10,997)
As at December 31, 2017	1,195,906	506,130	1,702,036
Additions	19	186,021	186,040
Disposals	(3,896)	(44,654)	(48,550)
As at December 31, 2018	1,192,029	647,497	1,839,526
Accumulated amortization			
As at January 1, 2017	(96,070)	(226,701)	(322,771)
Additions	(34,449)	(72,521)	(106,970)
Disposals	-	2,282	2,282
As at December 31, 2017	(130,519)	(296,940)	(427,459)
Additions	(35,443)	(151,993)	(187,436)
Disposals	884	43,551	44,435
As at December 31, 2018	(165,078)	(405,382)	(570,460)
Impairment			
As at January 1, 2017	(9,097)	(1,418)	(10,515)
Disposals	-	108	108
As at December 31, 2017	(9,097)	(1,310)	(10,407)
Disposals	-	-	-
As at December 31, 2018	(9,097)	(1,310)	(10,407)
Net book value			
As at December 31, 2018	1,017,854	240,805	1,258,659
As at December 31, 2017	1,056,290	207,880	1,264,170

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Pledged assets

(a) Assets pledged as collateral

	Note	2018	2017
For repurchase agreements			
– Discounted bills		2,892,287	850,000
– Financial investments at fair value through profit or loss	21(a)	4,766,872	905,488
– Financial investments at fair value through other comprehensive income	21(b)	8,124,400	–
– Financial investments at amortised cost	21(c)	18,832,927	–
– Available-for-sale financial assets	21(d)	–	22,442,936
– Held-to-maturity investments	21(e)	–	19,096,476
Total		34,616,486	43,294,900

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at December 31, 2018, the carrying amounts of the received pledged assets is RMB16,336.61 million (2017: RMB13,949.80 million).

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	2018	2017
In mainland China		
– Banks	10,838,827	26,028,927
– Other financial institutions	49,548,657	13,621,905
Sub-total	60,387,484	39,650,832
Accrued interest	414,471	–
Total	60,801,955	39,650,832

29 Placements from banks and other financial institutions

	2018	2017
In mainland China		
– Banks	12,177,156	5,085,684
– Other financial institutions	200,000	631,421
Sub-total	12,377,156	5,717,105
Outside mainland China		
– Banks	271,022	–
Sub-total	12,648,178	5,717,105
Accrued interest	81,032	–
Total	12,729,210	5,717,105

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	2018	2017
In mainland China		
– Banks	32,593,388	38,391,391
– Other financial institutions	914,780	2,418,457
Sub-total	33,508,168	40,809,848
Accrued interest	19,728	–
Total	33,527,896	40,809,848

(b) Analyzed by collateral

	2018	2017
Debt securities	30,617,816	39,960,202
Discounted bills	2,890,352	849,646
Sub-total	33,508,168	40,809,848
Accrued interest	19,728	–
Total	33,527,896	40,809,848

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Deposits from customers

	2018	2017
Demand deposits		
– Corporate customers	127,739,658	124,625,366
– Individual customers	40,566,809	48,355,209
Sub-total	168,306,467	172,980,575
Time deposits		
– Corporate customers	38,988,002	31,998,949
– Individual customers	107,070,420	76,287,727
Sub-total	146,058,422	108,286,676
Pledged deposits	31,633,015	25,098,429
Inward and outward remittances	191,091	342,604
Sub-total	346,188,995	306,708,284
Accrued interest	3,197,960	–
Total	349,386,955	306,708,284

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Debt securities issued

	Note	2018	2017
Interbank deposits issued	(a)	80,048,236	74,128,630
Financial bonds	(b)	2,999,102	–
Tier-two capital bonds	(c)	9,999,668	–
Sub-total		93,047,006	74,128,630
Accrued interest		230,570	–
Total		93,277,576	74,128,630

Notes:

- (a) In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB123,570.00 million and duration between 1–12 months. The coupon rates ranged from 2.4% to 5.15% per annum (2017: the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB131,540.00 million and duration between 1–12 months. The coupon rates ranged from 3.7% to 5.8% per annum).

As at December 31, 2018, the fair value of interbank deposits issued was RMB80,163.67 million (2017: RMB73,976.14 million).

- (b) Fixed rate financial bonds of RMB1.5 billion with a term of three years was issued by the Bank in May 2018. The coupon rate is 4.79% per annum.

Fixed rate green financial bonds of RMB1.5 billion with a term of three years was issued in April 2018. The coupon rate is 4.70% per annum.

As at December 31, 2018, the fair value of financial bonds issued was RMB3,054.75 million (December 31, 2017: nil).

- (c) Fixed rate tier-two capital bonds of RMB10 billion with a term of 10 years was issued by the Bank in September 2018. The coupon rate is 5.2% per annum.

As at December 31, 2018, the fair value of tier-two capital bonds issued was RMB10,148.39 million (December 31, 2017: nil).



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities

	Note	2018	2017
Interests payable	(a)	–	2,965,736
Payment and collection clearance accounts		708,069	774,482
Accrued staff cost	(b)	2,029,884	1,658,664
Other tax payable		393,461	274,380
Dividend payable		492,074	189,898
Provision	(c)	112,104	25,966
Other payable		776,854	687,603
Total		4,512,446	6,576,729

(a) Interests payable

	2017
Interests payable arising from:	
Deposits from customers	2,544,173
Deposits and placements from banks and other financial institutions	405,178
Repurchase agreements	16,318
Others	67
Total	2,965,736

As at December 31, 2018, Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Accrued staff cost

	Note	2018	2017
Salary, bonuses and allowances payable		1,764,394	1,420,685
Social insurance payable		57,746	32,296
Housing allowances payable		1,013	3
Labor union fee, staff and workers' education fee		91,256	79,993
Supplementary retirement benefits payable	(1)	115,475	125,687
Total		2,029,884	1,658,664

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities (Continued)

(b) Accrued staff cost (Continued)

(1) Supplementary retirement benefits

The supplementary retirement benefits of the Bank include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Bank's eligible employees.

