中信银行
CHINA CITIC BANK

以信致远 融智无限

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

Stock Code: 0998

Strive to Be the Company Offering the
Best Comprehensive Financial Services

2018
Annual Report

Corporate Profile

China CITIC Bank was founded in 1987. It is one of the earliest emerging commercial banks established during China's reform and opening up and also China's first commercial bank participating in financing at both domestic and international financial markets. A keen contributor to China's economic development, the Bank is renowned at home and abroad for brushing numerous track records in the modern Chinese financial history. In April 2007, the Bank simultaneously listed its A and H shares at the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited.

The Bank aspires to become "the enterprise offering the best comprehensive financial services". To attain this development vision, the Bank fully leverages on the unique competitive advantages of CITIC Group in placing financial and non-financial businesses on an equal footing, and at the same time holds firm to its "customer orientation" and adheres to the business concept of "safe CITIC Bank, compliant operation, science and technology for growth, serving the real economy, market orientation and value creation". For corporate customers and institutional customers, the Bank offers integrated financial solutions in corporate banking business, international business, financial markets business, institutional banking business, investment banking business, factoring business and custody business. For individual customers, the Bank provides diversified financial products and services in retail banking, credit card, consumer finance, wealth management, private banking, going abroad finance and e-banking. As such, the Bank satisfies the needs of corporate, institutional and individual customers for comprehensive financial services on all fronts.

As at the end of 2018, the Bank had 1,410 outlets in 146 large and medium-sized cities in China and 6 affiliates at home and abroad including CITIC International Financial Holdings Corporation Limited ("CIFH"), CNCB (Hong Kong) Investment Co., Ltd., CITIC Financial Leasing Co., Ltd., Zhejiang Lin'an CITIC Rural Bank Limited, CITIC aiBank Corporation Limited, and JSC Altyn Bank. CITIC Bank International Limited ("CNCBI"), a subsidiary of CIFH, recorded 38 outlets in Hong Kong SAR, Macau SAR, New York, Los Angeles, Singapore and mainland China. CNCB (Hong Kong) Investment Co., Ltd. had 3 subsidiaries in Hong Kong and mainland China. CITIC aiBank Corporation Limited, a joint venture co-sponsored by the Bank and Baidu, was the first independent legal entity practicing direct banking in China. JSC Altyn Bank had 6 outlets and 1 private banking center in Kazakhstan.

For over three decades, the Bank has persevered in serving the real economy, engaging in stable healthy business operation and keeping abreast with the times. Thriving through over 30 years' growth and expansion, the Bank has become a financial conglomerate with strong comprehensive competitiveness and powerful brand influence, registering more than RMB6 trillion total assets and nearly 60,000 employees. In 2018, The Banker magazine of the United Kingdom rated the Bank the 24th on its list of the "Top 500 Global Bank Brands" and the 27th on its list of the "Top 1,000 World Banks" in terms of tier-one capital.

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank guarantee that the information contained in the 2018 Annual Report does not include any false records, misleading statements or material omissions, and assume several and joint liabilities for its truthfulness, accuracy and completeness.

The meeting of the Board of Directors of the Bank adopted the full text and summary of the Bank's 2018 Annual Report on 26 March 2019. All of the 9 eligible directors attended the meeting, with Director Wan Liming, due to conflicting schedules, entrusting Director Huang Fang to attend and vote on his behalf as proxy. The supervisors of the Bank attended the meeting as non-voting delegates.

The 2018 annual financial reports that the Bank prepared in accordance with the PRC Accounting Standards and the International Financial Reporting Standards (IFRS) were audited respectively by PricewaterhouseCoopers Zhong Tian LLP (Special and General Partnership) and PricewaterhouseCoopers in accordance with the auditing standards of mainland China and Hong Kong SAR respectively, with both firms producing an audit report with a standard unqualified audit opinion.

Ms. Li Qingping as Chairperson of the Board of Directors, Mr. Fang Heying as Vice President and concurrently Chief Financial Officer of the Bank and Ms. Li Peixia as General Manager of the Finance and Accounting Department of the Bank hereby guarantee the truthfulness, accuracy and completeness of the financial report contained in the Bank's 2018 Annual Report.

Profit Distribution Plan: Chapter 5 "Report of the Board of Directors — Profit and Dividend Distribution of Ordinary Shares" of this report discloses the Bank's Profit Distribution Plan for 2018 as reviewed and adopted by the Board of Directors and to be submitted to the 2018 Annual General Meeting for deliberation. The plan proposes to pay a cash dividend of RMB2.30 per 10 shares (before tax). No scheme for transfer of capital reserve to share capital will be applied for the current year.

Cautionary note on forward-looking statements: Forward looking statements such as future plans and development strategies contained in this report do not constitute substantive commitments of the Bank to its investors. Investors and relevant persons are kindly reminded to maintain adequate risk awareness of such statements and understand the differences between plans, forecasts and commitments.

Material risk reminder: During the reporting period, the Bank was not aware of any material risk that would adversely affect its future development strategies and business targets. The Bank has detailed in this report the major risks that it was and may be exposed to in its operation and management and its countermeasures thereof. For relevant information thereof, please refer to "Risk Management" and "Outlook" in Chapter 4 "Management Discussion and Analysis" of the report.

For the purpose of this report, numbers are expressed in Renminbi (RMB) unless otherwise specially stated. The report is compiled both in Chinese and English. Should there be any discrepancy between Chinese and English versions, the Chinese version shall prevail.

Contents

Mission and Vision

Vision	To become a unique and responsible enterprise offering the best comprehensive financial services with dignity and a human touch
Mission	To create value for customers, seek happiness for employees, make profit for shareholders and perform responsibility for the society
Core values	Customer orientation, integrity, innovation, coordination and excellence
Brand motto	Building "trust" for long-term growth, incorporating smart services for boundless financing

Performance Overview

Operating performance:

Operating income
165.766
billion RMB

Net profit
44.513
billion RMB

Total assets
6,066.714
billion RMB

Fastest net profit growth in 5 years
4.57%

Profitability:

ROAA
0.77%

Cost-to-income ratio
30.71%

ROAE
11.36%

Net interest margin
1.94%

Asset quality:

NPL ratio
1.77%

Allowance coverage ratio
157.98%

The ratio of allowance for impairment of loans to total loans
2.80%

Customer base:

Corporate customers
629,900

Mobile banking customers
36.70 million

Retial banking customers
88.32 million

Credit cards issued
67.06 million

Definitions

BBVA	Banco Bilbao Vizcaya Argentaria S.A.
Baidu	Fujian Baidu Borui Internet Technology Co., Ltd.
The reporting period	From 1 January 2018 to 31 December 2018
The Group	China CITIC Bank Corporation Limited and its subsidiaries
Bank/Company/China CITIC Bank/CITIC Bank/CNCB	China CITIC Bank Corporation Limited
Poly Group	China Poly Group Corporation Limited
Articles of Association	Articles of Association of China CITIC Bank Corporation Limited
State Council	State Council of the People's Republic of China
Lin'an CITIC Rural Bank	Zhejiang Lin'an CITIC Rural Bank Limited
SSE	Shanghai Stock Exchange
Auditors	PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers
SEHK	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	The Listing Rules of the Stock Exchange of Hong Kong Limited
Xinhu Zhongbao	Xinhu Zhongbao Co., Ltd.
CNCB Investment	CNCB (Hong Kong) Investment Co., Ltd. (formerly China Investment and Finance Limited)
Central Bank/PBOC	The People's Bank of China
Former CBRC	Former China Banking Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
PRC Accounting Standards	PRC Accounting Standards for Enterprises
China Tobacco	China Tobacco Corporation
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
CITIC aiBank	CITIC aiBank Corporation Limited
CITIC Limited	CITIC Limited (formerly known as CITIC Pacific Limited prior to renaming in August 2014)
CIAM	CITIC International Assets Management Limited

CIFH	CITIC International Financial Holdings Limited
CITIC Group	CITIC Group Corporation Limited (formerly known as CITIC Group Corporation prior to renaming in December 2011)
CITIC Financial Leasing	CITIC Financial Leasing Co., Ltd.
CITIC Pacific	CITIC Pacific Limited
CNCBI	CITIC Bank International Limited (formerly CITIC Ka Wah Bank Limited)
CITIC Corporation Limited	CITIC Corporation Limited (formerly known as CITIC Limited prior to renaming in August 2014)

(Note: The definitions are arranged in the alphabetic order of Mandarin Pin Yin)

Geographical segments of the Group and the Bank as disclosed in this report and as defined for financial reporting purposes are as follows:

"Yangtze River Delta" refers to the following areas where tier-1 branches and a subsidiary of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo, as well as Lin'an CITIC Rural Bank;

"Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou, Xiamen and Haikou;

"Bohai Rim" refers to the following areas where tier-1 branches and a subsidiary of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang and Jinan; and CITIC Financial Leasing Co., Ltd and CITIC aiBank Corporation Limited;

"Central" region refers to the following areas where tier-1 branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

"Western" region refers to the following areas where tier-1 branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

"Northeastern" region refers to the following areas where tier-1 branches of the Group are located: Shenyang, Changchun and Harbin;

"Head Office" refers to the Headquarters and the Credit Card Center of the Bank; and

"Overseas" includes all the operations of CNCB Investment and CIFH and their subsidiaries and JSC Altyn Bank.

Li Qingping
Chairperson
Executive Director

Chairperson's Letter to Shareholders

Dear shareholders,

2018 marks the 40th anniversary of China's reform and opening up. With the imperative confidence and strategic focus under the economic new normal, the Bank pursued progress amid stability and focused on reform and value creation, achieving a good start to the implementation of its 2018-2020 development plan and sustaining the sound momentum of healthy and steady development. At this point, I would like to report to our shareholders that for the year 2018 the Group realized net profit of RMB44.51 billion, up 4.6% year on year, the highest rate of growth over the recent five years; profit before allowance of RMB112.56 billion, 4.2% higher than last year; and net operating income of RMB165.77 billion, a growth of 5.4% over last year. The Bank's ratio of non-performing loans (NPLs) and allowance coverage ratio stood at 1.77% and 157.98%, respectively. In the absence of external sources for replenishment of tier-one capital, the Group's core tier-one and tier-one capital adequacy ratios went up by 0.13 and 0.09 percentage point over the end of the previous year, respectively.

Differentiated regional development is one of the major reform measures set out in the Bank's 2018-2020 development plan. Its purpose is to manage branches by category for synergistic growth in alignment with the national strategy on development of key regions. In our view, coordinated allocation of resource elements is the key to differentiated regional development. We focused on this as the crux of all matters to strive for the effect that "the sum of one plus one is larger than two". In 2018, the Bank's strategic pivotal branches generated a combined operating income of RMB60.5 billion, corresponding to a growth rate 7.3 percentage points higher than the branch average across the Bank; the proportions of their deposits and loans reached 54.1% and 44.7%, up 2.2 and 0.9 percentage points, respectively. The branches in the key regions recorded numerous new growth highlights, with some of them increasing operating income by 9.2%. Going forward, we will continue to introduce both "guiding" incentive policies and "restrictive" constraints, further optimize the allocation of resource elements, and accelerate the formation of a regional echelon-based development pattern with reasonable layout, highlighted focuses and distinctive features. In the mean time, as one of the first commercial banks that emerged in China's reform and opening up and engaged in financing in both at home and abroad, we paid increasing attention to our arrangements for internationalized development. In 2018, the application for establishment of the Bank's London Branch was undergoing official review and approval by the local regulatory authority, entering the final stage of preparation work; and the application for establishment of the Bank's Hong Kong Branch and the upgrading of its Sydney Representative Office to a branch were also in good progress. In addition, the Bank completed its acquisition of a majority stake in JSC Altyn Bank, becoming the first Chinese bank to access the local market in Kazakhstan through mergers and acquisitions. We will give full play to the advantages of JSC Altyn Bank and at the same time rely on the platform of CITIC Group, the Bank's controlling shareholder, to build greater synergy of the markets along the "One Belt and One Road". We will strive to ensure the mutual complementation between regional differentiated and internationalized management so as to give full support to attain the vision of "the enterprise offering the best comprehensive financial services".

The greater effect of optimized allocation of resource elements lies in its contribution to the financial supply side structural reform. In recent years, we attached equal importance to incremental and existing resources, balanced advance and retreat in a comprehensive manner, made financial supply more adaptive and flexible with credit assets as the core, and supported the real economy better. These efforts were very rewarding. As at the end of 2018, the Group's balances of corporate loans and personal loans recorded RMB2.12 trillion and RMB1.48 trillion, an increase of RMB158.6 billion and RMB252.9 billion over the beginning of the year, respectively; the proportion of loans to industries in the "active support" category went up by 4.65 percentage points, while that to those industries in the "strict control" and "reduce and exit" categories declined by 0.94 and 1.8 percentage points, respectively. In addition, the Bank made proactive exit from 1,590 accounts of low-quality low-efficiency loan customers, involving a total amount of RMB59.54 billion, and raised the share of loan customers rated A and above by 5.79 percentage points. The development of green finance is now a universal consensus. In 2018, the Bank granted annual green loans of RMB62.9 billion, RMB4.99 billion more than the beginning of the year. When promoting structural reform of the financial supply side, we paid attention to coordinating our planning with differentiated regional development. Among other things, the Bank was the first commercial bank to issue loans to Xiong'an Group. As at the end of 2018, the Bank's balance of Renminbi general corporate loans to the three regions, i.e., the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Guangdong-Hong Kong-Macau Greater Bay Area, grew by RMB43 billion over the beginning of the year, and took up 52.5% of the Bank total. As the government promotes the set-up of the Science and Technology Innovation Board, we will pay more attention to those technology-intensive and innovation-driven ventures and boost resource reserve and incubation, in order to add a new impetus to the financial supply side structural reform.

Our goal, however, does not stop at that. What we need in addition is a deeper layer of reform — to further our business restructuring and create space and increase stamina for future growth. In recent years, we focused our efforts on pushing forward retail banking transformation to build a robust "Troika" business structure that consists of corporate banking, retail banking and financial markets. Thanks to our unremitting efforts in promoting system construction, reinforcing the "customer-orientation" concept, making product innovation in close alignment with the market, and enhancing application of artificial intelligence, the Bank was able to release its retail productivity at a quicker pace. For the year 2018, the Group's net operating income and fee-based income from retail banking accounted for 34% and 61% of their respective totals; the Bank's retail customers exceeded 88.3 million accounts, an increase of 22.65% over the previous year, of which credit card business brought along 5.50 million incremental debit card customers, and mobile banking registered more than 36 million accounts of customers with an increase of over 9 million accounts in 2018 alone; and the retail transaction volume increased by 48.6% year on year. Retail AUM approached the RMB1.8 trillion threshold, achieving an annual increase of RMB298.5 billion; the Group's personal deposits recorded RMB712.5 billion, a yearly growth of RMB179.1 billion; personal loan balance stood at RMB1.48 trillion; credit card transaction volume exceeded RMB2 trillion, taking up nearly 7% of the multi-bank transaction market. As time brings along rewards, we are more resolute in our stance to push forward transformation of retail banking in the future.

The transformation of retail banking has made remarkable achievements. What we pursue in our business restructuring, however, is much more than that. To some extent, the Bank's traditional advantage in corporate banking has served as the ballast stones for retail banking transformation over the recent years. With the retail segment entering a sound orbit of transformation, we have decided that it is time to push forward full-range transformation of corporate banking to prepare the Bank for participation in a more open market and lay the foundation for higher quality development. In fact, the Bank began to reform its corporate banking segment in the second half of 2017, when the corporate banking units started to take over the post-lending management functions and assume the "Defense Line 1" responsibilities. In 2018, we carried out a lot more fundamental, systematic and groundbreaking work in comprehensively transforming corporate banking business. Among others, we improved the regulations, institutional framework and management model for unified credit extension to legal-person customers, strengthened the role of customer units in credit business, improved integrated services for corporate customers, and effectively promoted the development of corporate customer groups. These efforts enabled the Bank to achieve the expansion of customer base, stronger partnership with premium core customers, substantial growth of supply chain finance, and even more comprehensive service functions at its outlets. In 2018, the Bank recorded 630,000 accounts of corporate customers, 35,000 accounts more than that at the beginning of the year, of which effective corporate customers grew by 5,995 accounts and effective corporate settlement customers of transaction banking recorded 113,900 accounts. Comprehensive transformation of corporate banking is an important responsibility aimed at the future. We will carry it on with unswerving efforts.

The "Troika" business structure would never materialize without the contribution of financial markets business. Adhering to the light-capital orientation and closely following such national strategies as the Belt and Road Initiative and the Free Trade Zones (FTZs), we built better products throughout the cross-border service chain, developed solid products to support internationalization of the Renminbi, and optimized integrated cross-border services for the Renminbi and foreign currencies. 2018 witnessed overall downward movement of market interest rates and other externalities. In response, the Bank captured the right market opportunities and set the right investment rhythm to further consolidate its unique competitive edges in financial markets, international business and custody business. As a result, all the three segments enjoyed a boost in market competitiveness and business contribution. For the year 2018, the Bank realized light-capital income of RMB27.41 billion, an increase of 5.2%; and remained a leading runner in terms of foreign exchange purchase and sale, international receipt and payment and cross-border Renminbi receipt and payment. As at the end of 2018, the Bank registered an asset custody scale of RMB8.44 trillion, a growth of 4.8% compared with the beginning of the year; its "Interbank +" platform recorded 1,216 accounts of subscribed customers, a growth of 49.02%; and achieved a transaction volume of RMB1.43 trillion, up 12.77% year on year. For the year 2018, the Bank completed RMB21.90 trillion Renminbi currency market transactions, up 48% year on year, much higher than the market growth rate of 25%, reflecting the Bank's transaction-making capability and market influence. At the same time, the Bank simultaneously prepared for the establishment of its global trading platform and overseas branches; and closely followed the construction pace of the Shanghai FTZ by preparing the set-up of its Shanghai sub-center for financial markets business. All these are important arrangements in the Bank's continuing efforts to expand the scope of its financial markets business. Going forward, we will further develop financial market business with unique characteristics and further improved professionalism.

In the process of promoting business restructuring, we made active efforts to develop inclusive finance and support the private economy from the perspective of cultivating market dynamics and reserving kinetic energy. Over the past year, we comprehensively strengthened the top-level design of inclusive finance, reinforced the institutional and mechanism reforms of key branches and boosted marketing of affiliates. A particular point was made to address the two layers of issues, i.e., "do the right thing" and "do things the right way". At the end of 2018, as per the CBIRC's "two increase and two control" assessment standards, the Bank's loan balance of inclusive finance stood at RMB136.4 billion, an increase of RMB44.5 billion or 48.45% over the end of the previous year, which effectively helped small and micro enterprises walk out of their financing difficulties. Let me give you an example. Benefiting from the Bank's small and medium-sized supplier loans, a small/micro business owner in garment processing business managed to turn all his receivables into cash long before the end of 2018. He was thus relieved from the chronicle plague of collecting receivables from his customers. In his words, "I felt a particular kind of warmth in the freezing winter of 2018." We are very pleased with this. In addition, we issued "fourteen targeted measures" to support the private economy, whereby we comprehensively applied a variety of financial products to better serve well-managed private enterprises, including the creation of China's first medium to long-term risk mitigation tool for private enterprises. As at the end of 2018, the balance of loans to private enterprises accounted for nearly 40% of the Bank total. Going forward, we will ensure that our efforts in developing inclusive finance and supporting the private economy achieve higher quality and better results.

As Chairperson of the Bank's Innovation Management Committee, what I think about most is whether we can grasp future trends and gain competitive edges for tomorrow. We have gone beyond the debate as to whether we should position ourselves as more in financial services or more in technology. Rather, we have made greater efforts to boost financial technology (fin-tech) innovation. Multiple measures are in place to promote the full-range integration of finance and technology in mentality, concept, business model and management pattern. Specifically, we have established the special incentives to reward major technological and other innovations, built the Internet-company-style promotion and incentive mechanisms for tech personnel, and constructed the teamwork model for integration of IT and business. In 2018, the Bank launched the "CITIC Brain", which has attained the preliminary capacity for providing smart services to multiple areas such as retail banking, corporate banking, custody business and compliance. In parallel with this, we made our financial services more mobile and scenario-specific, actively tried exporting technology services, and promoted IT cooperation in an open sharing financial ecosphere with an open mind. The blockchain forfeiting trading system launched by the Bank, the first of its kind in the country, recorded RMB10 billion business volume on the chain. In addition, the Bank issued the first "blockchain + supply chain" innovative pilot project to build a new-style supply chain ecosphere of open cooperation with blockchain technology, ushering in a new model for the development of its supply chain finance. The self-service discounted bill product "Xin Miao Tie", in particular, has registered more than 1,400 accounts of subscribed customers and over RMB11.5 billion transaction value since it went alive online during the year. CITIC aiBank, a joint venture co-sponsored by the Bank and Baidu, actively explored and applied new and high technologies. For the first year after its inception, CITIC aiBank recorded total assets of RMB35.9 billion, more than 12 million users, nearly RMB80 billion online disbursement of inclusive finance loans, and an allowance coverage ratio of over 300%. It is no wonder that the "aiBank model" is setting up a new pattern for innovation and development of Internet banking, and CITIC aiBank has become the first state-controlled bank recognized as a state-level high-tech enterprise. Going forward we will build a comprehensive fin-tech ecosphere and welcome more fin-tech personnel to join us.

While actively engaged in reform and innovation, we have never forgotten the root and foundation of commercial banks, of which striving for robust growth of core deposits is of particular importance. In the Internet era, user behavior migrates from offline to online, and the ways and means of online customer acquisition are undergoing profound changes. In 2018, corporate deposits and institutional group deposits in general declined by RMB2.6 trillion compared with those in 2017. These are the objective facts. But we know all too well that the growth of core deposits in essence boils down to customer management, and that there is no better way to win customers over than to prove that we genuinely understand our customers and are capable of creating value for our customers. Therefore, we started from the integration of customer services and made full efforts to transform the Bank towards "customer-orientation" and a "process-based bank". To this end, we worked harder to gain a comprehensive accurate understanding of customer needs, and coordinate various factors such as customer, product, risk, pricing and resources in a better manner, which boosted our capacity for the provision of comprehensive customer services. In addition, we started from the three major business segments and defined the direction of liability restructuring in 2019. For instance, in corporate banking, we will strive to achieve breakthroughs in supply chain finance and cash management, strengthen the roles of bill pool, B2B e-commerce and other major products in increasing deposits, and dive deep into the Internet trading scenes and the UnionPay agency-payment market. In retail banking, we will accurately identify the direction of financial technology and upgrade the payment and settlement functionalities, in order to retain and grow deposits. For financial interbank business, we will enhance interaction with fund custody, promote products that enjoy stable scales and cost advantages, enrich the "Interbank +" platform and drive forward the development of settlement funds. We want to make sure that the Bank will never grow its core deposits purely by the gust of chance.

Asset quality management is another eternal foundation of commercial banks. We perform our risk control responsibilities with a serious, calm and resolute attitude. Strategically, we insist on pursuing progress amid stability and shooting problems in the course of reform and development; tactically, we focus on major conflicts and address key issues. In 2018, while continuing to achieve profit growth, the Group accrued RMB58.2 billion allowance, an increase of 4.4% over the previous year; loans overdue for 90 days and more took up 92.41% of the total NPLs, a drop of 16.97 percentage points from the end of the previous year, indicating more solid asset quality. In 2018, the NPL balance and NPL ratio both went up, which had something to do with the larger environment but was also the result of our more stringent recognition of problem loans. The latter, while exerting certain pressure on asset quality data in the short run, is absolutely necessary for the Bank in its efforts to cement its development foundation in the long run. In addition, the Bank enjoys some favorable conditions in its future asset quality management. For instance, in recent years, the Bank deepened business transformation, continuously optimized the allocation of general-category assets, made its corporate loan structure more rational, constantly improved its accountability system, kept raising risk prevention awareness across the Bank, made in-depth application of risk quantification tools, and developed a more robust system for management of problem assets. As always, we are determined to uphold the risk control discipline, enhance our professionalism, and make sure that steady and lasting results can be achieved in our asset quality management.

There is no better way to bring hope to the future than to enlighten people and stimulate vitality. In recent years, the Bank actively explored a new model of human resources management, which released the vitality of its units at all levels, coordinated the construction of talent teams in all types, paced up the training of core talents, and nurtured a group of CNCB "big craftsman" and industry champions. We let all our employees understand that success depends not on chance but on devotion to work. The Bank has a wealth management manager who, despite her lack of academic background, now manages nearly RMB1.5 billion assets. The secret of her success in achieving a "grand reversal" and winning the trust of customers lies in her dedication to work and devotion to customers. I am very proud of her. Meanwhile, however, we are profoundly aware that a bank is not the simple sum of its individual employees or various units; instead there is something deeper, broader and more lasting that is essential to the success of a bank. This something is corporate culture, of which the most critical component is the sense of responsibility, not only responsibility to the cause of CITIC Bank but also responsibility to the larger society. Over the recent years, the Bank held on to the social attributes of financial services through active exploration of new models for precision poverty alleviation. Its "CITIC Bank • New Great Wall High School Self-Development Classes" program supported education for poverty alleviation purpose. Its "CITIC Bank • Ai You Young Heart Project" contributed to poverty alleviation through the promotion of medical care for poor children. The Bank also carried out fixed-point poverty alleviation in Xietongmen County of Tibet Autonomous Region, Aksu City and Jiashi County of Xinjiang Uygur Autonomous Region and Dangchang County of Gansu Province, and dispatched managerial personnel to these places to help reduce poverty. At the same time, its outlets offered extensive financial services with a human touch, such as special services particularly designed for the blind, the disabled and the elderly. In 2018, the Bank was named "Annual Enterprise Award" for the People's Enterprise Social Responsibility Awards by the People's Daily. In our opinion, this honor is a call for future action. We will respond the call by continuous fulfillment of our social responsibility.

Dear shareholders, due to age reason, Mr. Sun Deshun no longer serves as president and executive director of the Bank. We at the board would like to extend our sincere gratitude to Mr. Sun Deshun for the great contributions he made to the Bank during his term of office. The board has decided to engage Mr. Fang Heying as president of the Bank in succession to Mr. Sun Deshun. Mr. Fang is an outstanding person long cultivated by the Bank. We expect that our shareholders will, as always, support the board, Mr. Fang Heying and the senior management.

We worked all the way through 2018 without the slightest slacking or shortcutting. In 2019, we will continue our reform for more positive changes.

Li Qingping
Chairperson, Executive Director
26 March 2019

Fang Heying

Executive Director,
Vice President

President's Letter to Shareholders

Dear shareholders,

With the engagement by the board in March 2019, I will serve as President of CITIC Bank in succession to Mr. Sun Deshun who is no longer incumbent due to age reason. At this point, I would like to report to our shareholders the operating results of CITIC Bank for the year 2018, on behalf of Mr. Sun Deshun and the entire management team.

The past year was both a year of drastic turbulences in the economic and financial environments at home and abroad and the first year for implementing the 2018-2020 development plan of the Bank. In accordance with the work arrangements of the board, we, the management, pushed forward strategy implementation, deepened business transformation and withstood the test. For the year 2018, the Group realized operating income of RMB165.766 billion, an increase of 5.43% year on year; and net profit attributable to its shareholders of RMB44.513 billion, up 4.57% year on year, while continuing to accrue allowances at a high level. With more stringent criteria for recognition of non-performing loans (NPLs), the Group recorded a year-end NPL ratio of 1.77%, a slight rise of 0.09 percentage point year on year. These figures indicate that the Group sustained the momentum of healthy and steady development in the overall sense.

In the past year, the Bank further cemented its foundation for development. First, a more balanced business structure took shape. A relatively balanced business structure enables a bank greater resilience to volatilities of economic cycles. An important goal of the Bank's new three-year plan is to build a "Troika" development pattern under which its three major business segments, i.e., corporate banking, retail banking and financial markets, will develop in parallel. In the past year, we initiated the transformation of corporate banking business on all fronts. Among others, we formulated the 2018-2020 Implementation Program for the Transformation of Corporate Banking Business based on extensive market survey and analysis. The program further defined the growth positioning, transformation direction and driving initiatives of the Bank's corporate banking business and aimed at maintaining and expanding the Bank's competitive advantages by pushing forward reform and innovation of traditional corporate banking. At the same time, we continued to transform and develop retail banking and financial markets businesses. These efforts were very rewarding. For the reporting period, the Bank's retail deposits and retail assets under management (AUM) grew by RMB153.8 billion and RMB298.5 billion, respectively, both hitting a new high; and the financial markets segment overcame the adverse effects of the external environment to achieve a more than 70% year-on-year growth of operating income and a contribution markedly greater than that of the previous year. For the reporting period, the Group's profit before tax from corporate banking, retail banking and financial markets accounted for 44.6%, 29.0% and 25.3% of the total, respectively, indicating a more reasonable profit structure and greater capacity for sustainable development.

Second, a stronger customer base was in place. Whether a medium-sized bank can stand out in the increasingly fierce peer competition depends on whether it can secure support from customers. In the recent years, we persistently followed the "customer orientation" concept. In our pursuit of the ultimate customer experience, we broke through the shackles of traditional business mindsets and management models, and reshaped our business processes in accordance with the principle of integrating customer management and service. Our efforts are paying off. By the end of the reporting period, the Bank achieved an upgrade of its marketing services among effective corporate customers and basic customer groups, and expanded partnership with premium private enterprises and publicly listed companies at a faster pace. With an annual growth of more than 30,000 accounts, our corporate customer groups were further expanded. As at the end of the reporting period, the Bank recorded 88.318 million accounts of retail banking customers, up 22.6% year on year; the two major APPs, i.e., Mobile Card Space and Mobile Banking, had more than 11.13 million and 6.87 million accounts of active monthly users, up 77% and 52% year on year, respectively. The "Interbank +" platform registered a nearly 50% year-on-year growth of subscribed customers; the newly built self-service discounted bill product "Xin Miao Tie" recorded more than 1,400 accounts of subscribed customers and achieved over RMB11.5 billion transaction value since it went alive online during the year.

Third, asset quality enjoyed a boost. Underlying the quality of bank assets is the overall structure and risk control of credit assets. In recent years, in line with the trends of domestic socio-economic development, we favored the retail banking segment in our loan investment, making the Bank's loan distribution structure much more optimal. For the reporting period, the Group's retail loans grew by RMB252.9 billion, which was 61% of the total incremental loans; the proportion of the retail loan balance reached 41.14%, 2.62 percentage points higher than the beginning of the year; and the NPL ratio of retail loans (excluding credit card loans) stood at 0.64%, down 0.17 percentage point from the end of the previous year. As such, the Group got a strong support for its stabilization of asset quality across the board. In addition, the Group further tightened the criteria for recognition of non-performing loans, proactively including loans overdue for 90 days and more in non-performing loans. As a result, loans overdue for 90 days and more took up 92.41% of the Group's total non-performing loans, a big drop of 16.97 percentage points year on year. While working hard to control incremental non-performing loans, we continued to invest resources in the digestion of existing non-performing loans. In 2018, the Group wrote off RMB46.94 billion non-performing loans and accrued RMB58.23 billion allowances, making RMB166.31 billion cumulative allowance accruals for the past three years, a leading runner among its peers in this regard. These efforts enabled the Group to continuously cement the foundation for medium and long-term development.

In the past year, the Bank further enhanced its operation and management. First, the light-style development model went further. We followed the mindset of "accelerating turnover and adjusting structures" to turn over balance-sheet assets at a faster speed and push the business structure to transform in the light-style direction. During the reporting period, the Bank made RMB227.5 billion outbound transfer of assets in all types, saving risk assets by about RMB155.0 billion. While making impressive income from such transfer and further optimizing the structure of existing assets, these efforts also effectively released space for credit extension and reduced capital occupation. In the absence of external sources for replenishment of tier-one capital, the Group's core tier-one and tier-one capital adequacy ratios went up by 0.13 and 0.09 percentage point for the whole year, respectively, indicating the Group's market-proven internal capacity of capital generation. At the same time, we increased the weight of the internal rating approach in capital management to 100% and made greater efforts to develop businesses with lower capital occupation. During the reporting period, the Bank outperformed the market to achieve income growth in asset custody business and recorded more than RMB8.4 trillion assets under custody. The family trust business, a partnership with companies including CITIC Trust, was well received by the market, capturing a market share of 15%. We hope that, as the light-style development model goes further, the Bank will gradually get rid of its dependence on external capital and have its business growth and endogenous capital replenishment enter a virtuous circle.

Second, risk management capability continued to grow. Risk management is the "life line" of any bank and the greatest concern of investors over the recent years. For us, risk management is always the top priority of operation and management. Therefore, we made constant innovations to the ways and approaches of management in order to build a risk control system that fully integrates with the transformation of business models. During the reporting period, we enhanced the unified credit management for legal-person customers and thereby strengthened the main-player role of the customer departments in credit business. After a full summary of our experiences in handling risk incidents over the past few years, we introduced the mechanisms of managing access of incremental loan customers by "name list" and classifying existing assets into "four categories" for better management. At the same time, we sorted out the existing customers into the four categories of "support, maintain, reduce and exit", based on which we adopted corresponding pertinent strategies. For instance, we intensified our efforts to exit from business with customers that had failed our risk control standards. During the reporting period, the Bank classified 30,100 accounts of corporate customers into the "four categories" and made exit from 1,590 accounts of loan customers, markedly optimizing its loan customer mix. In addition, we strengthened active management of non-performing assets, carried out timely research to anticipate market trends, and leveraged on the window period of non-performing asset transfer. As a result, our profitability indicators such as the non-performing asset recovery ratio successfully outperformed the market. In 2018, the Bank completed total cash collection and recovery of RMB28.72 billion (including the recovery of RMB2.44 billion assets written off in previous years) and disposed RMB73.31 billion principals of non-performing assets, both hitting record highs and minimizing asset losses.

Third, the processes of reform and innovation kept pacing up. Business transformation of a bank fundamentally depends on how it reforms its management system and innovation mechanism. During the reporting period, we further improved the innovation management committee mechanism, developed medium to long-term innovation plans, and set up special incentives to reward major innovations. Over the year, we launched 18 Class I innovative projects online, pushed forward breakthroughs in 7 important tasks of 4 major categories, and successfully executed a group of unique innovation projects under the "chain finance" model such as "Cloud Chain". A growing atmosphere of promoting innovation for development was taking shape throughout the Bank. At the same time, we accelerated the construction of a smart and platform-based system for integrated development of finance and technology, and actively promoted the application of new technologies such as big data and artificial intelligence in customer management, product innovation and risk control. Riding on the trend of integration of finance and technology, the Bank launched the "CITIC Brain" (AI technology platform), which has attained the preliminary capacity for supporting smart application in multiple areas such as quantified trading, marketing, risk control, service and operation. We hope that through our efforts, CITIC Bank will become a commercial bank with advanced management concepts, innovative tech thinking and champion tech talents in the future.

In the past year, the Bank held a firmer grip on its transformation direction. First, the regional differentiation strategy moved forward with sure steps. The Bank's new three-year development plan put forward the idea of promoting unique regional development in a differentiated manner. Specifically, the Bank managed its branches by category and with differentiated policies in full alignment with regional economic characteristics and its own actual situations. Its resource policies favored regions with lower capital consumption, higher capital use efficiency and greater value creation, so that better positioned regions will achieve faster growth and the Bank will elevate its overall competitiveness. Over the year, the Bank applied various approaches, such as differentiated pricing authorization, greater input of human and credit resources and priority support to business innovation, to pace up the development of its strategic pivotal regional branches in "Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing and Hangzhou". The proportion of general corporate loans in these regions went up to 43.3%, an increase of 2.8 percentage points year on year. In addition, the Bank established regional coordinated development committees for the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, so that the branches in these core regions could lead synergistic development in the neighboring areas. With these efforts, we strove to build a robust layout characterized by incremental development, going from individual key points to chain-linked lines and from lines to extended areas, and to achieve overall growth with all regions progressing hand in hand. We expect that, in about three years, we will build a regional echelon-based development pattern with reasonable layout, highlighted focuses and distinctive features, whereby our medium-sized banking business will give full play to its competitive edges and make even better contribution to national and regional economic development.

Second, inclusive finance enjoyed a better framework. We regard inclusive finance not only as an important direction of the Bank in its adaptation to situational changes and exploration of market demands, but also as a strategic choice for the Bank in its transformation of development pattern, optimization of business structure and cultivation of future core customers. At present, inclusive finance enjoys unprecedented policy opportunities and an enabling eco-environment. In 2018, the Bank rode on such opportunities to further enhance the top-level design of inclusive finance. Among others, we set up the tier-one Inclusive Finance Department at the Head Office and built a platform that integrated the operation and management of the "review, approval, disbursement and post-lending" procedures. These efforts enabled the Bank constant improvements to its organizational structure and increasingly smooth operation of its systems. In addition, we took full advantage of big data and other technological means to promote model innovation in terms of customer channel, marketing pattern and credit rating. With the precondition of effective risk control, the Bank favored inclusive finance from the policy perspective in terms of performance evaluation and expense coverage. As a result, its inclusive financial services registered faster development in an all-round manner. As at the end of the reporting period, the Bank's inclusive finance loans as per the PBOC's targeted reserve requirement ratio (RRR) cut statistical criteria totaled RMB142.7 billion, a year-on-year increase of RMB40.2 billion, which successfully met the highest-grade RRR cut assessment criteria and gained more room for further growth of the Bank in the future.

Third, credit card business entered the fast lane of development. In recent years, the Bank accelerated the application of fin-tech innovations in its credit card business. Among others, a relatively fledged basic platform was built with the use of big data technology, which, by meeting customer demands for financial services at different stages, gave the Bank an early-bird edge in differentiated business growth. As at the end of 2018, the Bank recorded credit card loan balance of RMB442.05 billion, up more than 150% over the end of 2015; and achieved a 36.1% annual compound growth rate (ACGR) of credit card transaction volume for the past three years. During the reporting period, due to the impact of industry chaos such as cash loans, the NPL ratio of domestic credit card loans went up, arousing some market concerns about credit card risks. In our view, however, compared with international experiences, the prevailing forward-looking indicators of Chinese residents, such as their overall leverage level, the proportion of their outstanding credit card loan balance and the number of credit cards per capita are still within relatively safe ranges; therefore, the prospect of credit card business remains promising. In terms of its own reality, after years of continuous system building and resource input, the Bank has developed a relatively mature total-process business system and risk control system for its credit card business. In the face of the complex changes in the market, we will continue with our vigorous investment in credit card business and are confident that we will be able to keep business risk at a reasonable level through ongoing enhancement of refined management.