(i) *The balances of supplementary retirement benefits of the Group are as follows:*

	2018	2017
Present value of early retirement plan	106,702	117,722
Supplementary retirement plan	8,773	7,965
Total	115,475	125,687

(ii) *The movements of supplementary retirement benefits of the Group are as follows:*

	2018	2017
As at January 1	125,687	149,699
Benefits paid during the year	(24,887)	(24,297)
Defined benefit cost recognized in profit or loss	14,078	(1,229)
Defined benefit cost recognized in other comprehensive income	597	1,514
As at December 31	115,475	125,687

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities (Continued)

(b) Accrued staff cost (Continued)

(1) Supplementary retirement benefits (Continued)

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	2018	2017
Discount rate	3.00%	3.75%
Annual increase rate of internal salary	4.50%	4.50%
Supplementary retirement plan	2018	2017
Discount rate	3.75%	4.25%

(iv) Sensitivity analysis:

Early retirement plan	2018		2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(4,102)	4,446	(4,762)	5,171
Supplementary retirement plan	2018		2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,595)	2,109	(1,438)	1,901

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities (Continued)

(c) Provisions

	Note	2018	2017
Litigations and disputes provision		25,966	25,966
Credit commitments provision	(i)	86,138	–
Total		112,104	25,966

- (i) As at December 31, 2018, movements of credit commitments provision is as follows:

	2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	51,149	1,806	6	52,961
Transfers:				
– to expected credit losses over the next 12 months	54	(49)	(5)	–
– to lifetime expected credit losses credit-impaired	–	(4)	4	–
Charge/(release) for the year	34,595	(1,566)	148	33,177
Balance at December 31	85,798	187	153	86,138

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Share capital

Share capital of the Group as at December 31, 2018 and 2017 represented share capital of the Bank, which is fully paid.

	Note	2018	2017
Ordinary shares in Mainland China		16,280,000	16,280,000
Ordinary shares listed in Hong Kong (H-share)	(a)	3,795,000	3,795,000
Total		20,075,000	20,075,000

Note:

- (a) On July 19, 2017, the Bank issued 3,000.00 million H-shares with a par value of RMB1 at an offering price of HKD2.45 per share (the "H-share offering"). On August 15, 2017, the Bank exercised the over-allotment option and issued 450.00 million H-shares with a nominal value of RMB1.00 at HKD2.45 per share. The capital contribution was verified by KPMG Huazhen LLP.

Immediately following the H-share offering, 345 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Reserves

(a) Capital reserve

	Note	2018	2017
Share premium		14,477,471	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	213,457	(938,921)
Impairment losses recognized in other comprehensive income	(ii)	457,896	–
Changes on remeasurement of defined benefit liabilities	(iii)	(3,267)	(2,670)
Changes in ownership in subsidiaries without changes in control		(164,240)	(361)
Total		14,981,317	13,535,519

(i) Investment revaluation reserve

	2018	2017
As at January 1	(274,882)	(574,870)
Changes in fair value recognised in other comprehensive income	421,745	(839,722)
Transfer to profit or loss upon disposal	229,373	354,320
Less: deferred income tax	(162,779)	121,351
Total	213,457	(938,921)

(ii) Impairment reserve

	2018
As at January 1	171,988
Impairment losses recognized in other comprehensive income	285,908
Total	457,896

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Reserves (Continued)

(a) Capital reserve (Continued)

(iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2018	2017
As at January 1	(2,670)	(1,156)
Changes in fair value recognised in other comprehensive income	(597)	(1,514)
Total	(3,267)	(2,670)

(b) Surplus reserve

The surplus reserve at the end of reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB242.56 million to the statutory surplus reserve fund for the year of 2018 (2017: RMB381.00 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve amounted to RMB7,884.33 million as at December 31, 2018 (2017: RMB6,386.31 million).



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Retained earnings

(a) Appropriation of profits

In accordance with the resolution of the Bank's board of directors meeting held on March 28, 2019, the proposed profit appropriations for the year ended December 31, 2018 is listed as follows:

- Appropriation of statutory surplus reserve amounted to RMB242.56 million; and
- Appropriation of general reserve amounted to RMB1,498.01 million.
- Declaration of cash dividend of RMB0.35 per 10 shares before tax and in aggregation amount of RMB702.63 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

In accordance with the resolution of the Bank's Annual General Meeting held on May 16, 2018, the shareholders approved the profit distribution plan for the year ended December 31, 2017:

- Appropriation of statutory surplus reserve amounted to RMB381.00 million;
- Appropriation of general reserve amounted to RMB1,251.54 million; and
- Declaration of cash dividend of RMB0.71 per 10 shares before tax and in aggregation amount of RMB1,425.33 million to all shareholders.

The surplus reserve represented statutory surplus reserve fund.

As at December 31, 2018, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB44.03 million of surplus reserve made by subsidiaries (2017: RMB36.06 million).

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Retained earnings (Continued)

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the year 2018 and 2017 are set out below.

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at December 31, 2017	20,075,000	-	13,535,880	1,258,065	6,320,746	4,022,518	45,212,209
Impact on initial application of IFRS 9	-	-	836,027	-	-	(2,479,306)	(1,643,279)
Balance at January 1, 2018	20,075,000	-	14,371,907	1,258,065	6,320,746	1,543,212	43,568,930
Changes in equity for the year:							
Net profit for the year	-	-	-	-	-	2,425,547	2,425,547
Other comprehensive income	-	-	772,564	-	-	-	772,564
Total comprehensive income	-	-	772,564	-	-	2,425,547	3,198,111
Capital invested by other equity instrument holders	-	9,632,791	-	-	-	-	9,632,791
Appropriation to surplus reserve	-	-	-	242,555	-	(242,555)	-
Appropriation to general reserve	-	-	-	-	1,480,802	(1,480,802)	-
Appropriation to shareholders	-	-	-	-	-	(1,425,325)	(1,425,325)
Balance at December 31, 2018	20,075,000	9,632,791	15,144,471	1,500,620	7,801,548	820,077	54,974,507

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Retained earnings (Continued)

(b) Movements in components of equity (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2017	16,625,000	-	10,275,243	877,063	5,080,799	1,833,444	34,691,549
Changes in equity for the year:							
Net profit for the year	-	-	-	-	-	3,810,023	3,810,023
Other comprehensive income	-	-	(365,565)	-	-	-	(365,565)
Total comprehensive income	-	-	(365,565)	-	-	3,810,023	3,444,458
Issue of H-shares	3,450,000	-	3,626,202	-	-	-	7,076,202
Appropriation to surplus reserve	-	-	-	381,002	-	(381,002)	-
Appropriation to general reserve	-	-	-	-	1,239,947	(1,239,947)	-
Balance at December 31, 2017	20,075,000	-	13,535,880	1,258,065	6,320,746	4,022,518	45,212,209