In addition, CITIC aiBank, a joint venture co-sponsored by the Bank and Baidu and the first independent legal entity practicing direct banking in China, targets relatively weak areas of traditional banking services. It focuses on smart batch acquisition of customers through online and offline scenarios, and concentrates on small-amount and high-frequency businesses such as payment, financing and wealth management. Since opening for business in November 2017, CITIC aiBank has recorded more than 12 million users, over RMB35 billion total assets, nearly RMB80 billion online disbursement of inclusive finance loans to more than 4 million personal users and 580,000 small and micro business owners. From these figures, we witness the good development potential of CITIC aiBank and its growing synergy with the Bank in terms of differentiated operations and mutual complementation. During the reporting period, the Bank and Baidu jointly made RMB2 billion capital increase for CITIC aiBank to supplement its share capital and support its rapid growth, indicating the full confidence of both shareholders in its growth prospect. We hope that CITIC aiBank will embark on a path of innovation and development different from that taken by a traditional bank, and that its fin-tech explorations can bring more inspiration and support to the Bank for future growth.

The track record of the past year has been splendid, and even greater progress is to be expected for the coming year. 2019 marks the 70th anniversary of PRC and the 40th anniversary of CITIC Group. Thriving through 32 years' growth and expansion, the Bank has become a medium to large commercial bank well-known at home and abroad, with more than RMB6 trillion total assets and nearly 60,000 employees. It is now steadily forging forward towards even higher goals with sure steps. As an "old CITIC person" who has served CITIC Bank for more than 20 years, I am profoundly aware of my heavy responsibilities as president of the Bank. Looking forward, under the leadership of the board, I together with all members of management will join hands with the rank and file of the Bank, follow the directions of national strategies, remain true to our original aspiration, and accelerate development of the Bank. Our cause is like a relay race in which the baton is passed down from generation to generation. Let us strive even harder to build CITIC Bank into an "enterprise offering the best comprehensive financial services"!

Fang Heying
Executive Director, Vice President[1]
26 March 2019

1 The Board of Directors meeting on 26 February 2019 reviewed and adopted related proposals on engaging Mr.Fang Heying to be President of the Bank, giving the consent that Mr. Fang Heying would serve as President of the Bank as of the date when CBIRC approves his qualification for office, prior to which Mr. Fang Heying would perform the duties of the President of the Bank.

Chapter 1 Corporate Introduction

1.1 Corporate Information

Registered Name in Chinese	中信銀行股份有限公司(abbreviated as「中信銀行」)
Registered Name in English	CHINA CITIC BANK CORPORATION LIMITED (abbreviated as "CNCB")
Legal Representative	Li Qingping
Secretary to the Board of Directors	Lu Wei
Joint Company Secretaries	Lu Wei, Kam Mei Ha Wendy (FCS, FCIS)
Securities Representative of the Company	Wang Junwei
Registered Address	No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing
Postal code of the registered address	100010
Office Address	No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing
Office Postal Code	100010
Official Website	www.citicbank.com
Telephone/Fax	+86-10-85230010/+86-10-85230079
Email Address	ir@citicbank.com
Principal Place of Business in Hong Kong	Level 54 Hopewell Center, 183 Queen's Road East, Hong Kong
Newspapers for Information Disclosure	China Securities Journal, Shanghai Securities News, Securities Times
Websites for Information Disclosure	Website designated by the CSRC to publish A-share annual reports: www.sse.com.cn Website designated by the SEHK to publish H-share annual reports: www.hkexnews.hk
Place Where Annual Reports are Kept	Office of the Board of Directors of CITIC Bank, No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing
Legal adviser as to PRC Laws	East & Concord Partners
Legal adviser as to Hong Kong Laws	Clifford Chance LLP
Domestic Auditor	PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) 11/F, PricewaterhouseCoopers Center, No.2 Corporate Avenue, No. 202 Hubin Road, Huangpu District, Shanghai (Postal code: 200021)
Domestic signing CPAs	Zhu Yu and Li Yan
Overseas Auditor	PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
Overseas signing CPA	Chen Guangde
Sponsor 1 for continuous supervision and guidance	CITIC Securities Co., Ltd.
Office Address	23/F, CITIC Securities Mansion, No. 48 Liangmaqiaolu, Chaoyang District, Beijing
Signing sponsor representatives	Ma Xiaolong and Cheng Yue
Duration of continuous supervision and guidance	From 19 March 2019 to 31 December 2020 (Where the convertible bonds are not fully converted to shares upon expiry of the duration of continuous supervision and guidance, the duration shall be extended to the time of full conversion of the convertible bonds)
Sponsor 2 for continuous supervision and guidance	China International Capital Corporation Limited (CICC)
Office Address	27-28/F, China World Office 2, No. 1 Jianguomen Waidajie, Beijing
Signing sponsor representatives	Gao Shengliang and Shi Fang
Duration of continuous supervision and guidance	From 19 March 2019 to 31 December 2020 (Where the convertible bonds are not fully converted to shares upon expiry of the duration of continuous supervision and guidance, the duration shall be extended to the time of full conversion of the convertible bonds)

A-share Registrar	China Securities Depository and Clearing Corporation Limited Shanghai Branch 3/F, China Insurance Building, No. 166 East Lujiazui Road, Pudong New Area, Shanghai
H-share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Listing Venue, Stock Name and Stock Code	A-share: Ordinary shares CNCB — Shanghai Stock Exchange 601998 Preference shares CITIC Excellent 1 — Shanghai Stock Exchange 360025 H-share: Ordinary shares CITIC Bank — Hong Kong Stock Exchange 0998

1.2 Contact Persons and Contact Details

	Secretary to the Board of Directors	**Securities Representative of the Company**
Name	Lu Wei	Wang Junwei
Address	No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing	No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing
Telephone	+86-10-85230010	+86-10-85230010
Fax	+86-10-85230079	+86-10-85230079
Email Address	ir@citicbank.com	ir@citicbank.com

1.3 Business Overview of the Company

1.3.1 Main Business of the Company

The Bank aspires to become the enterprise offering the best comprehensive financial services. To attain this development vision, the Bank fully leverages on the unique competitive advantages of CITIC Group in placing financial and non-financial businesses on an equal footing, and at the same time holds firm to its "customer orientation" and adheres to the business concept of "safe CITIC Bank, compliant operation, science and technology for growth, serving the real economy, market orientation and value creation". For corporate customers and institutional customers, the Bank offers integrated financial solutions in corporate banking business, international business, financial markets business, institutional banking business, investment banking business, factoring business and custody business. For individual customers, the Bank provides diversified financial products and services in retail banking, credit card, consumer finance, wealth management, private banking, going abroad finance and e-banking. As such, the Bank satisfies the needs of corporate, institutional and individual customers for comprehensive financial services on all fronts. For details please refer to Chapter 4 "Management Discussion and Analysis" of this report.

1.3.2 Note on Material Changes in the Company's Main Assets

The Group's main assets include loans and advances to customers, deposits and placements with, and loans to banks and non-bank institutions, financial assets held under resale agreements, financial investments, cash and deposits and placements with central banks. As at the end of the reporting period, these aforementioned assets took up 97.5% of the Group's total assets, an increase of 1.1 percentage point over the end of the previous year. Please refer to Chapter 4 "Management Discussion and Analysis — Analysis of the Financial Statements" of this report for information on changes in the Group's main assets.

1.3.3 Core Competitiveness Analysis

The Bank insisted upon coordinated development of profit, quality and scale, and continuously enhanced its core competitiveness, in a bid to become "the enterprise offering the best comprehensive financial services" with distinctive business characteristics, outstanding profitability, robust asset quality and leading status in key regions.

Corporate governance and business operation were scientific, efficient and effective. Since its inception, the Bank always adhered to market-oriented operation and constantly improved its corporate governance and business operation systems and mechanisms. The result was the formation of an organizational structure characterized by efficient management and professional division of duties. In accordance with relevant laws, regulations and regulatory requirements and the general requirements on incorporating Party building into the company's Articles of Association, and in alignment with its own real situations, the Bank added the relevant provisions on Party building in state-owned enterprises into its Articles of Association. With reference to the theory and practice of modern bank development, the Bank set up a corporate governance framework comprising the Board of Directors, the Board of Supervisors, the general meeting of shareholders, and the senior management. According to the principle of separating the front, middle and back offices, the Bank established a matrix management model with the Head Office departments as the lines and the branches and sub-branches as the arrays. The Bank actively adapted itself to the external situations and regulatory requirements by building a refined management platform with development plans as the orientation, asset management as the core and value return as the goal. By means of capital planning, allocation, monitoring and benchmarking, the Bank optimized its business structure and reasonably allocated its resources to increase return on capital.

Business grew in an all-round balanced manner. Embracing its traditional advantages and DNAs, the Bank developed a business structure with corporate banking as the main body and retail banking and financial markets businesses as the two wings, and gradually shifted towards the "Troika" direction. Supported by the transformation of corporate banking and based on its traditional business advantages, the Bank built a system for precise customer marketing and a system of distinctive products and services, which further consolidated its market position. Leveraging the transformation of retail banking as a breakthrough, the Bank provided comprehensive services in "big" retail banking and developed good customer experience in line with the full range of retail customer needs to create value for customers. The Bank regarded the financial markets as a new growth point and therefore built the product system that covered the money market, the capital market and the international financial markets. In addition, it created innovative service models to continuously build capacity for management of diversified assets and liabilities. During the reporting period, the Group's net profit from corporate banking, retail banking and financial markets took up 44.6%, 29.0% and 25.3% of the total, respectively, indicating a more balanced operating profit structures and greater capacity for sustainable development.

Financial technology facilitated innovation. The Bank paid great attention to the innovation and application of financial technology. Guided by the notion of "science and technology for innovation and growth", the Bank made enthusiastic exploration and constant innovation in internet finance, digitization and smart transformation. With active R&D of financial products based on new technologies such as big data and artificial intelligence, the Bank improved the availability and accessibility of its financial services and enhanced the precision of its customer service. In addition, the Bank connected itself with internet platforms of non-financial enterprises, made continuing innovation of products, optimized systems and renovated processes, which in turn provided the enterprises and their upstream and downstream customers with better experience of traditional banking services and supported the real economy with better services. CITIC aiBank, a joint venture co-sponsored by the Bank and Baidu, fully integrated the financial and technological DNAs of the two shareholders to build a smart inclusive financial service platform with the twin drivers of technology and data.

Comprehensive synergy exhibited remarkable advantages. Synergy, as both the development strategy and unique feature of CITIC Group, is a distinctive competitive edge of the Bank, and key to the Bank's aspiration of becoming the enterprise offering the best comprehensive financial services. In accordance with the overall requirements of the 2018-2020 development plan, the Bank integrated internal and external resources, and built new dynamics for customer acquisition, stabilization and growth of deposits, risk prevention and value creation from the six dimensions of group, region, cross-border, parent-subsidiary, segment and organization. As at the end of the reporting period, the Bank and the subsidiaries of CITIC Group jointly provided RMB625.843 billion finance for its corporate customers; made combined investment of RMB12.725 billion in cooperation with CITIC Financial Leasing and CITIC aiBank; and recorded RMB221.279 billion cross-border finance in partnership with CNCBI and CNCB Investment.

Risk prevention and control was scientific and effective. The Bank made constant efforts to promote the reform of its risk management system and cultivated a risk control and compliance culture on all fronts. Among others, the Bank continuously improved the total risk management system by developing regulations, constructing systems and building processes. Risk management responsibilities of the "Three Defense Lines" were implemented; risk prevention and control awareness of the business units was reinforced; and the professional risk management level of all employees upgraded. At the same time, the Bank implemented the differentiated development strategy and continued to optimize its credit business structure. The allocation of general assets became increasingly rational and the resilience against the risks of economic cycles got a boost. In order to manage and control risks in a more proactive manner, the Bank enhanced active management of problem assets, toughened its non-performing loan recognition criteria, and comprehensively consolidated the quality of its credit assets. In addition, the Bank boosted IT-based smart risk management, including but not limited to active exploration into the application of artificial intelligence and big data analysis technology in risk management, and continuous elevation of the application of risk quantification techniques. With all these efforts, the Bank was able to steadily upgrade the management level of various risks. During the reporting period, the Group further tightened the criteria for recognition of non-performing loans, taking the initiative to classify loans overdue for 90 days and longer as non-performing loans. As at the end of the period, the ratio of loans overdue for 90 days and longer to non-performing loans stood at 92.41%, a decrease of 16.97 percentage points year on year.

Brand influence continued to escalate. After more than three decades' development, the Bank has set up a network of affiliates covering major large and medium-sized cities in mainland China, and established operations in London, Sydney, Hong Kong SAR, Macau SAR, New York, Los Angeles, Singapore, etc. With the provision of a full range of financial products and high-quality customer service, the Bank enjoyed a high reputation and extensive influence at both domestic and overseas markets. The Bank guides its brand strategy with the motto of "Building trust for long-term growth, incorporating smart services for boundless financing". In 2018, The Banker magazine of the United Kingdom rated the Bank the 24th on its list of the "Top 500 Global Bank Brands", and the 27th on its list of the "Top 1,000 World Banks" in terms of tier-one capital. In May 2018, the Forbes magazine ranked the Bank the 85th on its list of the "Top 2,000 Global Enterprises".

Chapter 2 Honors

Rankings and brand value awards

In February 2018, The Bank ranked the 24th on the list of the "Top 500 Global Bank Brands" published by The Banker magazine of the United Kingdom.

In May 2018, the Bank ranked the 85th on the list of the "Top 2,000 Global Enterprises" published by the Forbes.

In July 2018, the Bank ranked the 27th in terms of tier-one capital on the list of the "Top 1,000 World Banks" published by The Banker magazine of the United Kingdom.

In November 2018, in the "2018 China Employer Branding Awards" sponsored by ChinaHR.com, the Bank made to the list of the "Top 50 Best Chinese Employers for University Graduates" and the list of the "Top 15 Best Chinese Employers in the Financial Industry for University Graduates".

In December 2018, in the competition for the "2018 Gold-Medal List of Chinese Financial Institutions" sponsored by the Financial News, the Bank was named "Best Brand Building Bank of the Year".

Awards for comprehensive financial services

Corporate banking business

In June 2018, the Bank won the honor of "Best International Settlement Bank" from the China Banking Association.

In November 2018, the Bank received the "Best Performance Award for Syndicated Loans" from the China Banking Association; and was named "2018 Enterprise of the Year for Excellence in Innovation of Auto Finance Service for Auto Dealers in China" by the China Automobile Dealers Association.

In December 2018, the Bank was named 2018 "Bank of the Year for Best Supply Chain Financial Services" by the Caijing magazine; and 2018 "Bank of the Year for Inclusive Financial Services" and "Bank of the Year for Excellence in Big-Customer Financial Services" by the 21st Century Finance and Economics.

Retail banking business

In March 2018, the Bank's Private Banking was named "Overall Best National Private Bank" by Asiamoney.

In November 2018, the Bank was named "China's Most Progressive Private Bank" by The Asian Banker, and "Private Bank of the Year" by the Economic Observer.

Interbank business

In January 2018, the Bank was named "Core Institutional Investor", "Excellent Issuer of Interbank Certificates of Deposit" and "Excellent Money Market Institutional Investor" at the interbank local currency market by the National Interbank Funding Center; was named "Excellent Comprehensive Institutional Market Maker" by National Association of Financial Market Institutional Investors (NAFMII); and "Core Institutional Investor" and "Excellent Derivatives Market Institutional Investor" by the China Foreign Exchange Trade System.

In March 2018, the Bank received multiple honors from the China Foreign Exchange Trade System, including the 2017 "Best Market Making Award", "Best Trading Award", "Best Spot Trading Award", "Best Forward Swap Trading Award", "Award for the Most Popular Institutional Market Maker in Forward Swap Trading", "Award for the Institutional Market Maker with the Best Technology","Award for the Institutional Market Maker with the Best Back-office Support", "Best Options Member Award" and "Award for Options with the Best Market Making Potentials".

In April 2018, the Bank was named "Excellent Comprehensive Institutional Market Maker" at the interbank bond market by the National Association of Financial Market Institutional Investors (NAFMII); and received the honors of "2017 Outstanding Financial-Category Member" and "Excellent Market Maker at the Interbank Price Inquiry Market" of the Shanghai Gold Exchange.

Financial technology awards

In January 2018, the Bank's "Block chain-based Domestic Letter of Credit Information Transmission System" won the "Innovation Award on the 2017 China Financial Technology Innovation List" from the Organizing Committee of the China Financial Technology Innovation Conference.

In May 2018, the Bank won numerous awards from The Asian Banker, including the "Compliance Risk Technology Implementation of the Year", the "Annual Financial Markets Achievement Award", the "The Best Blockchain Initiative, Application or Program Award", the "Best Customer Relations Management Project in China", and the "Award for Best Custody System Implementation in China".

In September 2018, the Bank received the "Trade Finance Innovation Award" in the competition for the "2017-2018 Financial Technology Jiefu Award" sponsored by Caishiv.com.

In October 2018, in the competition for the "2018 China Financial Technology Innovation List" sponsored by the China Financial Certification Center (CFCA), the Bank's mobile banking was named "Excellent Solution for Financial Technology Innovation and Application".

In November 2018, the Bank won the 2018 "Internet Finance Innovation Award" and the "Best Corporate Internet Banking Award" from the China Financial Certification Center (CFCA).

Social responsibility awards

In March 2018, the Bank won the "2017 Award for Outstanding Contribution" from the China Foundation for Poverty Alleviation (CFPA).

In June 2018, the Bank won the "Best Green Finance Award" and the "Best Social Responsibility Manager Award" from the China Banking Association.

In December 2018, the Bank won the "Annual Enterprise Award" in the 13th Competition for the People's Enterprise Social Responsibility Awards sponsored by People.cn.

Comprehensive awards

In April 2018, the Bank received the "Award for Best Contribution to Fee-Based Income" and the "Special Contribution Award from the Special Committee on Fee-Based Income" from the China Banking Association.