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments

(a) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/Interest rate	Issue price	Quantities	In original currency		Maturity	Conversion conditions
						million	RMB million		
Offshore preference shares	21/11/2018	Equity	5.60%	USD20/share	69,750,000	1,395	9,688	None	Mandatory conversion trigger events
Less: issuing cost							(55)		
Book value							9,633		

(b) Main clause

(i) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the Offshore Preference Shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the Offshore Preference Shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the Offshore Preference Shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments (Continued)

(b) Main clause (Continued)

(ii) Dividend accumulation

The dividends on the Offshore Preference Shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the Offshore Preference Shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

(iii) Distribution of residual profits

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

(iv) Mandatory conversion trigger events

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the Offshore Preference Shares then issued and outstanding into H Shares based on the aggregate value of such Offshore Preference Shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the Offshore Preference Shares shall be converted ratably and on the same conditions. Upon conversion of the Offshore Preference Shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the Offshore Preference Shares then issued and outstanding into H Shares based on the aggregate value of such Offshore Preference Shares. Upon conversion of the Offshore Preference Shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the former CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments (Continued)

(b) Main clause (Continued)

(v) *Conditional redemption*

From the fifth year following the date of issuance of the Offshore Preference Shares, and subject to obtaining the approval of the former CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the Offshore Preference Shares. The redemption price of the Offshore Preference Shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

38 Involvement with unconsolidated structured entities

(a) **Structured entities sponsored by third party institutions in which the Group holds an interest**

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Involvement with unconsolidated structured entities (Continued)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at December 31:

	2018	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	37,155,060	37,155,060
Financial investments at fair value through other comprehensive income	154,564	154,564
Financial investments at amortised cost	118,708,580	118,708,580
Total	156,018,204	156,018,204

	2017	
	Carrying amount	Maximum exposure
Available-for-sale financial assets	49,635,986	49,635,986
Debt securities classified as receivables	98,764,236	98,764,236
Total	148,400,222	148,400,222

As at December 31, 2018 and 2017, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Involvement with unconsolidated structured entities (Continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2018 and 2017, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB42,090.83 million (2017: RMB32,604.62 million).

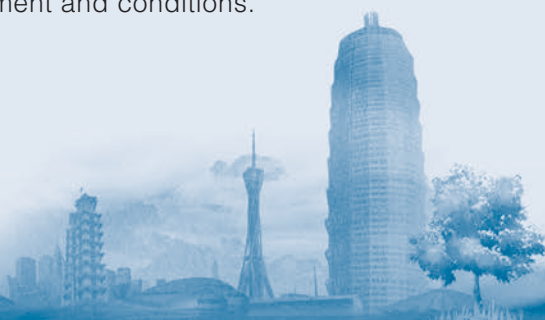
(c) Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in as at December 31:

For the year ended December 31, 2018, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB48,248.86 million (2017: RMB50,697.91 million).

39 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Capital management (Continued)

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (Provisional)” and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with “Regulation Governing Capital of Commercial Banks (Provisional)”. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group’s statutory financial statements prepared in accordance with PRC GAAP.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Capital management (Continued)

The Group's capital adequacy ratios as at December 31 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	2018	2017
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,605,828	13,535,519
– Surplus reserve	1,500,620	1,258,065
– General reserve	7,884,326	6,386,313
– Retained earnings	783,400	4,014,023
– Qualifying portions of non-controlling interests	373,274	301,440
Core tier-one capital deductions		
– Goodwill	(468,397)	(468,397)
– Other intangible assets other than land use rights	(240,805)	(207,880)
Net core tier-one capital	44,513,246	44,894,083
Other tier-one capital	9,682,561	39,828
Net tier-one capital	54,195,807	44,933,911
Tier-two capital		
– Instruments issued and share premium	9,999,668	–
– Surplus provision for loan impairment	3,482,673	3,551,568
– Qualifying portions of non-controlling interests	99,540	83,545
Net capital base	67,777,688	48,569,024
Total risk weighted assets	471,778,961	369,459,199
Core tier-one capital adequacy ratio	9.44%	12.15%
Tier-one capital adequacy ratio	11.49%	12.16%
Capital adequacy ratio	14.37%	13.15%

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Notes to the consolidated cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	2018	2017
Cash and cash equivalents as at December 31	55,712,428	43,080,066
Less: Cash and cash equivalents as at January 1	43,080,066	43,741,320
Net increase/(decrease) in cash and cash equivalents	12,632,362	(661,254)

(b) Cash and cash equivalents

	2018	2017
Cash on hand	1,473,473	1,523,007
Deposits with the central bank	24,455,110	21,112,137
Deposits with banks and other financial institutions	12,163,833	6,792,950
Financial assets held under resale agreements	16,335,753	12,988,617
Placement with banks and other financial institutions	1,284,259	663,355
Total	55,712,428	43,080,066

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions

(a) Relationship of related parties:

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2018	2017
Henan Investment Group Co., Ltd.	7.01%	7.01%
Henan Energy and Chemical Engineering Group Co., Ltd. (*)	6.48%	6.48%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	5.76%	5.76%
Tian Kun Investment Co, Ltd.	4.99%	3.62%
Henan Shengrun Holdings Co., Ltd.	3.75%	3.75%

* As at December 31, 2018, the interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Henan Guolong Mineral Construction Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., Kaifeng Tieta Rubber (Group) Co., Ltd..

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 22.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 41 (a) or their controlling shareholders.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(b) Related party transactions and balances:

(i) Transactions between the Bank and major shareholders:

	2018	2017
Transactions during the year:		
Interest income	77,587	88,365
Interest expense	852	1,764

	2018	2017
Balances at end of the year:		
Loans and advances to customers	300,596	1,100,000
Financial investments	847,704	1,726,710
Interests receivable	–	10,752
Deposits from customers	86,753	194,900
Interests payable	–	23

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(b) Related party transactions and balances: (Continued)

(iii) Transactions between the Bank and other related parties:

	2018	2017
Transactions during the year:		
Interest income	258,241	192,389
Interest expense	117,469	89,516
Operating expense	9,538	8,053

	2018	2017
Balances at end of the year:		
Loans and advances to customers	3,694,991	2,703,434
Financial investment	2,483,920	2,327,500
Interests receivable	–	8,757
Deposits from customers	4,354,197	3,610,435
Deposits from banks and other financial institutions	1,849,884	870,338
Interests payable	–	26,896

	2018	2017
Balances of items off the consolidated statement of financial position outstanding as at end of the year:		
Letters of credit	3,610,000	190,000
Bank acceptances	3,254,728	3,309,428
Letters of guarantees	1,500	–

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	2018	2017
Transactions during the year:		
Interest income	499	739
Interest expense	128	59

	2018	2017
Balances at end of the year:		
Loans and advances to customers	17,815	17,434
Interests receivable	–	26
Deposits from customers	11,166	9,949
Interests payable	–	12

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2018	2017
Salaries and other emoluments	13,542	17,282
Discretionary bonuses	23,620	35,753
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	3,621	2,991
Total	40,783	56,026

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(d) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	2018	2017
Aggregate amount of relevant loans outstanding at the end of the year	17,788	17,434
Maximum aggregate amount of relevant loans outstanding during the year	17,788	17,434

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2018 and 2017.

42 Segment reporting

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

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

Financial markets business

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

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

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year 2018 and 2017 to acquire property and equipment, intangible assets and other long-term assets.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	Corporate banking	Retail banking	2018 Financial markets business	Others	Total
Operating income					
External net interest income	10,508,427	2,773,755	462,006	–	13,744,188
Internal net interest (expense)/income	(1,747,008)	2,060,075	(313,067)	–	–
Net interest income	8,761,419	4,833,830	148,939	–	13,744,188
Net fee and commission income	945,360	192,596	142,277	–	1,280,233
Net trading gains	14,139	–	351,067	–	365,206
Net gains arising from investment securities	8,700	–	1,294,832	–	1,303,532
Other operating income	3,488	543	296	86,124	90,451
Operating income	9,733,106	5,026,969	1,937,411	86,124	16,783,610
Operating expenses	(3,289,683)	(2,713,970)	(635,911)	(317,951)	(6,957,515)
Impairment losses on assets	(4,648,661)	(1,530,120)	(602,755)	(70,009)	(6,851,545)
Profit/(loss) before tax	1,794,762	782,879	698,745	(301,836)	2,974,550

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	Corporate banking	Retail banking	2018 Financial markets business	Others	Total
Segment assets	249,607,938	139,949,449	224,931,163	2,453,071	616,941,621
Deferred tax assets	–	–	–	3,502,648	3,502,648
Total assets	249,607,938	139,949,449	224,931,163	5,955,719	620,444,269
Segment liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513
Total liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513
Other segment information					
– Depreciation and amortization	511,642	213,685	116,478	3,466	845,271
– Capital expenditure	463,961	193,770	105,623	3,143	766,497

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	Corporate banking	Retail banking	2017 Financial markets business	Others	Total
Operating income					
External net interest income	9,238,695	1,294,505	1,668,068	–	12,201,268
Internal net interest (expense)/ income	(1,411,001)	1,838,681	(427,680)	–	–
Net interest income	7,827,694	3,133,186	1,240,388	–	12,201,268
Net fee and commission income	542,378	31,168	196,024	–	769,570
Net trading losses	–	–	(156,956)	(222,329)	(379,285)
Net losses arising from investment securities	–	–	(375)	–	(375)
Other operating income	10,586	9,576	846	203,276	224,284
Operating income	8,380,658	3,173,930	1,279,927	(19,053)	12,815,462
Operating expenses	(2,887,365)	(2,077,522)	(433,996)	(360,142)	(5,759,025)
Impairment losses on assets	(1,048,617)	(663,663)	(319,663)	3,862	(2,028,081)
Profit/(loss) before tax	4,444,676	432,745	526,268	(375,333)	5,028,356

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	Corporate banking	Retail banking	2017 Financial markets business	Others	Total
Segment assets	238,398,082	98,362,094	180,670,467	2,513,265	519,943,908
Deferred tax assets	–	–	–	2,045,918	2,045,918
Total assets	238,398,082	98,362,094	180,670,467	4,559,183	521,989,826
Segment liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215
Total liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215
Other segment information					
– Depreciation and amortization	415,106	150,283	76,190	80,912	722,491
– Capital expenditure	302,164	114,726	55,411	81,088	553,389

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

Credit risk management after adopting IFRS 9

After adopting IFRS 9 at January 1, 2018, the financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (Continued)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2018, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (Continued)

Definition of “default” and “credit-impaired assets”

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (Continued)

Measurement of expected credit losses (“ECL”)

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (Continued)

Measurement of expected credit losses (“ECL”) (Continued)

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each reporting period.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

	2018			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)
Balance of financial assets that are assessed for expected credit losses over the next 12 months				
– Overdue but not credit-impaired	27,136	–	–	–
– Neither overdue nor credit-impaired	238,172,483	25,664,201	16,336,610	201,605,544
Sub-total	238,199,619	25,664,201	16,336,610	201,605,544
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses				
– Overdue but not credit-impaired	4,651,373	–	–	479,900
– Neither overdue nor credit-impaired	5,282,857	–	–	114,500
Sub-total	9,934,230	–	–	594,400
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses				
– Overdue and credit-impaired	6,236,266	19,027	–	8,524,970
– Credit-impaired but not overdue	–	–	–	–
Sub-total	6,236,266	19,027	–	8,524,970
Accrued interest	1,495,535	235,327	9,431	2,029,384
Less: Provision for impairment losses	(9,313,961)	(23,008)	(857)	(4,001,623)
Net value	246,551,689	25,895,547	16,345,184	208,752,675

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:
(Continued)

	2017			
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments(*)
Impaired				
Individually assessed gross amount	2,586,821	19,027	-	1,259,491
Provision for impairment losses	(1,864,974)	(19,027)	-	(236,434)
Sub-total	721,847	-	-	1,023,057
Collectively assessed gross amount	1,055,725	-	-	-
Provision for impairment losses	(831,123)	-	-	-
Sub-total	224,602	-	-	-
Overdue but not impaired				
Less than three months (inclusive)	2,486,554	-	-	-
Between three months and six months (inclusive)	1,552,578	-	-	-
Between six months and one year (inclusive)	1,715,538	-	-	-
More than one year	1,159,768	-	-	-
Gross amount	6,914,438	-	-	-
Provision for impairment losses	(1,277,246)	-	-	-
Sub-total	5,637,192	-	-	-
Neither overdue nor impaired				
Gross amount	188,345,965	10,287,106	12,988,617	226,345,302
Provision for impairment losses	(3,220,771)	-	-	(468,054)
Sub-total	185,125,194	10,287,106	12,988,617	225,877,248
Total	191,708,835	10,287,106	12,988,617	226,900,305

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

- (ii) Financial assets analyzed by credit quality are summarized as follows:
(Continued)

* As at December 31, 2018, Financial investments doesn't include financial investments at fair value through profit or loss and non-trading equity investments designated as financial investments at fair value through other comprehensive income.