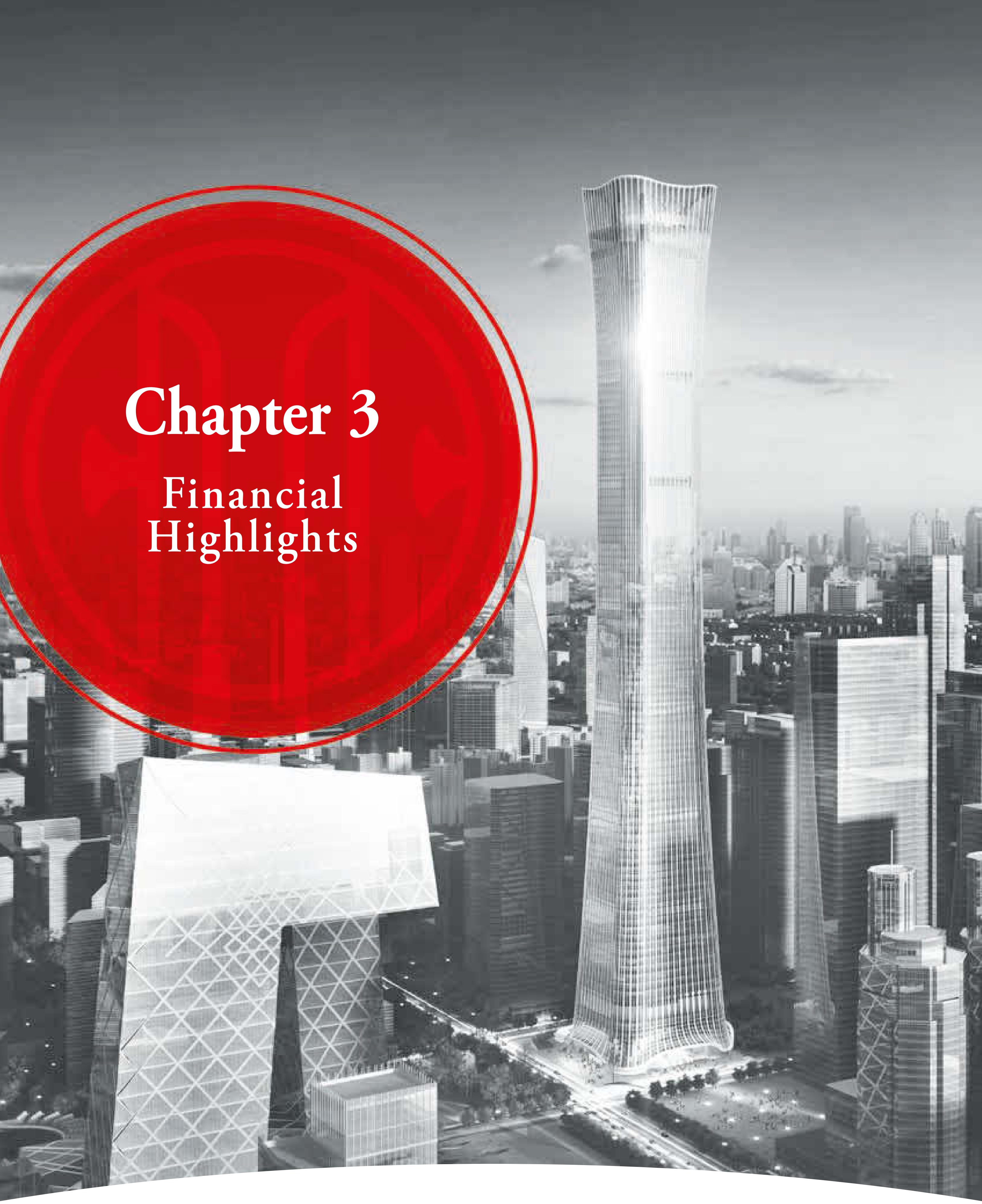
In August 2018, the Bank was rated "Type A in Annual Information Disclosure for 2017-2018" by the Shanghai Stock Exchange.

In November 2018, the Bank was named 2018 "China Loan House" by IFR Asia.

In December 2018, the Bank's issue of US dollar offshore bonds was named "Best Bank Bond" by The Asset. Also in the same month the Bank won the "Excellent Financial Bond Issuer Award" and the "Excellent ABS Initiator Award" from China Central Depository & Clearing Co., Ltd. (CCDC) and received the "Award for Listed Companies with Best Investor Relations Management" from Sina Finance.

Chapter 3

Financial Highlights



Chapter 3 Financial Highlights

3.1 Operating Performance

Unit: RMB million

Item	2018	2017	Growth rate (%)	2016
Operating income	**165,766**	157,231	5.43	154,159
Profit before tax	**54,326**	52,276	3.92	54,608
Net profit attributable to the equity holders of the Bank	**44,513**	42,566	4.57	41,629
Net cash flow from/(used in) operating activities	**102,316**	54,074	89.21	218,811
Per share				
Basic earnings per share (RMB)	**0.88**	0.84	4.76	0.85
Diluted earnings per share (RMB)	**0.88**	0.84	4.76	0.85
Net cash flow from/(used in) operating activities per share (RMB)	**2.09**	1.11	88.29	4.47

Unit: RMB million

	For the year 2018			
Item	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating income	**39,792**	**41,588**	**40,474**	**43,912**
Net profit attributable to the equity holders of the Bank	**12,166**	**13,555**	**11,078**	**7,714**
Net cash flow from/(used in) operating activities	**(56,207)**	**68,607**	**164,832**	**(74,916)**

3.2 Profitability Indicators

Item	2018	2017	Increase/ (decrease) in percentage point	2016
Return on average assets (ROAA) (1)	**0.77%**	0.74%	0.03	0.76%
Return on average equity (ROAE) (2)	**11.36%**	11.63%	(0.27)	12.58%
Cost-to-income ratio (excluding tax and surcharges) (3)	**30.71%**	30.05%	0.66	27.75%
Credit cost (4)	**1.40%**	1.64%	(0.24)	1.67%
Net interest spread (5)	**1.85%**	1.64%	0.21	1.89%
Net interest margin (6)	**1.94%**	1.79%	0.15	2.00%

Notes: (1) Calculated as net profit divided by the average of the balances of total assets at the beginning and end of the period.

(2) Calculated as net profit attributable to the ordinary shareholders of the Bank divided by the average of total beginning and ending equity attributable to the ordinary shareholders of the Bank.

(3) Calculated as operating expenses less tax and administrative expenses divided by operating income.

(4) Calculated as current-year accruals of allowance for impairment losses on loans and advances to customers divided by average balance of loans and advances to customers.

(5) Calculated as average yield on interest-earning assets minus average cost rate of interest-bearing liabilities.

(6) Calculated as net interest income divided by average balance of interest-earning assets.

3.3 Scale Indicators

Unit: RMB million

Item	31 December 2018	31 December 2017	Growth rate (%)	31 December 2016
Total assets	**6,066,714**	5,677,691	6.85	5,931,050
Total loans and advances to customers (1)	**3,608,412**	3,196,887	12.87	2,877,927
— Corporate loans	**1,881,125**	1,857,847	1.25	1,846,274
— Discounted bills	**242,797**	107,456	125.95	75,047
— Personal loans	**1,484,490**	1,231,584	20.54	956,606
Total liabilities	**5,613,628**	5,265,258	6.62	5,546,554
Total deposits from customers (1)	**3,616,423**	3,407,636	6.13	3,639,290
— Corporate demand deposits (2)	**1,521,684**	1,651,180	(7.84)	1,691,065
— Corporate time deposits	**1,382,230**	1,223,018	13.02	1,390,212
— Personal demand deposits	**262,960**	234,961	11.92	232,960
— Personal time deposits	**449,549**	298,477	50.61	325,053
Deposits from banks and non-bank financial institutions (1)	**778,113**	798,007	(2.49)	981,446
Placements from banks and non-bank financial institutions (1)	**115,117**	77,595	48.36	83,723
Total equity attributable to the equity holders of the Bank	**436,661**	399,638	9.26	379,224
Net asset per share attributable to the equity holders of the Bank (RMB)	**8.92**	8.17	9.18	7.75
Net asset per share attributable to the ordinary shareholders of the Bank (RMB)	**8.21**	7.45	10.20	7.04

Note: (1) For the convenience of analysis, the scale indicators of assets and liabilities did not include relevant data on interest receivables or interest payables.

(2) Corporate demand deposits included demand deposits from corporate customers and outward remittance and remittance payables of corporate customers.

3.4 Asset Quality Indicator

Item	31 December 2018 Regulatory value (4)	31 December 2018 Actual Value	31 December 2017 Regulatory value	31 December 2017 Actual Value	Increase (decrease) in percentage points of Actual Value	31 December 2016 Regulatory value	31 December 2016 Actual Value
NPL ratio (1)	**—**	**1.77%**	—	1.68%	0.09	—	1.69%
Allowance coverage ratio (2)	**≥140%**	**157.98%**	≥150%	169.44%	(11.46)	≥150%	155.50%
The ratio of allowance for impairment of loans to total loans (3)	**≥2.1%**	**2.80%**	≥2.5%	2.84%	(0.04)	≥2.5%	2.62%

Note: (1) Calculated as balance of NPLs divided by total loans and advances to customers.

(2) Calculated as balance of allowance for impairment of loans and advances to customers divided by balance of NPLs.

(3) Calculated as balance of allowance for impairment of loans and advances to customers divided by total loans and advances to customers.

(4) According to the former CBRC's Notice on the Regulatory Requirements on Adjusting Allowances for Loan Impairment Losses of Commercial Banks (CBRC Issue [2018] No.7), the regulatory policy of differentiated dynamic adjustment of allowances was practiced for joint-stock banks.

3.5 Other Main Regulatory Indicators

Item [1]	Regulatory value	**31 December 2018**	31 December 2017	Increase/ (decrease) in percentage points	31 December 2016
Capital adequacy profile					
Core tier-one capital adequacy ratio	≥7.50%	**8.62%**	8.49%	0.13	8.64%
Tier-one capital adequacy ratio	≥8.50%	**9.43%**	9.34%	0.09	9.65%
Capital adequacy ratio	≥10.50%	**12.47%**	11.65%	0.82	11.98%
Leverage profile					
Leverage ratio	≥4%	**6.37%**	6.18%	0.19	5.47%
Liquidity risk profile					
Liquidity coverage ratio [2]	≥100%	**114.33%**	97.98%	16.35	91.12%
Liquidity ratio					
Including: Renminbi	≥25%	**50.80%**	45.29%	5.51	40.98%
Foreign currencies	≥25%	**59.85%**	84.11%	(24.26)	63.37%

Notes: (1) The figures in the table were calculated in accordance with the regulatory standards of the Chinese banking industry. Except for the liquidity coverage ratio which was data of the Bank, all other indicators were data of the Group.

(2) As per the requirements of the Measures on Liquidity Risk Management of Commercial Banks (CBIRC Decree [2018] No. 3), the liquidity coverage ratio of commercial banks should reach 100% by the end of 2018 and shall not fall below 90% during the transition period.

3.6 Differences between IFRS and PRC Accounting Standards

There is no difference between the 2018 year-end net assets and the net profit of the Group for the reporting period calculated according to the PRC Accounting Standards and those calculated as per the International Financial Reporting Standards (IFRS).

3.7 Five-Year Financial Summary

Unit: RMB million

Item	2018	2017	2016	2015	2014
Operating performance					
Operating income	**165,766**	157,231	154,159	145,545	124,839
Profit before tax	**54,326**	52,276	54,608	54,986	54,574
Net profit attributable to the equity holders of the Bank	**44,513**	42,566	41,629	41,158	40,692
Net cash flow from/(used in) operating activities	**102,316**	54,074	218,811	(20,835)	34,150
Per share					
Basic earnings per share (RMB)	**0.88**	0.84	0.85	0.88	0.87
Diluted earnings per share (RMB)	**0.88**	0.84	0.85	0.88	0.87
Net cash flow from (used in) operating activities per share (RMB)	**2.09**	1.11	4.47	(0.43)	0.73
Scale indicators					
Total assets	**6,066,714**	5,677,691	5,931,050	5,122,292	4,138,815
Total loans and advances to customers	**3,608,412**	3,196,887	2,877,927	2,528,780	2,187,908
Total liabilities	**5,613,628**	5,265,258	5,546,554	4,802,606	3,871,469
Total deposits from customers	**3,616,423**	3,407,636	3,639,290	3,182,775	2,849,574
Total equity attributable to the equity holders of the Bank	**436,661**	399,638	379,224	317,740	259,677
Net asset per share attributable to the equity holders of the Bank (RMB)	**8.92**	8.17	7.75	6.49	5.55
Net asset per share attributable to the ordinary shareholders of the Bank (RMB)	**8.21**	7.45	7.04	6.49	5.55
Profitability indicators					
Return on average assets (ROAA)	**0.77%**	0.74%	0.76%	0.90%	1.07%
Return on average equity (ROAE)	**11.36%**	11.63%	12.58%	14.26%	16.77%
Cost-to-income ratio (excluding tax and surcharges)	**30.71%**	30.05%	27.75%	27.87%	30.41%
Credit cost	**1.40%**	1.64%	1.67%	1.51%	1.06%
Net interest spread	**1.85%**	1.64%	1.89%	2.13%	2.19%
Net interest margin	**1.94%**	1.79%	2.00%	2.31%	2.40%
Asset quality indicators					
NPL ratio	**1.77%**	1.68%	1.69%	1.43%	1.30%
Allowance coverage ratio	**157.98%**	169.44%	155.50%	167.81%	181.26%
The ratio of allowance for impairment of loans to total loans	**2.80%**	2.84%	2.62%	2.39%	2.36%
Capital adequacy ratio					
Core tier-one capital adequacy ratio	**8.62%**	8.49%	8.64%	9.12%	8.93%
Tier-one capital adequacy ratio	**9.43%**	9.34%	9.65%	9.17%	8.99%
Capital adequacy ratio	**12.47%**	11.65%	11.98%	11.87%	12.33%

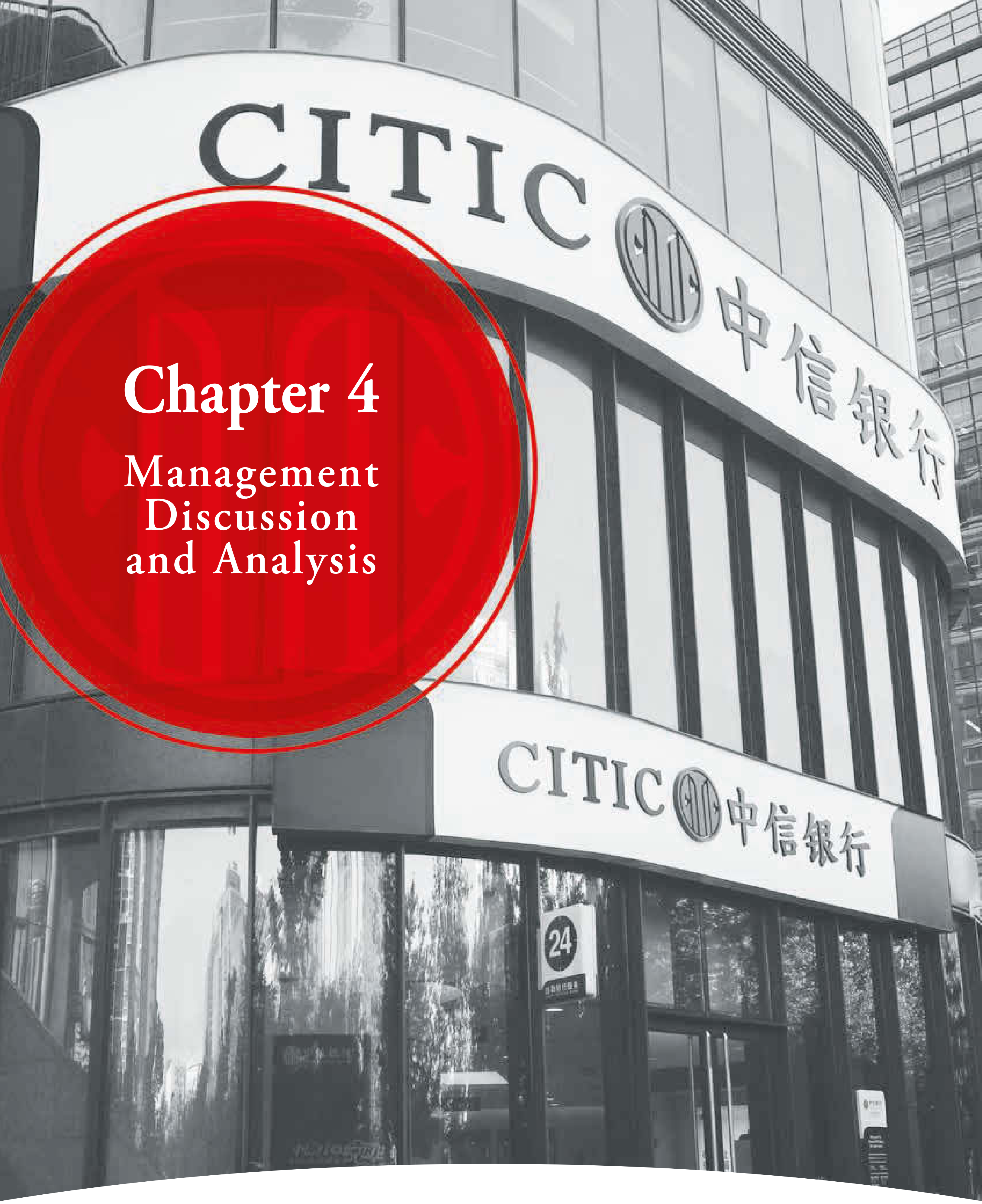
3.8 Explanations about Changes in Presentation of Financial Statements and the Analysis Standards

In 2018, the Ministry of Finance promulgated the Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises (Cai Kuai [2018] No. 36), according to which the Group prepared its 2018 annual financial statements, without reinstating the information of the comparison period.

As per the requirements of the notice, interest on financial instruments accrued according to the effective interest rate method should be included in the book balance of the corresponding financial instrument and reflected in relevant items of the balance sheet, instead of being separately posted under “interest receivables” or “interest payables”. For the convenience of analysis, the scale indicators of assets and liabilities involved in Chapter 3 “Financial Highlights” and Chapter 4 “Management Discussion and Analysis” excluded relevant data on interest receivables and interest payables.

Chapter 4

Management Discussion and Analysis



Chapter 4 Management Discussion and Analysis

4.1 Overview of the External Macro Environment and the Bank's Operating Results

4.1.1 Economic, Financial and Regulatory Environments

In 2018, the global economy maintained the momentum of recovery albeit with marked divides. Due to the impact of trade frictions, the Fed's tightening of monetary policy and the geopolitical conflicts, the global economy was exposed to growing downward risk. The Chinese economy recorded stable overall performance, continuing to grow within a reasonable range and enjoying better quality of development. Over the course of 2018, in year-on-year term, China's gross domestic product (GDP) grew by 6.6%; consumer price index (CPI) rose by 2.1%; industrial producer price index went up by 3.5%; national urban surveyed unemployment rate remained at around 5%; the contribution of consumption to economic growth increased by 18.6 percentage points; and the debt-to-asset ratio of industrial enterprises above the designated size declined by 0.5 percentage point. However, under the influence of the severe and complex external environment, China's economic operation was characterized by changes amid stability and worries amid change, with some economic indicators recording slower growth and some enterprises suffering difficult business operation. The economy in general faced downward pressure.