As at December 31, 2018, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,858.49 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB1,175.66 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at December 31, 2017, the fair value of collaterals held against loans and advances overdue but not impaired and loans and advances impaired amounted to RMB4,570.64 million and RMB462.90 million, respectively. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at December 31, 2018 and 2017.

(iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institution. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	2018	2017
Neither overdue nor impaired		
Ratings		
– A to AAA	31,364,424	20,350,998
– B to BBB	–	2,924,725
– unrated	10,876,307	–
Total	42,240,731	23,275,723

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at December 31 are as follows:

	2018	2017
Neither overdue nor impaired		
Ratings		
– AAA	3,622,616	2,687,416
– AA – to AA+	3,213,453	1,456,174
– unrated	85,577,823	71,912,346
Total	92,413,892	76,055,936

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions. The Finance Management Department is responsible for monitoring and managing the interest rate risk, the Trade Finance Department is responsible for monitoring and managing the foreign exchange risk on a daily basis. The Finance Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Finance Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets business’ investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2018					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	63,049,054	-	-	-	1,495,468	64,544,522
Deposits with banks and other financial institutions	12,163,833	3,640,000	-	-	59,706	15,863,539
Placement with banks and other financial institutions	1,284,259	8,572,128	-	-	175,621	10,032,008
Derivative financial assets	4,910	38,186	-	-	-	43,096
Financial assets held under resale agreements	16,335,753	-	-	-	9,431	16,345,184
Loans and advances to customers (Note (i))	189,569,543	41,484,016	12,045,207	1,957,388	1,495,535	246,551,689
Financial investments	27,299,327	51,472,113	104,468,466	23,483,385	45,922,571	252,645,862
Others	-	-	-	-	14,418,369	14,418,369
Total assets	309,706,679	105,206,443	116,513,673	25,440,773	63,576,701	620,444,269
Liabilities						
Borrowing from the central bank	2,425,026	6,734,870	-	-	87,648	9,247,544
Deposits from banks and other financial institutions	44,766,471	15,621,013	-	-	414,471	60,801,955
Placement from banks and other financial institutions	6,915,574	5,732,604	-	-	81,032	12,729,210
Derivative financial liabilities	189,376	38,708	-	-	-	228,084
Financial assets sold under repurchase agreements	33,508,168	-	-	-	19,728	33,527,896
Deposits from customers	208,323,343	77,870,839	59,426,076	6,712	3,759,985	349,386,955
Debt securities issued	29,891,305	50,156,931	2,999,102	9,999,668	230,570	93,277,576
Others	-	-	-	-	5,567,293	5,567,293
Total liabilities	326,019,263	156,154,965	62,425,178	10,006,380	10,160,727	564,766,513
Asset-liability gap	(16,312,584)	(50,948,522)	54,088,495	15,434,393	53,415,974	55,677,756

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

	2017					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	62,846,396	-	-	-	1,523,007	64,369,403
Deposits with banks and other financial institutions	6,792,950	2,130,801	-	-	-	8,923,751
Placement with banks and other financial institutions	663,355	700,000	-	-	-	1,363,355
Financial assets held under resale agreements	12,988,617	-	-	-	-	12,988,617
Loans and advances to customers (Note (i))	142,246,905	39,894,905	8,840,719	726,306	-	191,708,835
Financial investments	54,605,033	56,135,528	80,351,359	35,808,385	23,896	226,924,201
Others	-	-	-	-	15,711,664	15,711,664
Total assets	280,143,256	98,861,234	89,192,078	36,534,691	17,258,567	521,989,826
Liabilities						
Borrowing from the central bank	688,924	633,963	-	-	-	1,322,887
Deposits from banks and other financial institutions	22,646,832	16,754,000	250,000	-	-	39,650,832
Placement from banks and other financial institutions	4,074,729	1,642,376	-	-	-	5,717,105
Financial assets sold under repurchase agreements	40,809,848	-	-	-	-	40,809,848
Deposits from customers	219,974,244	57,066,949	28,177,768	20,426	1,468,897	306,708,284
Debt securities issued	32,829,370	41,299,260	-	-	-	74,128,630
Others	-	-	-	-	7,561,629	7,561,629
Total liabilities	321,023,947	117,396,548	28,427,768	20,426	9,030,526	475,899,215
Asset-liability gap	(40,880,691)	(18,535,314)	60,764,310	36,514,265	8,228,041	46,090,611

Note:

- (i) As at December 31, 2018, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB5,990.55 million (2017: RMB6,354.27 million).

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at December 31, 2018, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease by RMB408.93 million (2017: decrease by RMB409.65 million), and the Group's equity to decrease by RMB1,176.28 million (2017: decrease by RMB320.41 million); a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase by RMB408.93 million (2017: increase by RMB409.65 million), and the Group's equity to increase by RMB1,176.28 million (2017: increase by RMB320.41 million).

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

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;



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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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



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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	RMB	USD (RMB Equivalent)	2018 HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	64,460,865	82,122	259	1,276	64,544,522
Deposits with banks and other financial institutions	9,132,037	5,224,801	1,493,346	13,355	15,863,539
Placement with banks and other financial institutions	8,673,094	1,358,914	-	-	10,032,008
Financial assets held under resale agreements	16,345,184	-	-	-	16,345,184
Loans and advances to customers	244,394,350	2,157,339	-	-	246,551,689
Financial investments	241,605,981	9,375,101	1,664,780	-	252,645,862
Derivative financial assets	43,096	-	-	-	43,096
Others	14,197,891	217,853	2,625	-	14,418,369
Total assets	598,852,498	18,416,130	3,161,010	14,631	620,444,269
Liabilities					
Borrowing from the central bank	9,247,544	-	-	-	9,247,544
Deposits from banks and other financial institutions	59,773,200	1,022,624	53	6,078	60,801,955
Placement from banks and other financial institutions	11,292,933	1,436,277	-	-	12,729,210
Financial assets sold under repurchase agreements	33,527,896	-	-	-	33,527,896
Deposits from customers	349,386,955	-	-	-	349,386,955
Debt securities issued	93,277,576	-	-	-	93,277,576
Derivative financial liabilities	228,084	-	-	-	228,084
Others	5,500,411	36,291	30,444	147	5,567,293
Total liabilities	562,234,599	2,495,192	30,497	6,225	564,766,513
Asset-liability gap	36,617,899	15,920,938	3,130,513	8,406	55,677,756

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	RMB	2017			Total (RMB Equivalent)
		USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	
Assets					
Cash and deposits with the central bank	64,338,855	30,291	74	183	64,369,403
Deposits with banks and other financial institutions	4,115,562	2,807,205	1,993,530	7,454	8,923,751
Placement with banks and other financial institutions	1,200,000	163,355	-	-	1,363,355
Financial assets held under resale agreements	12,988,617	-	-	-	12,988,617
Loans and advances to customers	190,874,704	834,131	-	-	191,708,835
Financial investments	224,179,020	2,410,684	334,497	-	226,924,201
Others	15,681,638	29,769	257	-	15,711,664
Total assets	513,378,396	6,275,435	2,328,358	7,637	521,989,826
Liabilities					
Borrowing from the central bank	1,322,887	-	-	-	1,322,887
Deposits from banks and other financial institutions	39,040,701	606,977	68	3,086	39,650,832
Placement from banks and other financial institutions	4,955,000	762,105	-	-	5,717,105
Financial assets sold under repurchase agreements	40,809,848	-	-	-	40,809,848
Deposits from customers	306,708,284	-	-	-	306,708,284
Debt securities issued	74,128,630	-	-	-	74,128,630
Others	7,341,525	8,907	208,006	3,191	7,561,629
Total liabilities	474,306,875	1,377,989	208,074	6,277	475,899,215
Asset-liability gap	39,071,521	4,897,446	2,120,284	1,360	46,090,611

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2018	2017
	Increase/ (decrease)	Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	44,518	24,644
Down 100 bps change of foreign exchange rate	(44,518)	(24,644)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.



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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment as at December 31:

	2018							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	38,593,944	25,928,583	21,995	-	-	-	-	64,544,522
Deposits with banks and other financial institutions	-	3,841,430	5,882,109	2,500,000	3,640,000	-	-	15,863,539
Placements with banks and other financial institutions	-	-	1,439,292	20,588	8,572,128	-	-	10,032,008
Derivative financial assets	-	-	715	4,195	38,186	-	-	43,096
Financial assets held under resale agreements	-	-	16,345,184	-	-	-	-	16,345,184
Loans and advances to customers	4,473,907	1,516,639	15,526,554	17,273,307	91,874,945	47,876,693	68,009,644	246,551,689
Financial investments	5,284,704	-	4,865,093	39,146,250	70,620,864	106,161,325	26,567,626	252,645,862
Others	10,915,721	-	-	265,195	52,821	3,184,632	-	14,418,369
Total assets	59,268,276	31,286,652	44,080,942	59,209,535	174,798,944	157,222,650	94,577,270	620,444,269
Liabilities								
Borrowing from the central bank	-	360,000	1,114,607	1,038,067	6,734,870	-	-	9,247,544
Deposits from banks and other financial institutions	-	2,013,414	7,045,794	24,982,826	26,759,921	-	-	60,801,955
Placements from banks and other financial institutions	-	-	-	6,959,891	5,769,319	-	-	12,729,210
Derivative financial liabilities	-	-	66,660	122,716	38,708	-	-	228,084
Financial assets sold under repurchase agreements	-	-	33,527,896	-	-	-	-	33,527,896
Deposits from customers	-	176,913,402	13,934,004	19,983,040	78,604,284	59,945,510	6,715	349,386,955
Debt securities issued	-	-	5,609,396	24,281,909	50,387,501	2,999,102	9,999,668	93,277,576
Others	-	1,146,029	479,732	1,060,473	2,095,605	769,075	16,379	5,567,293
Total liabilities	-	180,432,845	61,778,089	78,428,922	170,390,208	63,713,687	10,022,762	564,766,513
Long/(short) position	59,268,276	(149,146,193)	(17,697,147)	(19,219,387)	4,408,736	93,508,963	84,554,508	55,677,756

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	2017							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	41,734,259	22,635,144	-	-	-	-	-	64,369,403
Deposits with banks and other financial institutions	-	1,808,587	4,554,363	430,000	2,130,801	-	-	8,923,751
Placements with banks and other financial institutions	-	-	571,876	91,479	700,000	-	-	1,363,355
Financial assets held under resale agreements	-	-	12,988,617	-	-	-	-	12,988,617
Loans and advances to customers	5,736,700	846,942	13,636,103	15,789,820	80,299,636	25,368,632	50,031,002	191,708,835
Financial investments	1,046,953	-	13,777,295	39,754,747	56,117,599	80,419,222	35,808,385	226,924,201
Others	10,149,596	-	2,327,341	1,401,129	474,613	1,358,985	-	15,711,664
Total assets	58,667,508	25,290,673	47,855,595	57,467,175	139,722,649	107,146,839	85,839,387	521,989,826
Liabilities								
Borrowing from the central bank	-	-	266,321	422,603	633,963	-	-	1,322,887
Deposits from banks and other financial institutions	-	1,450,662	6,661,170	14,535,000	16,754,000	250,000	-	39,650,832
Placements from banks and other financial institutions	-	-	-	4,074,729	1,642,376	-	-	5,717,105
Financial assets sold under repurchase agreements	-	-	40,809,848	-	-	-	-	40,809,848
Deposits from customers	-	181,298,831	11,418,203	27,839,898	57,953,158	28,177,768	20,426	306,708,284
Debt securities issued	-	-	12,228,971	20,600,399	41,299,260	-	-	74,128,630
Others	-	703,943	880,550	1,837,638	3,022,198	1,099,219	18,081	7,561,629
Total liabilities	-	183,453,436	72,265,063	69,310,267	121,304,955	29,526,987	38,507	475,899,215
Long/(short) position	58,667,508	(158,162,763)	(24,409,468)	(11,843,092)	18,417,694	77,619,852	85,800,880	46,090,611

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the credit-impaired/impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents credit-impaired/impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at December 31:

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2018				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	9,247,544	9,302,414	360,298	1,119,506	1,044,875	6,777,735	-	-
Deposits from banks and other financial institutions	60,801,955	61,523,914	2,013,979	7,054,740	25,146,959	27,308,236	-	-
Placements from banks and other financial institutions	12,729,210	12,934,961	-	-	6,970,094	5,964,867	-	-
Financial assets sold under repurchase agreements	33,527,896	33,538,131	-	33,538,131	-	-	-	-
Deposits from customers	349,386,955	354,817,239	176,937,370	13,975,186	20,078,559	79,584,678	64,234,657	6,789
Debt securities issued	93,277,576	99,910,484	-	5,620,000	24,440,000	51,882,350	5,502,384	12,465,750
Total non-derivative financial liabilities	558,971,136	572,027,143	179,311,647	61,307,563	77,680,487	171,517,866	69,737,041	12,472,539
Loan commitments	-	9,342,671	-	9,342,671	-	-	-	-

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2017				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	1,322,887	1,335,242	-	267,813	425,194	642,235	-	-
Deposits from banks and other financial institutions	39,650,832	40,254,793	1,451,139	6,675,032	14,660,271	17,181,815	286,536	-
Placements from banks and other financial institutions	5,717,105	5,759,545	-	-	4,078,650	1,680,895	-	-
Financial assets sold under repurchase agreements	40,809,848	40,989,547	-	40,989,547	-	-	-	-
Deposits from customers	306,708,284	309,808,229	181,325,153	11,447,897	28,111,093	58,637,389	30,265,724	20,973
Debt securities issued	74,128,630	75,598,722	-	12,259,909	20,771,667	42,567,146	-	-
Other financial liabilities	2,965,736	2,965,736	128,062	258,064	648,731	1,200,666	729,947	266
Total non-derivative financial liabilities	471,303,322	476,711,814	182,904,354	71,898,262	68,695,606	121,910,146	31,282,207	21,239
Loan commitments	-	2,710,458	1,051,790	1,623,668	-	25,000	10,000	-

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each reporting period.

(ii) Investments and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period. The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

(iv) Debt securities issued and other non-derivative financial liabilities

The fair values of foreign currency forward contracts is determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Available-for-sale investments, financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 21. Financial investments at amortised cost and the carrying amounts of debt securities classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 32. The carrying amounts of other financial liabilities approximate their fair value.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy

The following table presents the fair value of the Bank's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: Fair value measured using significant unobservable inputs

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.



Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2018			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	43,869,291	–	43,869,291
Derivative financial assets	–	43,096	–	43,096
Financial investments at fair value through other comprehensive income	–	43,693,209	–	43,693,209
Loans and advances to customers measured at fair value through other comprehensive income	–	19,023,990	–	19,023,990
Total	–	106,629,586	–	106,629,586
Liabilities				
Derivative financial liabilities	–	228,084	–	228,084

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2017			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	–	9,865,812	–	9,865,812
Available-for-sale financial assets				
– debt instruments	–	42,454,817	–	42,454,817
– investment management products	–	11,177,367	–	11,177,367
– wealth management products	–	31,471,850	–	31,471,850
– others	–	9,430,916	–	9,430,916
Total	–	104,400,762	–	104,400,762

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

45 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Entrusted lending business (Continued)

	2018	2017
Entrusted loans	29,033,871	37,950,480
Entrusted funds	29,033,871	37,950,480

46 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2018	2017
Bank acceptances	36,986,944	30,413,732
Letters of credit	11,444,126	4,448,412
Loan commitments	9,342,671	2,710,458
Letters of guarantees	2,902,950	984,224
Total	60,676,691	38,556,826

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Commitments and contingent liabilities (Continued)

(b) Credit risk-weighted amount

	2018	2017
Credit risk-weighted amount	29,522,574	22,340,500

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Operating lease commitments

As at December 31, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	2018	2017
Within one year (inclusive)	238,730	245,302
After one year but within five years (inclusive)	634,664	715,612
After five years	251,231	301,332
Total	1,124,625	1,262,246

(d) Capital commitments

As at December 31, the Group's authorized capital commitments are as follows:

	2018	2017
Contracted but not paid for	434,240	249,389
Approved but not contracted for	16,994	177,839
Total	451,234	427,228

(e) Outstanding litigations and disputes

As at December 31, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB842.30 million (2017: RMB766.00 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Company-level statement of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Assets			
Cash and deposits with the central bank		63,496,853	63,502,414
Deposits with banks and other financial institutions		16,336,149	7,864,074
Placements with banks and other financial institutions		10,082,011	1,363,355
Derivative financial assets		43,096	–
Financial assets held under resale agreements		16,095,184	12,988,617
Loans and advances to customers		231,672,644	182,748,192
Financial investments:			
Financial investments at fair value through profit or loss		43,535,087	9,865,812
Financial investments at fair value through other comprehensive income		43,419,177	–
Financial investments at amortised cost		165,083,362	–
Available-for-sale financial assets		–	94,530,342
Held-to-maturity investments		–	23,735,307
Debt securities classified as receivables		–	99,660,276
Investments in subsidiaries	22	1,188,202	796,702
Property and equipment		3,995,797	4,517,499
Deferred tax assets		3,422,037	1,993,905
Goodwill		468,397	468,397
Other assets		6,105,079	8,393,865
Total assets		604,943,075	512,428,757

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Company-level statement of financial position (Continued)

	2018	2017
Liabilities and equity		
Liabilities		
Borrowing from central bank	8,508,836	887,887
Deposits from banks and other financial institutions	61,519,557	40,529,790
Placements from banks and other financial institutions	7,038,791	4,182,105
Derivative financial liabilities	228,084	–
Financial assets sold under repurchase agreements	33,527,896	40,809,848
Deposits from customers	340,434,351	299,295,508
Income tax payable	1,044,812	969,818
Debt securities issued	93,277,576	74,128,630
Other liabilities	4,388,665	6,412,962
Total liabilities	549,968,568	467,216,548
Equity		
Share capital	20,075,000	20,075,000
Other equity instruments		
–Preference shares	9,632,791	–
Capital reserve	15,144,471	13,535,880
Surplus reserve	1,500,620	1,258,065
General reserve	7,801,548	6,320,746
Retained earnings	820,077	4,022,518
Total equity	54,974,507	45,212,209
Total liabilities and equity	604,943,075	512,428,757

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Subsequent events

On February 19, 2019, the Bank and Henan Wansong Construction Engineering Co., Ltd., as an Independent Third Party, entered into the Equity Transaction Agreement in respect of the acquisition of AB Leasing Co., Ltd. (“AB Leasing”) with Chengdu Rural Commercial Bank Co., Ltd. and Anbang Life Insurance Co., Ltd., at a total consideration of RMB4,735 million. The Bank will hold 90% the share capital of AB Leasing, at a consideration of RMB4,261.5 million. Upon the Acquisition, AB Leasing will become a non-wholly owned subsidiary of the Group and its accounts will be consolidated into the accounts of the Group.