In accordance with the requirements of the 19th National Congress of the Communist Party of China (CPC), the National Financial Work Conference and the Central Economic Work Conference, the Chinese financial regulators had the financial sector provide better service to the real economy and resolutely fought the tough battle of preventing and resolving material risks. The People's Bank of China (PBOC) continued the prudent monetary policy, implemented the targeted reserve requirement ratio (RRR) cut for financial institutions, smoothed the transmission mechanism of monetary policy, and increased support for private enterprises from the three channels of bonds, credit loans and equity. The CBIRC intensified the rectification of market, and introduced heavier penalties against irregularities committed by commercial banks to prevent and resolve risks in key areas. Among others, the CBIRC released multiple new regulations such as the Measures for Liquidity Risk Management of Commercial Banks and the Measures for Supervision and Management of Wealth Management Business of Commercial Banks. The domestic money supply in China continued to increase at a slower pace, while credit loans and social financing both maintained a reasonable growth rate. As at the end of the reporting period, the balance of broad money (M2), the balance of Renminbi loans and the stock of social financing stood at RMB182.67 trillion, RMB136.3 trillion, and RMB200.75 trillion, growing by 8.1%, 13.5% and 9.8% over the end of the previous year, respectively.

4.1.2 Overview of the Bank's Operating Results

The reporting period witnessed profound and complex changes in both domestic and overseas economic situations. In response, the Bank earnestly implemented its 2018-2020 development plan, maintained its strategic focus, adhered to the overall tone of "pursuing progress amid stability", and highlighted the work requirements of "returning to the basics of financial services, reinforcing compliance and promoting transformation". As a result, the Bank achieved a sound momentum of development in all businesses and further enhanced management efficiency and effectiveness.

Operating strength enjoyed steady improvement. During the reporting period, the Group steadily improved its operating results. For the whole year, the Group realized RMB44.51 billion net profit attributable to its equity holders, a growth of 4.6% over last year, the highest growth for the last five years; and its net operating income registered RMB165.77 billion, up 5.4% from last year. Asset quality of the Bank went for the better. Loans overdue for 90 days and more took up 92.41% of the Bank's total non-performing loans, a drop of 16.97 percentage points from the end of the previous year. In the year 2018, the Bank wrote off RMB46.94 billion non-performing loans, an increase of RMB11.25 billion year on year. The Bank's allowance coverage ratio and ratio of allowance for impairment of loans to total loans stood at 158% and 2.8%, respectively, both above regulatory requirements. The Bank's assets continued to grow at a reasonable pace. As at the end of the reporting period, the Bank's total assets exceeded RMB6 trillion, a growth of RMB389 billion or 6.9% over the end of the previous year; its total loans to customers stood at RMB3.61 trillion, 12.9% more than the end of the previous year; and its total deposits from customers recorded RMB3.62 trillion, up 6.1% from the end of last year.

Business structure enjoyed ongoing optimization. During the reporting period, the Bank effectively promoted the building of corporate customer groups, increasing the number of effective corporate settlement customers by 13,900 accounts. The "five head-office-to-head-office model"[2] was fully implemented for strategic customers, and cooperation with institutional customers in key areas went further. The total number of corporate customers reached 630,000 accounts at the reporting period. Credit resources continued to favor retail banking business, with personal loans accounting for 41.1% of the total, up 2.6 percentage points from the end of the previous year. Retail banking of the Group made even greater contribution to profit, with retail non-interest income recording RMB37.25 billion, a 9.0% year-on-year growth, and the share of retail non-interest income reaching 61.1%, up 1.7 percentage points. The financial markets segment kept enhancing its competitiveness, realizing RMB13.6 billion income from capital-light businesses, up 15.3%, accounting for 49.6% of the Bank total capital-light income. In light of the situational changes, the Bank made further adjustments to its asset structure, reducing its inter-bank assets and structured investment by a combined amount of RMB193.2 billion, representing a significant drop of 21.8%. The Bank remained a leading runner among joint-stock banks in terms of foreign exchange purchase and sale, international receipt and payment, and cross-border Renminbi receipt and payment.

Characteristic development progressed in an orderly manner. The Bank continued to promote business synergy with the subsidiaries of CITIC Group and its own subsidiaries and strengthened segment interaction within CITIC Group. During the reporting period, the Bank provided RMB625.843 billion co-finance for customers in partnership with CITIC Group's subsidiaries, and extended RMB221.279 billion cross-border finance to its customers in cooperation with CNCBI and CNCB Investment. These characteristic businesses recorded a steady value growth. In addition, the Bank was a leading market runner in multiple aspects, such as the scales of ultra-short-term finance and underwriting, going abroad financial services, the scale of family trust and "Kuajing Bao" transaction volume. At the same time, the Bank initiated the reform of its inclusive finance system. Among others, it established the Inclusive Finance Leading Group and the tier-one Inclusive Finance Department. As at the end of the reporting period, the Bank's inclusive finance loans as per the PBOC's targeted reserve requirement ratio (RRR) cut statistical criteria totaled RMB142.729 billion, a year-on-year increase of RMB40.242 billion, successfully meeting the highest-grade RRR cut assessment criteria.

Risk prevention and control improved continuously. The Bank strengthened its unified credit management system for legal-person customers, enhanced the main-actor role of the customer departments in its credit business, introduced the mechanisms of managing new customers by "name list" and classifying existing customers into "four categories", and pushed forward active management of risky and problem assets. During the reporting period, the Bank disposed RMB73.309 billion principals of non-performing assets, completed RMB28.723 billion cash collection and recovery including the cash recovery of RMB2.441 billion assets written off in previous years, a growth of 67.00% year on year, and collected RMB1.314 billion interest on non-performing loans, up 20.99% year on year. In addition, the Bank focused on strengthening the construction of a risk culture. Through rectification of financial chaos and by implementing its "413 Compliance Action"[3], the Bank promoted coordination and interaction among its departments and boosted an atmosphere of active compliance.

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2 Refers to the business model that features "Head Office to Head Office Negotiation, Head Office to Head Office Project Acquisition, Head Office to Head Office Parallel Operation, Head Office to Head Office Resource Allocation and Head Office to Head Office Risk Control".

3 Under the "413 Compliance Action", the Bank carried out 4 special actions, i.e., "escort action" for rule implementation, "demining action" for behavior management, "sword action" for chaos rectification, and "governance action" for repeated investigations versus repeated violations; and implemented 13 initiatives, i.e., re-examine business processes, develop compliance manuals, strengthen implementation of rules and regulations, practice the system for part-time managerial functions, curb improper trading practices, conduct flying inspections for incident prevention, boost advocacy and early warning education, supervise continuous rectification, carry out self-examination and self-correction on a rolling basis, rectify the root causes, define the compliance red lines, conduct screening for rectification, and continuously follow up assessment results.

Stronger foundational support was provided for development. To further optimize resource allocation, the Bank practiced differentiated pricing authorization for branches with "comprehensive return" as the core. In particular, the Bank increased the independent pricing mandate of strategic pivotal branches. The proportion of corporate loans granted by these branches went up to 43.29%, up 2.78 percentage points over the end of the previous year. During the reporting period, the Bank drove forward asset turnover in an orderly manner. RMB227.8 billion outbound transfer of assets in all types was made in total, saving risk assets by about RMB155.0 billion, which effectively released space for credit extension and reduced capital occupation. Moreover, the Bank launched the "CITIC Brain", an AI technology platform with the capacity to provide smart services in multiple areas such as retail banking, corporate banking, custody business and compliance. In addition, the Bank took the lead to set up the L/C application alliance in China and won an award for technology innovation from the Asian Banker with its blockchain-based domestic L/C system. Meanwhile, the Bank pushed forward the "Double Hundred Double Thousand" talent project and fully established a training system for certification of employee qualifications. On top of all these, the Bank implemented the financial technology strategy, engaging tech talents through multiple channels with great vigor and high efficiency.

4.2 Analysis of the Financial Statements

4.2.1 Income Statement Analysis

For the reporting period, the Group realized RMB44.513 billion profit attributable to the equity holders of the Bank, up 4.57% from last year. The table below sets out the changes in the main items of the Group's income statement during the reporting period.

Unit: RMB million

Item	2018	2017	Increase/ (decrease)	Growth rate (%)
Operating income	**165,766**	157,231	8,535	5.43
— Net interest income	**104,772**	99,645	5,127	5.15
— Net non-interest income	**60,994**	57,586	3,408	5.92
Operating expenses	**(52,600)**	(48,913)	(3,687)	7.54
Credit and other asset impairment losses(1)	**(58,233)**	(55,787)	(2,446)	4.38
Profit before tax	**54,326**	52,276	2,050	3.92
Income tax	**(8,950)**	(9,398)	448	(4.77)
Profit for the year	**45,376**	42,878	2,498	5.83
Including: Net profit attributable to the equity holders of the Bank	**44,513**	42,566	1,947	4.57

Notes: (1) Formerly under "Asset impairment losses" item in 2017 according to the then financial instrument standard.

4.2.1.1 Operating Income

For the reporting period, the Group realized operating income of RMB165.766 billion, up 5.43% over last year, of which net interest income and net non-interest income accounted for 63.2% and 36.8% of the total, respectively.

Item	2018 (%)	2017 (%)	2016 (%)
Net interest income	**63.2**	63.4	68.8
Net non-interest income	**36.8**	36.6	31.2
Total	**100.0**	100.0	100.0

4.2.1.2 Net Interest Income

For the reporting period, the Group realized net interest income of RMB104.772 billion, an increase of RMB5.127 billion or 5.15% over last year. The growth in net interest income was mainly attributable to the increased yield rate on interest-earning assets.

The table below sets out the average balances and average interest rates of the Group's interest-earning assets and interest-bearing liabilities, of which average balances of assets and liabilities are on daily basis.

Unit: RMB million

	2018			2017		
Item	**Average balance**	**Interest**	**Average yield/ cost rate (%)**	Average balance	Interest	Average yield/ cost rate (%)
Interest-earning assets						
Loans and advances to customers	**3,405,578**	**165,608**	**4.86**	3,064,369	141,336	4.61
Financial investments [1]	**1,142,526**	**49,474**	**4.33**	1,625,937	61,462	3.78
Deposits and placements with central banks	**456,515**	**7,049**	**1.54**	490,041	7,633	1.56
Deposits and placements with, and loans to banks and non-bank financial institutions	**353,672**	**10,675**	**3.02**	339,891	9,263	2.73
Financial assets held under resale agreements	**38,077**	**987**	**2.59**	36,910	1,068	2.89
Subtotal	**5,396,368**	**233,793**	**4.33**	5,557,148	220,762	3.97
Interest-bearing liabilities						
Deposits from customers	**3,526,276**	**66,254**	**1.88**	3,346,853	53,190	1.59
Deposits and placements from banks and non-bank financial institutions	**842,701**	**29,778**	**3.53**	1,089,966	39,902	3.66
Debt securities issued	**496,358**	**22,416**	**4.52**	459,737	19,171	4.17
Borrowings from central banks	**271,306**	**8,937**	**3.29**	196,804	6,151	3.13
Financial assets sold under repurchase agreements	**57,115**	**1,623**	**2.84**	92,397	2,691	2.91
Others	**496**	**13**	**2.62**	490	12	2.45
Subtotal	**5,194,252**	**129,021**	**2.48**	5,186,247	121,117	2.33
Net interest income		**104,772**			99,645	
Net interest spread [2]			**1.85**			1.64
Net interest margin [3]			**1.94**			1.79

Notes: (1) Financial investments in 2018 included financial investments measured at amortized cost and financial investments measured at fair value through other comprehensive income. Financial investments in 2017 included available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standard on financial instruments.

(2) Calculated as average yield rate of interest-earning assets minus average cost rate of interest-bearing liabilities.

(3) Calculated as net interest income divided by average balance of interest-earning assets.

The table below sets out the changes in the Group's net interest income resulting from movements in the scale and interest rate factors.

Unit: RMB million

	2018 compared with 2017		
Item	**Scale factor**	**Interest rate factor**	**Total**
Assets			
Loans and advances to customers	**15,730**	**8,542**	**24,272**
Financial investments	**(18,273)**	**6,285**	**(11,988)**
Deposits and placements with central banks	**(523)**	**(61)**	**(584)**
Deposits and placements with, and loans to banks and non-bank financial institutions	**376**	**1,036**	**1,412**
Financial assets held under resale agreements	**34**	**(115)**	**(81)**
Changes in interest income	**(2,656)**	**15,687**	**13,031**
Liabilities			
Deposits from customers	**2,853**	**10,211**	**13,064**
Deposits and placements from banks and non-bank financial institutions	**(9,050)**	**(1,074)**	**(10,124)**
Debt certificates issued	**1,527**	**1,718**	**3,245**
Borrowings from central banks	**2,332**	**454**	**2,786**
Financial assets sold under repurchase agreements	**(1,027)**	**(41)**	**(1,068)**
Others	**—**	**1**	**1**
Changes in interest expense	**(3,365)**	**11,269**	**7,904**
Changes in net interest income	**709**	**4,418**	**5,127**

Net Interest Margin and Net Interest Spread

For the reporting period, the Group's net interest margin and net interest spread registered 1.94% and 1.85%, an increase of 0.15 and 0.21 percentage point over last year, respectively.

4.2.1.3 Interest Income

For the reporting period, the Group realized interest income of RMB233.793 billion, an increase of RMB13.031 billion or 5.90% over last year. The increase in interest income was primarily due to the central bank's reduction of the deposit reserve ratio, and the Group's efforts to optimize its business structure and enhance its pricing management. Interest income from loans and advances to customers was the main component of interest income.

Interest Income from Loans and Advances to Customers

The Group recorded RMB165.608 billion interest income from loans and advances to customers for the reporting period, a growth of RMB24.272 billion or 17.17% over last year, primarily because of the RMB341.209 billion increase in the average balance of loans and advances to customers and the increase of 0.25 percentage point in the average yield rate.

Classification by Maturity Structure

Unit: RMB million

	2018			2017		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Short-term loans	**1,199,731**	**54,522**	**4.54**	1,138,694	47,935	4.21
Medium to long-term loans	**2,205,847**	**111,086**	**5.04**	1,925,675	93,401	4.85
Total	**3,405,578**	**165,608**	**4.86**	3,064,369	141,336	4.61

Classification by Business

Unit: RMB million

	2018			2017		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans	**1,886,203**	**95,562**	**5.07**	1,852,573	89,053	4.81
Discounted loans	**177,579**	**8,645**	**4.87**	91,921	4,004	4.36
Personal loans	**1,341,796**	**61,401**	**4.58**	1,119,875	48,279	4.31
Total	**3,405,578**	**165,608**	**4.86**	3,064,369	141,336	4.61

Interest Income from Financial Investments

For the reporting period, the Group's interest income from financial investments recorded RMB49.474 billion, a decrease of RMB11.988 billion or 19.50% from last year, mainly due to the Group's efforts to reduce asset management plans managed by securities companies and investment in wealth management products, which led to a drop of RMB483.411 billion in the average balance of such investment.

Interest Income from Deposits and Placements with Central Banks

The Group's interest income from deposits and placements with central banks for the reporting period stood at RMB7.049 billion, a drop of RMB0.584 billion or 7.65% from last year, mainly because the average balance of deposits and placements with central banks declined by RMB33.526 billion as a result of the central bank's downward adjustment of the Renminbi statutory deposit reserve ratio.

Interest Income from Deposits and Placements with, and Loans to Banks and Non-bank Financial Institutions

The Group registered RMB10.675 billion interest income from deposits and placements with, and loans to banks and non-bank financial institutions for the reporting period, an increase of RMB1.412 billion or 15.24% from last year, mainly because the average yield rate on such deposits, placements and loans went up by 0.29 percentage point.

Interest Income from Financial Assets Held under Resale Agreements

The Group recorded RMB987 million interest income from financial assets held under resale agreements for the reporting period, a decrease of RMB81 million or 7.58% from last year, mainly because the average yield rate on such financial assets went down by 0.30 percentage point.

4.2.1.4 Interest Expense

The Group's interest expense for the reporting period was RMB129.021 billion, an increase of RMB7.904 billion or 6.53% over last year. Interest expense increased primarily because the cost rate of interest-bearing liabilities stood at 2.48%, a rise of 0.15 percentage point from last year.

Interest Expense on Deposits from Customers

The Group's interest expense on deposits from customers for the reporting period was RMB66.254 billion, an increase of RMB13.064 billion or 24.56% over last year. Interest expense increased primarily because the balance of deposits from customers increased by RMB179.423 billion and the average cost rate of customer deposits rose by 0.29 percentage point.

Unit: RMB million

	2018			2017		
Item	**Average balance**	**Interest expense**	**Average cost rate (%)**	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Time and call deposits	**1,389,757**	**40,952**	**2.95**	1,303,396	32,833	2.52
Demand deposits	**1,505,852**	**13,408**	**0.89**	1,507,450	12,571	0.83
Subtotal	**2,895,609**	**54,360**	**1.88**	2,810,846	45,404	1.62
Personal deposits						
Time and call deposits	**386,994**	**11,201**	**2.89**	311,517	7,169	2.30
Demand deposits	**243,673**	**693**	**0.28**	224,490	617	0.27
Subtotal	**630,667**	**11,894**	**1.89**	536,007	7,786	1.45
Total	**3,526,276**	**66,254**	**1.88**	3,346,853	53,190	1.59

Interest Expense on Deposits and Placements from Banks and Non-Bank Financial Institutions

For the reporting period, the Group's interest expense on deposits and placements from banks and non-bank financial institutions was in the amount of RMB29.778 billion, a drop of RMB10.124 billion or 25.37% from last year, mainly because the Group further adjusted its business structure and the average balance of deposits and placements from banks and non-bank financial institutions decreased by RMB247.265 billion.

Interest Expense on Debt Certificates Issued

For the reporting period, the Group's interest expense on debt certificates issued stood at RMB22.416 billion, an increase of RMB3.245 billion or 16.93% over last year, primarily because of the 0.35 percentage point rise in the average cost rate of the debt certificates issued and the RMB36.621 billion growth in the average balance thereof.

Interest Expense on Borrowings from Central Banks

For the reporting period, the Group's interest expense on borrowings from central banks was RMB8.937 billion, an increase of RMB2.786 billion or 45.29% over last year, mainly due to the RMB74.502 billion increase in the average balance of such borrowings.

Interest Expense on Financial Assets Sold under Repurchase Agreements

For the reporting period, the Group's interest expense on financial assets sold under repurchase agreements was RMB1.623 billion, a decline of RMB1.068 billion or 39.69% from last year, primarily due to the RMB35.282 billion decrease in the average balance of such financial assets.

4.2.1.5 Net Non-Interest Income

For the reporting period, the Group realized net non-interest income of RMB60.994 billion, a growth of RMB3.408 billion or 5.92% over last year.

Unit: RMB million

Item	2018	2017	Increase/ decrease	Growth Rate (%)
Net fee and commission income	**45,148**	46,858	(1,710)	(3.65)
Net trading gain	**6,519**	6,583	(64)	(0.97)
Net gain from investment securities	**9,046**	3,757	5,289	140.78
Net hedging gain	**(1)**	1	(2)	(200.00)
Other net operating income	**282**	387	(105)	(27.13)
Total	**60,994**	57,586	3,408	5.92

4.2.1.6 Net Fee and Commission Income

During the reporting period, the Group realized RMB45.148 billion net fee and commission income, a drop of RMB1.710 billion or 3.65% year on year, of which amount bank card fees recorded a growth of RMB2.203 billion or 7.23% over last year, mainly the result of increase in credit card fees and growth in income from billing business; commission for custodian and other fiduciary business declined by RMB2.693 billion or 30.82% from last year, mainly due to the impact of the New Regulations on Asset Management and the new regulations on VAT plus lower fee income from wealth management business; and guarantee and consulting fees went down by RMB745 million or 11.72% from last year, mainly because of the decrease in consulting and advisory fee income.

Unit: RMB million

Item	2018	2017	Increase/ decrease	Growth Rate (%)
Bank card fees	**32,656**	30,453	2,203	7.23
Commission for custodian business and other fiduciary	**6,044**	8,737	(2,693)	(30.82)
Guarantee and consulting fees	**5,613**	6,358	(745)	(11.72)
Agency fees and commission	**4,839**	4,534	305	6.73
Settlement and clearance fees	**1,269**	1,215	54	4.44
Other fees and commission	**318**	390	(72)	(18.46)
Subtotal	**50,739**	51,687	(948)	(1.83)
Fee and commission expense	**(5,591)**	(4,829)	(762)	15.78
Net fee and commission income	**45,148**	46,858	(1,710)	(3.65)

4.2.1.7 Net Trading Gain and Net Gain from Investment Securities

For the reporting period, the Group's net trading gain and net gain from investment securities registered a combined amount of RMB15.565 billion, an increase of RMB5.225 billion over last year, mainly because of the changes in the measurement of some businesses following the implementation of the new accounting standards on financial instruments, i.e., changing from recognition of interest income to recognition of non-interest income, plus the increase in investment gain from asset securitization.

4.2.1.8 Operating Expenses

For the reporting period, the Group incurred RMB52.60 billion operating expenses, an increase of RMB3.687 billion or 7.54% over last year. The Group pushed forward the implementation of the new three-year development plan. Under the premise of ensuring effective support for strategy implementation and business development, the Group further promoted refined management and control of operating costs, controlling the cost-to-income ratio at a reasonable level. For the reporting period, the Group's cost-to-income ratio (excluding tax and surcharges) stood at 30.71%, up 0.66 percentage point over last year.

Unit: RMB million

Item	2018	2017	Increase/ decrease	Growth Rate (%)
Staff costs	**29,599**	27,416	2,183	7.96
Property and equipment expenses and amortization	**9,255**	9,104	151	1.66
Other general operating and administrative expenses	**12,047**	10,733	1,314	12.24
Subtotal	**50,901**	47,253	3,648	7.72
Tax and surcharges	**1,699**	1,660	39	2.35
Total	**52,600**	48,913	3,687	7.54
Cost-to-income ratio	**31.73%**	31.11%	Up 0.62 percentage point	
Cost-to-income ratio (excluding tax and surcharges)	**30.71%**	30.05%	Up 0.66 percentage point	

4.2.1.9 Credit and Other Asset Impairment Losses

After adopting the new accounting standards on financial instrument, the Group accrued credit impairment loss based on the expected credit loss model. For the reporting period, the Group's credit impairment loss and other asset impairment losses totaled RMB58.233 billion, an increase of RMB2.446 billion or 4.38% over the previous year.

Unit: RMB million

Item	2018	2017	Increase/decrease	Growth Rate (%)
Loans and advances to customers	**47,753**	50,170	(2,417)	(4.82)
Interest receivable	**3,034**	4,212	(1,178)	(27.97)
Financial investments[1]	**1,074**	947	127	13.41
Interbank business[2]	**(23)**	(32)	9	(28.13)
Other receivables	**6,098**	295	5,803	1,967.12
Off-balance-sheet items	**(50)**	(77)	27	(35.06)
Repossessed assets	**347**	272	75	27.57
Total	**58,233**	55,787	2,446	4.38

Notes: (1) Impairment losses on financial investments in 2017 included impairment losses on available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standard on financial instruments.

(2) Including the impairment losses on deposits and placements with, and loans to banks and non-bank financial institutions, and financial assets held under resale agreements.

4.2.1.10 Income Tax

The Group's income tax expense for the reporting period recorded RMB8.950 billion, a decrease of RMB448 million or 4.77% from last year, and its effective tax rate stood at 16.47%, a drop of 1.51 percentage points from last year, mainly because the Group had more items eligible for reduction of taxable amounts on permanent differences such as government bonds and local debts.

4.2.2 Balance Sheet Analysis

4.2.2.1 Assets

As at the end of the reporting period, the Group recorded total assets of RMB6,066.714 billion, an increase of 6.85% from the end of the previous year, mainly because the Group increased its loans and advances to customers and financial investments.

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Total loans and advances to customers	**3,608,412**	**59.5**	3,196,887	56.3
Allowance for impairment of loans and advances to customer measured at amortized cost	**(101,022)**	**(1.7)**	(90,903)	(1.6)
Net loans and advances to customers	**3,507,390**	**57.8**	3,105,984	54.7
Total financial investments (1)	**1,588,416**	**26.2**	1,448,319	25.6
Allowance for impairment of financial investments measured at amortized cost	**(3,354)**	**(0.1)**	(3,021)	(0.1)
Net financial investments	**1,585,062**	**26.1**	1,445,298	25.5
Investment in associates and joint ventures	**3,881**	**0.1**	2,341	—
Cash and deposits with central banks	**538,513**	**8.9**	568,300	10.0
Deposits and placements with, and loans to banks and non-bank financial institutions	**274,326**	**4.5**	296,419	5.2
Financial assets held under resale agreements	**10,784**	**0.2**	54,626	1.0
Others (2)	**146,758**	**2.4**	204,723	3.6
Total	**6,066,714**	**100.0**	5,677,691	100.0

Notes: (1) Financial investments as at 31 December 2017 included financial assets measured at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables presented as per the previous accounting standard on financial instruments.

(2) Including precious metals, derivative financial assets, interest receivables, fixed assets, intangible assets, investment properties, goodwill, deferred income tax assets and other assets.

Loans and Advances to Customers

As at the end of the reporting period, the Group recorded RMB3,608.412 billion total loans and advances to customers, up 12.87% over the end of the previous year. Net loans and advances to customers accounted for 57.8% of total assets, a growth of 3.1 percentage points over the end of the previous year. The Group's balance of loans and advances to customer measured at amortized cost took up 97.3% of total loans and advances to customers. The table below sets out the classification of the Group's loans and advances to customers by measurement attribute.

Unit: RMB million

	31 December 2018		31 December 2017
Item	**Balance**	**Proportion (%)**	Balance
Loans and advances to customer measured at amortized cost	**3,511,892**	**97.3**	—
Loans and advances to customer measured at fair value through other comprehensive income	**96,520**	**2.7**	—
Total loans and advances to customers	**3,608,412**	**100.0**	3,196,887

Please refer to the section of "Loan Quality Analysis" in this chapter for analysis of the Group's loans and advances to customers.

Financial Investments

As at the end of the reporting period, the Group recorded RMB1,588.416 billion total financial investments, growing by RMB140.097 billion or 9.67% over the end of the previous year, mainly because the Group had more investments in debt securities and funds.

Classification of the Group's financial investments by product is set out in the table below.

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Investment in debt securities	**944,623**	**59.5**	730,982	50.4
Investment funds	**189,176**	**11.9**	121,547	8.4
Investment management plans managed by securities companies	**228,502**	**14.4**	268,247	18.5
Trust investment plans	**178,068**	**11.2**	126,794	8.8
Certificates of deposit and interbank certificates of deposit	**40,763**	**2.6**	60,347	4.2
Investment in equity instruments	**7,168**	**0.4**	1,356	0.1
Investment in wealth management products	**116**	**—**	139,046	9.6
Total financial investments	**1,588,416**	**100.0**	1,448,319	100.0

Classification of the Group's financial investments by measurement attribute is set out in the table below.

Unit: RMB million

	31 December 2018		31 December 2017
Item	**Balance**	**Proportion (%)**	Balance
Financial assets measured at fair value through profit or loss	**308,872**	**19.4**	—
Financial investments measured at amortized cost	**773,178**	**48.7**	—
Financial assets measured at fair value through other comprehensive income	**503,659**	**31.7**	—
Financial assets designated to be measured at fair value through other comprehensive income	**2,707**	**0.2**	—
Total financial investments	**1,588,416**	**100.0**	1,448,319

Investment in Debt Securities

As at the end of the reporting period, the Group had RMB944.623 billion investment in debt securities, an increase of RMB213.641 billion or 29.23% over the end of the previous year, primarily because the Group optimized its asset allocation and increased investments in tax-light and capital-light government bonds.

Classification of Debt Securities Investment by Issuing Institution

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Banks and non-bank financial institutions	**207,254**	**21.9**	146,627	20.1
Government	**491,368**	**52.0**	314,813	43.1
Policy banks	**118,121**	**12.5**	130,509	17.9
Business entities	**125,796**	**13.3**	137,879	18.7
Public entities	**2,084**	**0.2**	1,154	0.2
Total debt securities	**944,623**	**100.0**	730,982	100.0

Breakdown of Significant Investments in Financial Debt Securities

The table below sets out the breakdown of significant investments in financial debt securities held by the Group as at 31 December 2018.

Unit: RMB million

Name of Debt Securities	Book value	Maturity Date (DD/MM/YY)	Coupon rate (%)	Accrued impairment allowance
Debt Securities 1	4,371	20/08/2029	5.98%	—
Debt Securities 2	4,289	18/02/2021	2.96%	—
Debt Securities 3	3,993	06/07/2028	4.04%	—
Debt Securities 4	3,758	04/03/2019	2.72%	—
Debt Securities 5	3,500	20/12/2021	3.79%	0.41
Debt Securities 6	3,497	28/04/2020	4.20%	0.41
Debt Securities 7	3,081	27/02/2023	3.24%	—
Debt Securities 8	2,997	08/03/2021	3.25%	0.77
Debt Securities 9	2,790	07/01/2019	2.77%	—
Debt Securities 10	2,498	22/11/2021	3.25%	0.29
Total	34,774			1.88

Note: There was no material change in the financial conditions of above securities' issuers during the reporting period, and the allowance for impairment losses is accrued according to expected loss model as required by the new accounting standards on financial instruments.

Investment in Associates and Joint Ventures

As at the end of the reporting period, the Group recorded RMB3.881 billion investment in associates and joint ventures, an increase of 65.78% over the end of the previous year. This amount included RMB2.759 billion investment in joint ventures, up 130.69% over the end of the previous year, mainly for acquisition of equity in JSC Altyn Bank and capital increase in CITIC aiBank. As at the end of the reporting period, the Group's balance of allowance for impairment of investment in associates and joint ventures was zero. For relevant details, please refer to Note 30 "Investment in Associates and Joint Ventures" to the financial report.

Unit: RMB million

Item	31 December 2018	31 December 2017
Investments in joint ventures	**2,759**	1,196
Investments in associates	**1,122**	1,145
Allowance for impairment losses	**—**	—
Net investment in associates and joint ventures	**3,881**	2,341

Derivatives

Unit: RMB million

	31 December 2018			31 December 2017		
	Nominal principal	**Fair value**		Nominal principal	Fair value	
Item		**Assets**	**Liabilities**		Assets	Liabilities
Interest rate derivatives	**1,845,632**	**6,106**	**5,974**	1,641,988	2,553	2,312
Currency derivatives	**2,595,674**	**24,826**	**24,501**	3,347,855	62,030	62,368
Other derivatives	**59,464**	**1,059**	**1,171**	51,586	868	257
Total	**4,500,770**	**31,991**	**31,646**	5,041,429	65,451	64,937

Repossessed Assets

Unit: RMB million

Item	31 December 2018	31 December 2017
Original value of repossessed assets	**2,928**	2,449
— Land, premises and buildings	**2,429**	1,931
— Others	**499**	518
Allowances for impairment of repossessed assets	**(725)**	(400)
— Land, premises and buildings	**(449)**	(80)
— Others	**(276)**	(320)
Total book value of repossessed assets	**2,203**	2,049

Changes in Impairment Allowances

Unit: RMB million

Item	31 December 2017	Impact of beginning conversions based on new accounting standards	Accruals/ reversals during the period	Write-offs during the current period	Others [1]	31 December 2018
Loans and advances to customers [2]	90,903	7,002	47,753	(46,938)	2,512	**101,232**
Financial investments [3]	3,021	973	1,074	(689)	30	**4,409**
Interbank business [4]	1	261	(23)	—	4	**243**
Interest receivable	3,946	1,024	3,034	(3,606)	(4,398)	**—**
Other receivables	2,201	133	6,098	(1,182)	4,729	**11,979**
Off-balance-sheet items	402	4,155	(50)	—	36	**4,543**
Subtotal of allowances for credit impairment	**100,474**	**13,548**	**57,886**	**(52,415)**	**2,913**	**122,406**
Repossessed assets	400	—	347	(7)	(15)	**725**
Subtotal of allowances for other asset impairments	**400**	**—**	**347**	**(7)**	**(15)**	**725**
Total	**100,874**	**13,548**	**58,233**	**(52,422)**	**2,898**	**123,131**

Notes: (1) Including recovery of write-offs, re-classification of interest receivables and impacts of exchange rate changes.
(2) Including allowances for impairment of loans and advances to customers measured at amortized cost, and allowances for impairment of loans and advances to customers measured at fair value through other comprehensive income.
(3) Including allowances for impairment of financial investments measures at amortized cost and impairment of financial investments measured at fair value through other comprehensive income.
(4) Including deposits and placements with, and loans to banks and non-bank financial institutions and financial assets held under resale agreements.

4.2.2.2 Liabilities

As at the end of the reporting period, the Group recorded total liabilities of RMB5,613.628 billion, up 6.62% from the end of the previous year, primarily due to the increase in deposits from customers and debt certificates issued.

Unit: RMB million

Item	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Borrowings from central banks	**281,580**	**5.0**	237,600	4.5
Deposits from customers	**3,616,423**	**64.4**	3,407,636	64.7
Deposits and placements from banks and non-bank financial institutions	**893,230**	**15.9**	875,602	16.6
Financial assets sold under repurchase agreements	**120,280**	**2.1**	134,500	2.6
Debt certificates issued	**548,328**	**9.8**	441,244	8.4
Others [note]	**153,787**	**2.8**	168,676	3.2
Total liabilities	**5,613,628**	**100.0**	5,265,258	100.0

Note: Including trading financial liabilities, derivative financial liabilities, staff remunerations payable, tax and fee payables, interest payables, estimated liabilities, deferred income tax liabilities and other liabilities.

Deposits from Customers

As at the end of the reporting period, the Group's total deposits from customers recorded RMB3,616.423 billion, an increase of RMB208.787 billion or 6.13% over the end of the previous year; and customer deposits accounted for 64.4% of total liabilities, a drop of 0.3 percentage point from the end of the previous year. The Group's balance of corporate deposits was RMB2,903.914 billion, a rise of RMB29.716 billion or 1.03% over the end of the previous year; and that of personal deposits stood at RMB712.509 billion, an increase of RMB179.071 billion or 33.57% over the end of the previous year.

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Corporate deposits				
Demand deposits	**1,521,684**	**42.1**	1,651,180	48.5
Time and call deposits	**1,382,230**	**38.2**	1,223,018	35.8
Including: negotiated deposits	**86,739**	**2.4**	28,092	0.8
Subtotal	**2,903,914**	**80.3**	2,874,198	84.3
Personal deposits				
Demand deposits	**262,960**	**7.3**	234,961	6.9
Time and call deposits	**449,549**	**12.4**	298,477	8.8
Subtotal	**712,509**	**19.7**	533,438	15.7
Total	**3,616,423**	**100.0**	3,407,636	100.0

Breakdown of Deposits from Customers by Currency

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Renminbi	**3,251,691**	**89.9**	3,053,751	89.6
Foreign currencies	**364,732**	**10.1**	353,885	10.4
Total	**3,616,423**	**100.0**	3,407,636	100.0

Breakdown of Deposits by Geographical Region

Unit: RMB million

	31 December 2018		31 December 2017	
Item	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Head Office	**13,018**	**0.4**	12,361	0.4
Bohai Rim	**880,790**	**24.4**	806,528	23.7
Yangtze River Delta	**883,353**	**24.4**	823,925	24.2
Pearl River Delta and West Strait	**648,245**	**17.9**	619,598	18.2
Central	**483,987**	**13.4**	478,097	14.0
Western	**373,770**	**10.3**	378,958	11.1
Northeastern	**82,789**	**2.3**	62,311	1.8
Overseas	**250,471**	**6.9**	225,858	6.6
Total deposits from customers	**3,616,423**	**100.0**	3,407,636	100.0

4.2.3 Shareholders' Equity

The table below sets out the changes in shareholders' equity in the Group during the reporting period.

Unit: RMB million

	2018							
Item	Share capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve and general risk reserve	Retained earnings	Non-controlling interest	Total share-holders' equity
31 December 2017	48,935	34,955	58,977	(11,784)	105,434	163,121	12,795	412,433
Changes to the Accounting Policies				4,544	(939)	(9,502)	(235)	(6,132)
1 January 2018	48,935	34,955	58,977	(7,240)	104,495	153,619	12,560	406,301
1. Net profit						44,513	863	45,376
2. Other comprehensive income				12,509			(47)	12,462
3. Owners' capital input							3,343	3,343
4. Profit distribution					4,210	(18,312)	(294)	(14,396)
31 December 2018	**48,935**	**34,955**	**58,977**	**5,269**	**108,705**	**179,820**	**16,425**	**453,086**

4.2.4 Loan Quality Analysis

During the reporting period, the Group recorded overall controllable asset quality, steady scale growth of credit assets, slight rise in NPL ratio and stable level of allowance coverage. As at the end of the reporting period, the Group registered RMB3,608.412 billion balance of total loans, up 12.87% over the end of the previous year; an NPL ratio of 1.77%, slightly up 0.09 percentage point over the end of the previous year; a 157.98% allowance coverage ratio, a drop of 11.46 percentage points from the end of the previous year; and a 2.80% ratio of balance of allowance for loan impairment to total loans, a drop of 0.04 percentage point from the end of the previous year, respectively.

Concentration of Loans by Product

As at the end of the reporting period, the Group's balance of corporate loans (excluding discounted bills) recorded RMB1,881.125 billion, an increase of RMB23.278 billion or 1.25% over the end of the previous year; and its balance of personal loans reached RMB1,484.490 billion, an increase of RMB252.906 billion or 20.54% over the end of the previous year. Personal loans grew faster than corporate loans, and their balance took up a proportion of 41.14%. Balance of discounted bills increased by RMB135.341 billion over the end of the previous year. The Group's balance of corporate non-performing loans (excluding discounted bills) and that of personal non-performing loans increased by RMB6.909 billion and RMB3.487 billion over the end of the previous year, corresponding to a 0.34 and 0.07 percentage point rise in their respective NPL ratios over the end of the previous year, respectively.