As completion of the Acquisition is on the condition (including but not limited to) that approvals from relevant regulatory authorities and China Banking and Insurance Regulatory Commission or filings in relation to the Acquisition have been obtained or made, the Acquisition may or may not proceed.

Except for the acquisition aforementioned, the Group had no other material events for disclosure subsequent to December 31, 2018 and up to the date of this Financial Statements.

49 Comparative figurers

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(3).

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2018

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations are issued which are not yet effective for the year ended December 31, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
IFRS 16, <i>Leases</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019

Notes to the Consolidated Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2018 (Continued)

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, “Leases” which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The standard is expected to have no material impact on financial position and financial performance.

IFRIC 23, Uncertainty over income tax treatments

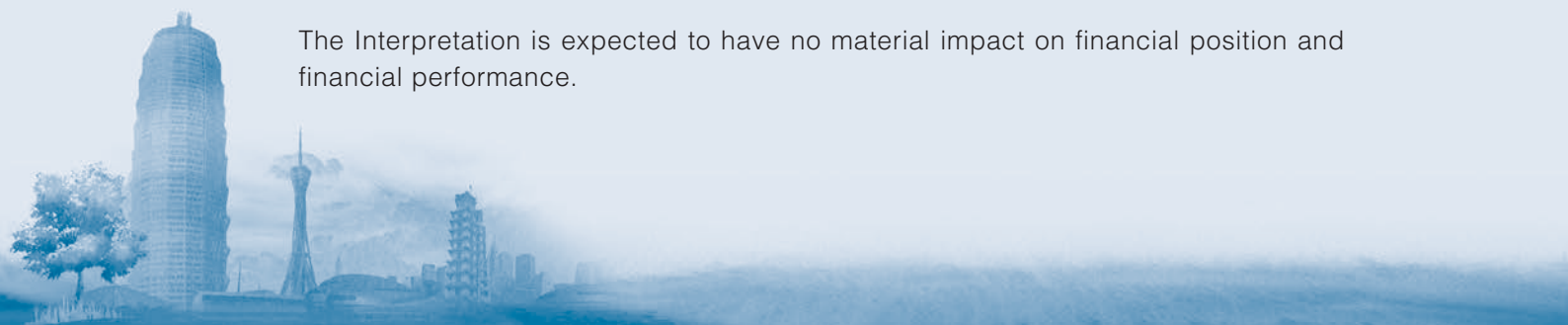
This Interpretation provides guidance on how to apply IAS 12, Income taxes when there is uncertainty over whether a tax treatment will be accepted by the tax authority.

Under the Interpretation, the key test is whether it is probable that the tax authority will accept the tax treatment.

If it is probable, then the entity should measure current and deferred tax consistently with the tax treatment in its tax return.

If it is not probable, then the entity should reflect the effect of uncertainty in its accounting for income tax by using the “expected value” approach or the “the most likely amount” approach – whichever better predicts the resolution of the uncertainty and in that case the tax amounts in the financial statements will not be the same as the amounts in the tax return.

The Interpretation is expected to have no material impact on financial position and financial performance.



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	2018	Average for 2018
Liquidity coverage ratio (RMB and foreign currency)	124.73%	140.35%
	2017	Average for 2017
Liquidity coverage ratio (RMB and foreign currency)	217.68%	210.77%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	2018	2017
Leverage ratio	8.05%	8.06%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Currency concentrations

	December 31 2018			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	18,416,130	3,161,010	14,631	21,591,771
Spot liabilities	(2,495,192)	(30,497)	(6,225)	(2,531,914)
Net position	15,920,938	3,130,513	8,406	19,059,857

	December 31 2017			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	6,275,435	2,328,358	7,637	8,611,430
Spot liabilities	(1,377,989)	(208,074)	(6,277)	(1,592,340)
Net position	4,897,446	2,120,284	1,360	7,019,090

The Group has no structural position at the end of reporting periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include amounts due from banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	December 31 2018			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	7,640,569	–	8,388,540	16,029,109
North America	132,922	–	–	132,922
Others	9,027	–	–	9,027
	7,782,518	–	8,388,540	16,171,058

	December 31 2017			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	3,709,490	–	661,425	4,370,915
North America	76,493	–	–	76,493
Others	6,253	–	–	6,253
	3,792,236	–	661,425	4,453,661

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances

	December 31 2018	December 31 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	720,577	1,667,179
– between 6 months and 1 year (inclusive)	1,981,970	2,551,153
– over 1 year	3,413,349	3,838,799
Total	6,115,896	8,057,131
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.28%	0.84%
– between 6 months and 1 year (inclusive)	0.78%	1.28%
– over 1 year	1.34%	1.93%
Total	2.40%	4.05%

Definitions

“Articles of Association”	The articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank”, “Our Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“CBRC Henan Office”	China Banking Regulatory Commission Henan Office
“CIRC”	China Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Hong Kong Listing Rules
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi



Definitions

“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange
“Preference Shares” or “Offshore Preference Shares”	69,750,000 shares of non-cumulative perpetual Offshore Preference Shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited



Definitions

“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commence on the Main Board of Hong Kong Stock Exchange
“Lushi Defeng County Bank”	Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“Nine County Banks”	the nine county banks located in Henan Province, the PRC, which are subsidiaries of the Bank, namely, Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Defeng County Bank Co., Ltd., (林州德豐村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Hengsheng County Bank Co., Ltd. (遂平恆生村鎮銀行股份有限公司), Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司)
“PBoC” or “Central Bank”	The People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Bank dated June 30, 2017 in connection with the public offering in Hong Kong, as amended, supplemented or otherwise modified from time to time



Definitions

“Reporting Period”	the 12 months ended December 31, 2018
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	shares in the share capital of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank
“AB Leasing”	AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability
“AB Life Insurance”	Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司), a joint stock company incorporated in the PRC with limited liability
“CDRCB”	Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Henan Wansong”	Henan Wansong Construction Engineering Co., Ltd. (河南萬松建設工程有限公司), a company incorporated in the PRC with limited liability





中原銀行股份有限公司

ZHONGYUAN BANK CO., LTD.