Unit: RMB million

	31 December 2018				31 December 2017			
	Balance	Proportion (%)	Balance of NPLs	NPL ratio	Balance	Proportion (%)	Balance of NPLs	NPL ratio
Corporate loans	1,881,125	52.13	49,122	2.61	1,857,847	58.12	42,213	2.27
Personal loans	1,484,490	41.14	14,906	1.00	1,231,584	38.52	11,419	0.93
Discounted bills	242,797	6.73	0	0.00	107,456	3.36	16	0.01
Total loans	**3,608,412**	**100.00**	**64,028**	**1.77**	3,196,887	100.00	53,648	1.68

Breakdown of Loans by Type of Guarantee

As at the end of the reporting period, the Group's loan guarantee structure basically remained stable. The combined balance of loans secured by collateral and pledge loans stood at RMB2,067.080 billion, an increase of RMB199.636 billion over the previous year, and took up a proportion of 57.28%, 1.14 percentage points lower than the end of the previous year. The combined balance of unsecured loans and guaranteed loans recorded RMB1,298.535 billion, a rise of RMB76.548 billion over the end of the previous year, accounting for 35.99% of the total, down 2.23 percentage points from the end of the previous year.

Unit: RMB million

	31 December 2018		31 December 2017	
Type of Guarantee	**Balance**	**Proportion (%)**	Balance	Proportion (%)
Unsecured loans	**806,153**	**22.34**	708,164	22.15
Guaranteed loans	**492,382**	**13.65**	513,823	16.07
Loans secured by collateral	**1,658,485**	**45.96**	1,510,366	47.25
Pledge loans	**408,595**	**11.32**	357,078	11.17
Subtotal	**3,365,615**	**93.27**	3,089,431	96.64
Discounted bills	**242,797**	**6.73**	107,456	3.36
Total loans	**3,608,412**	**100.00**	3,196,887	100.00

Concentration of Loans by Geographic Region

As at the end of the reporting period, the Group registered a total loan balance of RMB3,608.412 billion, an increase of RMB411.525 billion or 12.87% over the end of the previous year. The Group's balances of loans to the Bohai Rim, the Yangtze River Delta and the Pearl River Delta ranked the top three, recording RMB1,123.293 billion, RMB784.722 billion and RMB549.491 billion, and accounting for 31.13%, 21.75% and 15.23% of the Group total, respectively. In terms of growth rate, the Bohai Rim, th e Yangtze River Delta and the Northeastern region recorded the highest growth, reaching 16.06%, 13.53% and 11.94%, respectively. The Group's NPLs were mainly concentrated in the Bohai Rim, the Yangtze River Delta and the Central region. Their NPL balances summed up to RMB42.675 billion, accounting for a combined 66.65% of total. In terms of incremental NPLs, the Bohai Rim registered the largest amount of RMB9.825 billion and its NPL ratio rose by 0.66 percentage point; followed by the Northeastern region, which recorded RMB2.797 billion incremental NPLs and a 3.34 percentage points rise in its NPL ratio.

The regional distribution of the Group's NPLs changed mainly because: (1) during the reporting period, small and medium-sized private enterprises (SMEs) in coastal and economically developed regions were subject to higher pressures as a result of the price hike of raw materials, rising cost of transportation, more stringent inspections for environmental protection purpose and difficulty in exporting products, which adversely impacted asset quality of banks; and (2) overcapacity industries in some regions remained under the pressure of restructuring and were exposed to concentrated outbreak of risks, which in turn resulted in more incremental NPLs in these regions.

Unit: RMB million

	31 December 2018				31 December 2017			
	Balance	**Proportion (%)**	**Balance of NPLs**	**NPL ratio (%)**	Balance	Proportion (%)	Balance of NPLs	NPL ratio
Bohai Rim [1]	**1,123,293**	**31.13**	**25,050**	**2.23**	967,864	30.29	15,225	1.57
Yangtze River Delta	**784,722**	**21.75**	**9,146**	**1.17**	691,183	21.62	9,672	1.40
Pearl River Delta and West Strait	**549,491**	**15.23**	**7,679**	**1.40**	493,118	15.42	6,029	1.22
Western	**433,143**	**12.00**	**7,136**	**1.65**	389,152	12.17	7,809	2.01
Central	**463,100**	**12.83**	**8,479**	**1.83**	421,810	13.19	10,705	2.54
Northeastern	**75,682**	**2.10**	**5,068**	**6.70**	67,609	2.11	2,271	3.36
Overseas	**178,981**	**4.96**	**1,470**	**0.82**	166,151	5.20	1,937	1.17
Total Loans	**3,608,412**	**100.00**	**64,028**	**1.77**	3,196,887	100.00	53,648	1.68

Note: (1) Including the Head Office.

Concentration of Loans by Sector

As at the end of the reporting period, real estate and manufacturing were the top two sector borrowers of the Group's corporate loans. Their loan balances recorded RMB312.923 billion and RMB295.005 billion, respectively, collectively taking up 16.85% of the Group's total loans, down 3.71% from the end of the previous year. In terms of growth rate, loans to the four sectors, namely, rental and business services, water, environment and public utilities management, production and supply of electric power, gas and water, and construction grew faster, up 27.46%, 16.43%, 3.42% and 1.55% over the end of the previous year, respectively, all being higher than the average growth rate of corporate loans.

As at the end of the reporting period, the Group's NPLs were mainly concentrated in two sectors, i.e., manufacturing sector and wholesale and retail sector. Their NPL balances collectively accounted for 53.89% of the total, and respectively increased by RMB4.799 billion and RMB2.183 billion over the end of the previous year, corresponding to a 2.14 and 2.99 percentage points rise in their respective NPL ratios compared with the end of the previous year.

The sector distribution of the Group's NPLs changed mainly because: (1) some enterprises in the manufacturing, wholesale and retail, and rental and business services sectors incurred credit risks due to fiercer industry competition and declining profitability that resulted from multiple factors such as overcapacity and insufficient market demand; and (2) the differentiation of real estate market intensified the risks of property development loans.

As at the end of the reporting period, the Group's NPL balances in the four sectors, i.e., transportation, storage and postal service, production and supply of electric power, gas and water, rental and business services, and real estate increased by RMB1.320 billion, RMB0.627 billion, RMB0.621 billion and RMB0.227 billion over the end of the previous year, and their corresponding NPL ratios went up by 0.88, 0.83, 0.08 and 0.09 percentage point, respectively. The Group's NPL balances in the two sectors, i.e., construction, and water, environment and public utilities management, decreased by RMB0.905 billion and RMB0.165 billion over the end of the previous year, and their corresponding NPL ratios went down by 1.19 and 0.11 percentage point, respectively.

Unit: RMB million

	31 December 2018				31 December 2017			
	Balance	**Proportion (%)**	**Balance of NPLs**	**NPL ratio (%)**	Balance	Proportion (%)	Balance of NPLs	NPL ratio (%)
Manufacturing	**295,005**	**8.18**	**21,642**	**7.34**	324,029	10.14	16,843	5.20
Real Estate	**312,923**	**8.67**	**1,082**	**0.35**	333,055	10.42	855	0.26
Wholesale and retail	**151,391**	**4.20**	**12,863**	**8.50**	193,818	6.06	10,680	5.51
Transportation, storage and postal service	**151,038**	**4.19**	**2,091**	**1.38**	152,851	4.78	771	0.50
Water, environment and public utilities management	**208,922**	**5.79**	**267**	**0.13**	179,441	5.61	432	0.24
Construction	**79,086**	**2.19**	**1,158**	**1.46**	77,878	2.44	2,063	2.65
Rental and business service	**282,699**	**7.83**	**2,042**	**0.72**	221,786	6.94	1,421	0.64
Production and supply of electric power, gas and water	**72,938**	**2.02**	**1,310**	**1.80**	70,523	2.21	683	0.97
Public and social organizations	**13,366**	**0.37**	**0**	**0.00**	18,566	0.58	0	0.00
Others	**313,757**	**8.69**	**6,667**	**2.12**	285,900	8.94	8,465	2.96
Corporate loans subtotal	**1,881,125**	**52.13**	**49,122**	**2.61**	1,857,847	58.12	42,213	2.27
Discounted bills	**242,797**	**6.73**	**0**	**0.00**	107,456	3.36	16	0.01
Personal loans	**1,484,490**	**41.14**	**14,906**	**1.00**	1,231,584	38.52	11,419	0.93
Total loans	**3,608,412**	**100.00**	**64,028**	**1.77**	3,196,887	100.00	53,648	1.68

Concentration of Borrowers of Corporate Loans

The Group focused its attention on concentration risk control over its corporate loan borrowers. During the reporting period, the Group complied with the applicable regulatory requirements on concentration of borrowers. Since a single borrower was defined by the Group as a specific legal entity, one borrower could be the related party of another borrower.

Major regulatory indicator	**Regulatory Standard**	**31 December 2018**	31 December 2017	31 December 2016
Percentage of loans to the largest single customer (%) (1)	**≤10**	**2.44**	2.25	2.71
Percentage of loans to the top 10 customers (%) (2)	**≤50**	**14.49**	16.88	16.40

Notes: (1) Percentage of loans to the largest single customer = balance of loans to the largest single customer/net capital.

(2) Percentage of loans to the top 10 customers = balance of loans to the top 10 customers/net capital.

Unit: RMB million

		31 December 2018		
	Sector	**Balance**	**Percentage in total loans (%)**	**Percentage in net capital (%)**
Borrower A	Financial industry	**14,243**	**0.39**	**2.44**
Borrower B	Real estate	**12,417**	**0.34**	**2.13**
Borrower C	Public management, social security and social organizations	**9,484**	**0.26**	**1.63**
Borrower D	Real estate	**8,849**	**0.25**	**1.52**
Borrower E	Manufacturing	**7,182**	**0.20**	**1.23**
Borrower F	Financial industry	**6,966**	**0.19**	**1.19**
Borrower G	Real estate	**6,800**	**0.19**	**1.17**
Borrower H	Transportation, storage and postal service	**6,364**	**0.18**	**1.09**
Borrower I	Real estate	**6,200**	**0.17**	**1.06**
Borrower J	Manufacturing	**6,000**	**0.17**	**1.03**
Total loans		**84,505**	**2.34**	**14.49**

As at the end of the reporting period, the total balance of corporate loans from the Group to the top 10 customers amounted to RMB84.505 billion, taking up 2.34% of its total loans and 14.49% of its net capital.

Five-Class Loan Classification

The Group measures and manages the quality of its credit assets pursuant to the Guidelines on the Classification of Loan Risks formulated by the former CBRC. These guidelines require Chinese commercial banks to classify their credit assets into five classes, namely, pass, special mention, substandard, doubtful and loss, of which the last three classes are regarded as non-performing loans.

During the reporting period, the Bank continued to reinforce centralized management of loan classification and kept enhancing the system for management of credit asset risks by class. While adhering to the core criteria of “safety of loan recovery”, the Bank handled different classes of loans with different risk management measures, taking into full consideration various factors that may impact the quality of credit assets.

The Bank's process for approving classification of loan risks includes the following steps: business departments conduct post-lending inspections in the first place, after which credit departments of the branches provide preliminary opinions, followed by preliminary approval by credit management departments of the branches; thereafter the branch risk directors review and approve the preliminary approvals; and the Head Office gives the final approval. With regard to loans with material changes in risk profiles, the Bank adjusts their classification in a dynamic manner.

Unit: RMB million

	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Pass	**3,459,343**	**95.87**	3,074,855	96.18
Special mention	**85,041**	**2.36**	68,384	2.14
Substandard	**26,141**	**0.72**	21,931	0.68
Doubtful	**30,779**	**0.85**	25,157	0.79
Loss	**7,108**	**0.20**	6,560	0.21
Total Loans	**3,608,412**	**100.00**	3,196,887	100.00
Performing loans	**3,544,384**	**98.23**	3,143,239	98.32
Non-performing loans	**64,028**	**1.77**	53,648	1.68

Note: Performing loans include pass loans and special mention loans. Non-performing loans include substandard loans, doubtful loans and loss loans.

As at the end of the reporting period, the Group's balance of pass loans increased by RMB384.488 billion over the end of the previous year, and accounted for 95.87% of its total loan balance, representing a drop of 0.31 percentage point over the end of the previous year; and the balance of special mention loans increased by RMB16.657 billion, accounting for 2.36% of its total loan balance, up 0.22 percentage point over the end of the previous year. The balance of the Group's NPLs recognized in accordance with the regulatory risk classification criteria stood at RMB64.028 billion, representing an increase of RMB10.380 billion over the end of the previous year; and its NPL ratio recorded 1.77%, up 0.09 percentage point over the end of the previous year.

During the reporting period, the Group's NPL balance and NPL ratio went up. The main influencing factors included the following: (1) the Bank tightened the recognition standard of non- performing loans, downgrading loans overdue for 90 days and more to the non-performing category, which resulted in more incremental NPLs; (2) small and medium-sized enterprises and private enterprises in general were subject to higher business pressures due to the impact of weak domestic economic growth, with some of them caught in business hardship; (3) continuous de-leveraging requirements exposed some heavily indebted enterprises to greater capital pressures; and (4) the US trade protectionism started to impact the export business of some enterprises. These factors exposed some enterprises to growing credit risk.

At the beginning of 2018, the Group had already made sufficient projection and preparation in response to the changing trends of loan quality. With its pertinent measures for risk prevention and resolution, the Group was able to put the movements in non-performing loans under control. During the reporting period, the Group worked hard to improve loan quality. Among others, it reinforced the disposal of NPLs, disposing RMB73.324 billion NPL principals by means of recovery and write-off.

Migration of Loans

The table below sets out the migration of the Bank's loans across the five classes during the reporting period.

	31 December 2018	31 December 2017	31 December 2016
Migration ratio of pass loans (%)	**2.53**	1.96	2.09
Migration ratio of special mention loans (%)	**48.27**	35.16	28.94
Migration ratio of substandard loans (%)	**73.53**	46.05	55.37
Migration ratio of doubtful loans (%)	**41.91**	32.05	43.67
Ratio of migration from performing to non-performing loans (%)	**1.63**	1.45	1.58

As at the end of the reporting period, the Bank's ratio of migration from performing to non-performing loans was 1.63%, a rise of 0.18 percentage point over the end of the previous year, mainly because the Bank tightened the recognition standard of non-performing loans, downgrading loans overdue for 90 days and more to the non-performing category, which resulted in a significant increase in non-performing loans. The migration ratios of substandard and doubtful loans both went up year on year.

Loans Overdue

Unit: RMB million

	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans repayable on demand	**3,511,853**	**97.32**	3,105,363	97.14
Loans overdue [1]				
1-90 days	**37,391**	**1.04**	32,842	1.03
91-180 days	**13,181**	**0.37**	13,207	0.41
181 days or more	**45,987**	**1.27**	45,475	1.42
Subtotal	**96,559**	**2.68**	91,524	2.86
Total loans	**3,608,412**	**100.00**	3,196,887	100.00
Loans overdue for 91 days or more	**59,168**	**1.64**	58,682	1.84
Restructured loans [2]	**21,588**	**0.60**	23,245	0.73

Notes: (1) Loans overdue refer to loans with principals or interest overdue for one day or more.

(2) Restructured loans refer to loans overdue or downgraded but the conditions of which (e.g. amount and term) have been rearranged.

During the reporting period, the Group's overdue loans increased due to the impacts of the external economic environment. As at the end of the reporting period, the Group's balance of overdue loans recorded RMB96.559 billion, an increase of RMB5.035 billion over the end of the previous year, and the proportion of overdue loans in total loans went down by 0.18 percentage point over the end of the previous year. Of these overdue loans, 1.04% were short-term and/or temporary loans with a maturity of less than 3 months. The proportion of loans overdue for 90 days and more was 1.64%, a decrease of 0.20 percentage point from the end of last year. The increase in the balance of overdue loans was mainly due to the growing risk exposures in some regions and sectors.

The Group managed and controlled loan restructuring in a stringent and prudent manner. As at the end of the reporting period, the Group restructured RMB21.588 billion loans, a reduction of RMB1.657 billion in amount and a decrease of 0.13 percentage point in proportion from the end of the previous year.

Analysis of Allowance for Loan Impairment

The group set aside adequate allowance for loan impairment losses based on expected loss model as required by the new accounting standards on financial instruments in the light of customer default rate, default loss rate and many other quantitative indexes as well as macro perspective adjustments.

Unit: RMB million

	31 December 2018	31 December 2017
Impact of beginning conversions based on new accounting standards	**7,002**	—
Beginning balance	**97,905**	75,543
Accruals during the period [1]	**47,753**	50,170
Transfer out and others [2]	**(7)**	(586)
Write-offs	**(46,938)**	(35,691)
Recovery of loans and advances written off in previous years	**2,441**	1,467
Ending balance	**101,154**	90,903

Notes: (1) Equal to the net loan impairment loss recognized as accruals for the Group in the consolidated income statement of the Group.

(2) Including allowance for loan released due to the conversion of loans to repossessed assets, foreign exchange rate changes and others.

The Group set aside adequate allowance for loan impairment losses according to the principles of prudence and truthfulness. As at the end of the reporting period, the Group's balance of allowance for loan impairment registered RMB101.154 billion. After the beginning conversions according to the new accounting standards, the balance of the Group's allowance for loan impairment stood at RMB97.905 billion, and at the end of the reporting period, there was an increase of RMB3.249 billion in such allowance compared with the beginning balance. The Group's ratio of balance of allowance for loan impairment to NPL balance (i.e., the allowance coverage ratio) and ratio of balance of allowance for loan impairment to total loans (i.e., the ratio of allowance for impairment of loans to total loans) stood at 157.98% and 2.80%, declining by 11.46 and 0.04 percentage point over the end of the previous year, respectively.

During the reporting period, the Group accrued RMB47.753 billion as allowance for loan impairment, a decrease of RMB2.417 billion year on year. The reasons underlying the change in allowance accruals were: (1) the Bank tightened the criteria for recognition of non-performing loans, downgrading loans overdue for 90 days and more to the non-performing category; and (2) with more vigorous NPL disposal and write-off, the Bank increased the consumption of allowances.

4.2.5 Major Off-Balance Sheet Items

The table below sets out the Group's major off-balance-sheet items and their balances as at the end of the reporting period.

Unit: RMB million

Item	31 December 2018	31 December 2017
Credit commitments		
— Bank acceptance bills	**393,851**	427,561
— Letters of guarantee	**158,813**	195,746
— Letters of credit	**92,924**	88,772
— Irrevocable loan commitments	**40,029**	72,360
— Credit card commitments	**434,590**	310,315
Subtotal	**1,120,207**	1,094,754
Operating leasing commitments	**12,934**	13,614
Capital commitments	**5,356**	7,385
Pledged assets	**473,399**	460,646
Total	**1,611,896**	1,576,399

4.2.6 Cash Flow Statement Analysis

Net Cash Flows from Operating Activities

The Group's net cash inflow from operating activities registered RMB102.316 billion, an increase of RMB48.242 billion over last year, primarily because the cash inflows resulting from the increase in deposits from customers, growth in interbank business, and decrease in financial investments offset the cash outflows resulting from increase in loans and advances to customers and gave rise to a net cash inflow.

Net Cash Flows Used in Investing Activities

The Group's net cash flows used in investing activities recorded RMB144.573 billion, an increase of RMB10.878 billion from last year, mainly because net cash outflow for financial investments increased over last year.

Net Cash Flows Generated from Financing Activities

The Group's net cash flows generated from financing activities registered RMB74.042 billion, an increase of RMB34.597 billion over last year, primarily because the cash inflow in the form of proceeds from issuance of interbank deposit certificates and bonds offset cash flows used to repay matured interbank deposit certificates and bonds and gave rise to a net cash inflow.

Unit: RMB million

Item	2018	Year-on-year increase (%)	Main reason
Net Cash Flows from Operating Activities	**102,316**	89.21	
Including: Cash inflow due to reduced financial investments	**17,850**	(96.55)	Classification of investment management products managed by securities companies and trust investment plans as investment activities as per the new accounting standards on financial instruments
Cash inflow due to increase in deposits from customers	**196,044**	Negative in last year	Increase in various deposits
Net cash outflow due to increase in interbank business (Note)	**91,758**	Negative in last year	Decrease in interbank assets during the previous year
Cash outflow due to increase in loans and advances to customers	**(450,950)**	23.36	Increase in various loans
Cash Flow Used in Investing Activities	**(144,573)**	8.14	
Including: Proceeds from redemption of investments	**1,396,004**	38.60	Increase in sale and redemption of financial investments
Payments on acquisition of investments	**(1,535,459)**	35.69	Increase in financial investments
Cash Flow Generated from Financing Activities	**74,042**	87.71	
Including: Proceeds from Issuance of debt certificates	**922,161**	6.87	Issuance of interbank deposit certificates and bonds
Principal repayment for issued debt certificates	**(815,230)**	1.72	Repayment of matured interbank deposit certificates and bonds
Interest payment for issued debt certificates	**(21,837)**	23.38	Increase in payment of interests on interbank deposit certificates and bonds
Payment of dividends	**(14,395)**	18.52	Increase in payment of cash dividends

Note: Including deposits and placements with, and loans to banks and non-bank financial institutions, financial assets held under resale agreements, deposits and placements from banks and non-bank financial institutions, and financial assets sold under repurchase agreements.

4.2.7 Major Accounting Estimates and Assumptions

The preparation of the financial statements in conformity with the International Financial Reporting Standards (IFRS) required the Group to make certain accounting estimates and assumptions when applying its accounting policies to determine the amounts of assets and liabilities as well as profits and losses for the reporting period. The accounting estimates and assumptions made by the Group were based on its historical experience and other factors such as reasonable expectations of future events. The key assumptions involved in such estimates and the judgment on uncertainties were reviewed on an on-going basis. Such accounting estimates and assumptions made by the Group were all appropriately recognized during the current period of the concerned changes and will be recognized as such during the subsequent periods of any impacts resulting from such changes.

The basis for preparing the Group's financial statements was influenced by estimates and judgments in the following main aspects: loans and advances to customers, classification and measurement of financial investments, impairment of financial investments, fair value of financial instruments, income tax, retirement benefit liabilities and judgments on the extent of control over investment targets.

4.2.8 Major Financial Statement Items with More than 30% Changes

Unit: RMB million

Item	End of 2018/2018	Increase/ Decrease over previous year-end/ previous year (%)	Main Reason
Precious metals	**4,988**	49.0	Increase in self-held precious metals
Financial assets measured at fair value through profit or loss for the current period	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Derivative financial assets	**31,991**	(51.1)	Decrease in revaluation net gain from currency derivatives
Financial assets held under resale agreements	**10,790**	(80.2)	Decrease in domestic debt securities held under resale agreements
Interest receivable	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Financial investments	**1,600,163**	—	Item added as per the new formats of financial statements for financial enterprises
— Financial investments measured at fair value through profit or loss	**308,872**	—	Item added as per the new formats of financial statements for financial enterprises
— Financial investments measured at amortized cost	**778,238**	—	Item added as per the new formats of financial statements for financial enterprises
— Financial investments measured at fair value through other comprehensive income	**510,346**	—	Item added as per the new formats of financial statements for financial enterprises
— Financial investments designated for measurement at fair value through other comprehensive income	**2,707**	—	Item added as per the new formats of financial statements for financial enterprises
Available-for-sale financial assets	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Held-to-maturity investments	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Investments classified as receivables	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Investment in associates and joint ventures	**3,881**	65.8	Acquisition of JSC Altyn Bank and capital increase for CITIC aiBank
Deposits and placements from banks and non-bank financial institutions	**115,358**	48.7	Increase in placements from domestic banks and non-bank financial institutions
Derivative financial liabilities	**31,646**	(51.3)	Decrease in revaluation net gain from currency derivatives
Tax payables	**4,920**	(44.5)	Decrease in balance of tax payable
Interest payable	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Estimated liabilities	**5,013**	529.8	Increase in allowances for impairment of off-balance-sheet items
Other comprehensive income (loss)	**5,269**	Negative as at the end of last year	Impact of beginning conversions based on classification and measurement requirements as per the new accounting standards on financial instruments, and increase in revaluation reserves of financial investment for the current period
Net gain from investment securities	**9,046**	140.8	1. Implementation of the new accounting standard on financial instruments, resulting in changes in the measurement of some businesses, changing from recognition of interest income to recognition of investment income 2. Increase in gains from investment securities
Asset impairment loss	**—**	—	Item cancelled as per the new formats of financial statements for financial enterprises
Credit impairment loss	**(57,886)**	—	Item added as per the new formats of financial statements for financial enterprises
Other asset impairment losses	**(347)**	—	Item added as per the new formats of financial statements for financial enterprises

4.2.9 Segment Report

4.2.9.1 Business Segments

Major business segments of the Group include corporate banking, retail banking and financial markets business.

Unit: RMB million

	2018				2017			
Business Segment	**Segment Operating Income**	**Proportion (%)**	**Segment Profit before tax**	**Proportion (%)**	Segment Operating Income	Proportion (%)	Segment Profit before tax	Proportion (%)
Corporate banking	**87,184**	**52.6**	**24,244**	**44.6**	87,080	55.4	20,743	39.7
Retail banking	**57,139**	**34.5**	**15,732**	**29.0**	54,353	34.6	20,283	38.8
Financial markets business	**18,057**	**10.9**	**13,744**	**25.3**	11,080	7.0	8,764	16.8
Others and unallocated	**3,386**	**2.0**	**606**	**1.1**	4,718	3.0	2,486	4.7
Total	**165,766**	**100.0**	**54,326**	**100.0**	157,231	100.0	52,276	100.0

4.2.9.2 Geographical Segments

The table below lists the operating results of the Group for the reporting period by geographical segment.

Unit: RMB million

	31 December 2018				For the year 2018	
	Total assets [1]		Total liabilities [2]		Profit before tax	
Geographical Segments	**Amount**	**Proportion (%)**	**Amount**	**Proportion (%)**	**Amount**	**Proportion (%)**
Head Office	**2,445,696**	**40.5**	**2,084,629**	**37.1**	**25,144**	**46.3**
Yangtze River Delta	**1,184,230**	**19.6**	**1,191,150**	**21.2**	**10,980**	**20.2**
Pearl River Delta and West Strait	**812,520**	**13.5**	**800,478**	**14.3**	**8,020**	**14.8**
Bohai Rim	**1,255,616**	**20.8**	**1,228,822**	**21.9**	**6,532**	**12.0**
Central	**594,775**	**9.8**	**596,075**	**10.6**	**4,134**	**7.6**
Western	**539,071**	**8.9**	**524,880**	**9.4**	**(229)**	**(0.4)**
Northeastern	**97,329**	**1.6**	**106,680**	**1.9**	**(3,537)**	**(6.5)**
Overseas	**338,573**	**5.6**	**282,868**	**5.0**	**3,282**	**6.0**
Offset	**(1,224,270)**	**(20.3)**	**(1,201,970)**	**(21.4)**	**—**	**—**
Total	**6,043,540**	**100.0**	**5,613,612**	**100.0**	**54,326**	**100.0**

Notes: (1) Excluding deferred tax assets
(2) Excluding deferred tax liabilities.

Unit: RMB million

	31 December 2017				For the year 2017	
	Total assets [1]		Total liabilities [2]		Profit before tax	
Geographical Segments	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Head Office	2,300,101	40.7	2,466,613	46.8	27,022	51.7
Yangtze River Delta	1,288,981	22.8	1,135,639	21.6	3,323	6.4
Pearl River Delta and West Strait	916,081	16.2	820,311	15.6	4,402	8.4
Bohai Rim	1,228,113	21.7	1,079,757	20.5	8,884	17.0
Central	626,587	11.1	565,919	10.7	3,456	6.6
Western	574,942	10.2	483,560	9.2	1,396	2.7
Northeastern	94,618	1.7	86,047	1.6	47	0.1
Overseas	307,796	5.4	266,293	5.1	3,746	7.1
Offset	(1,681,353)	(29.8)	(1,638,889)	(31.1)	—	—
Total	5,655,866	100.0	5,265,250	100.0	52,276	100.0

Notes: (1) Excluding deferred tax assets.
(2) Excluding deferred tax liabilities.

4.3 Business Overview

This section analyzes all data and information from the Bank's perspective.

4.3.1 Corporate Banking Business

In 2018, the Bank initiated transformation of its corporate banking business on all fronts. Among others, the Bank managed new customers by "name list" and classified existing customers into "four categories", strengthened the dominant role of the customer departments, reinforced exit from customers of low quality and low efficiency, and further improved its risk control system. In addition, the Bank improved the building of corporate customer base, fully implemented the "five head-office-to-head-office model" for strategic customers, and deepened cooperation with institutional customers in key areas. In the meanwhile, the Bank enhanced its marketing services among basic customer groups and effective corporate customers, building a more solid customer base. Efforts were also made to tap customer value throughout their industry chains. With innovative launch of unique supply chain finance projects such as "Loans to Wine Venders" and "Cloud Chain", the Bank made new breakthroughs in the development of corporate banking products. In multiple areas such as bond underwriting, cross-border mergers and acquisitions, syndicated loans and equity financing, the Bank landed a group of standard-setting and first-of-its-kind projects, successfully maintaining its competitiveness in investment banking.

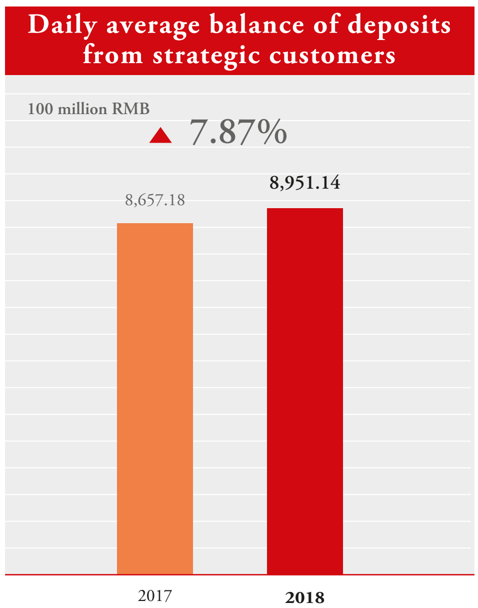
The Bank realized RMB81.787 billion net operating income from its corporate banking business for the reporting period, down 0.20% over last year, representing 52.25% of its total operating income. This amount included RMB12.941 billion net non-interest income from corporate banking, representing 22.23% of the Bank's total net non-interest income.

4.3.1.1 Corporate Customer Management

During the reporting period, the Bank achieved good results in managing its strategic customers and institutional customers. As at the end of the reporting period, the Bank recorded 630,000 accounts of corporate customers in total, an increase of 35,000 accounts over the previous year, including an increase of more than 8,600 accounts of basic customers[4] and about 6,000 accounts of effective customers[5] over last year.

Management of Strategic Customers

In line with the principle of "one policy, one account; one team, one account", the Bank provided differentiated and high-quality financial services to its strategic customers that included premium enterprises in the world's top 500, China's top 500 and industry leaders. During the reporting period, the Bank continued to deeply engage key customers through "Head Office to Head Office Negotiation, Head Office to Head Office Project Acquisition, Head Office to Head Office Parallel Operation, Head Office to Head Office Resource Allocation and Head Office to Head Office Risk Control". These efforts helped the Bank to build seamless connection between customer needs and commercial banking services, and reduce the cost of communication between the Bank and the enterprises. In addition, the Bank promoted "chain marketing", focusing on five major industries, i.e., automobile, internet, real estate, home appliances and liquor. While providing high-quality financial services to strategic customers, the Bank focused on expanding its services to relevant upstream and downstream enterprises along the industry chains of the strategic customers, thus extending the value of managing the strategic customers.



4 Refers to corporate customers with daily average deposit of RMB100,000 and above.

5 Refers to corporate customers with daily average deposit of RMB500,000 and above (excluding non-small-business loan customers).

During the reporting period, the Bank's daily average balance of deposits from strategic customers stood at RMB895.114 billion, an increase of 7.87% over the previous year; and operating income from managing the strategic customers reached RMB30.826 billion, an increase of 4.69% over last year. The Bank provided RMB2.38 trillion comprehensive finance to its strategic customers by means of granting bank loans and underwriting debt securities. As at the end of the reporting period, the strategic customers recorded good loan quality in the overall sense.

Management of Institutional Customers

The Bank leveraged on the unique competitiveness of its institutional customer business, made constant innovations to its professional and smart model of institutional customer management and paced up the construction of a new-type bank-government partnership that featured "fund arrangement, resource integration, capital operation and asset management". During the reporting period, the Bank further deepened its cooperation with institutional customers at all levels, participated in the top-level design of the Ministry of Transport's reform of its transportation investment and financing system, once again became the only joint-stock bank qualified to partner with the Ministry of Industry and Information Technology for major technology transformation projects, and concluded strategic partnership agreements with multiple local governments including the Gansu Provincial People's Government. Riding on the development opportunities available from "Internet + Government" and inclusive finance, the Bank successfully launched online the "Bank-Law Connect" and the "Smart Payment" platform for education. In addition, the Bank further enriched the product functionalities of its "Smart Payment" system, offering payment management and online lending services to institutional customers and the general public that these customers serves, which effectively enhanced customer viscosity.

As at the end of the reporting period, the Bank recorded 33,500 accounts of institutional customers[6] of various types and RMB299.586 billion balance of loans for these customers, an increase of 8.81% over the end of the previous year. Such loans were mainly invested in urban construction, land and housing, transportation, and education, science, culture and health. The Bank's institutional customers had a 0.14% NPL ratio. For the reporting period, the institutional customers registered RMB1,078.859 billion daily average deposits (excluding negotiated deposits), an increase of 3.79% over last year, taking up 39.86% of the Bank's daily average balance of corporate deposits (excluding negotiated deposits), up 0.53 percentage points from last year.

6 Due to its needs for management of corporate customers, the Bank reclassified the existing institutional customers and made corresponding regressive calculation of the beginning base figures.

4.3.1.2 Corporate Deposit Business

While continuing to boost marketing for low-cost settlement deposits, the Bank appropriately increased the absorption of market-based deposits in response to changes in market situations and diversified customer needs, and kept the cost of its corporate deposit at a level lower than that of its peers. During the reporting period, the Bank's daily average balance of corporate deposits stood at RMB2.78 trillion, an increase of RMB84.511 billion over last year. As at the end of the reporting period, the cost rate of its corporate deposits was 1.89%, up 0.25 percentage point compared with the end of last year.

4.3.1.3 Corporate Loan Business

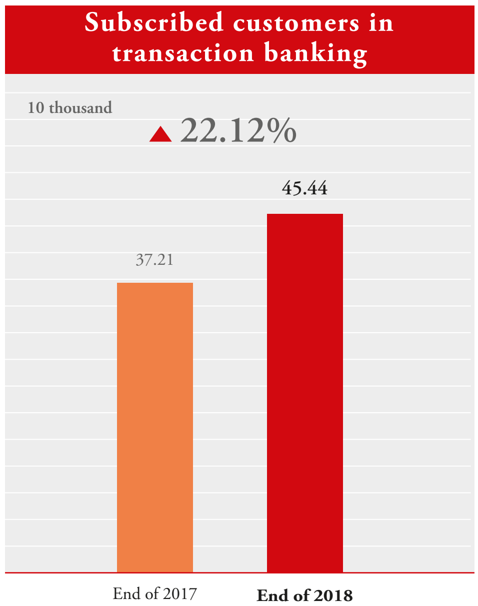
The Bank made continuous efforts to optimize its asset structure, tilting its credit resources towards key regions, key sectors and key customers. The corporate loans granted by the strategic pivotal regional branches in Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing and Hangzhou increased by RMB44.885 billion compared with the end of the previous year, and the proportion thereof went up to 43.29%, up 2.78 percentage points from the end of the previous year. The incremental loans were mainly invested in those industries in the "active support" and "optimize or adjust" categories such as the pharmaceutical and business services sectors, whose loan balances increased by a combined amount of RMB56.631 billion over the end of the previous year. In contrast, industries in the "strict control", "reduce" and "exit" categories such as the wholesale, metal products and low-end manufacturing sectors recorded a combined decline of RMB50.178 billion of their loan balances compared with the end of the previous year.

As at the end of the reporting period, the Bank's balance of corporate loans recorded RMB1,916.898 billion, up 8.59% compared with the end of the previous year. The actual average interest rate on corporate loans stood at 5.11%, up 0.23 percentage point over the end of the previous year.

4.3.1.4 Key Corporate Businesses

Transaction Banking Business

Based on its advantages in developing corporate banking business, the Bank continuously enhanced the comprehensive service capabilities of its transaction banking business. During the reporting period, the Bank launched Transaction Banking 2.0 in the full sense, effectively integrating more than 1,000 product functions in data, application and electronic channel at the entry layers. Its launch of service channels such as corporate online banking, corporate mobile banking, and bank-enterprise direct connect further enhanced the one-stop financial service capabilities of transaction banking. In addition, a series of innovative settlement products, such as employer settlement card, agreement collection, and UnionPay express payment were launched, which flexibly generated settlement service solutions according to customer needs, and successfully embedded the Bank's products and services into the daily transaction links of the customers. As such, the Bank provided its customers with more convenient online services.



As at the end of the reporting period, the Bank recorded 454,400 accounts of subscribed customers in transaction banking, a growth of 82,300 accounts or 22.12% over the end of the previous year. For the reporting period, transaction banking completed 75.5679 million transactions, an increase of 0.12% over last year, and realized business income of RMB691 million, an increase of 3.13% over last year.

Investment Banking Business

The Bank took investment banking business as an important support for implementing the strategy on becoming the company offering the best comprehensive financial services. With the orientation of "returning to the basics of financial services and serving the real economy", the Bank vigorously developed such businesses and products as bond underwriting, finance for mergers and acquisitions (M&A), syndicated loans, and investment-lending interaction. As a result, its investment banking maintained a steady and relatively fast pace of development.

The M&A finance business of the Bank successfully assisted a group of M&A projects that supported the development of the real economy, implemented the "Belt and Road" Initiative and served the supply-side structural reform. The Bank closely followed the orientation of national strategies and the direction of market innovation by pushing forward the execution of a number of projects that rendered special support to private enterprises, including underwriting the first debt financing instrument issued by a local state-owned enterprise to provide special support to private enterprises. With corporate asset securitization entering the normal development stage, the Bank's underwriting of asset-backed notes (ABN) exceeded RMB10 billion. During the reporting period, the Bank successfully underwrote the first green travel ABN, the first scenic spot tickets ABN, the first home-purchase payment ABN and the first state-owned enterprise commercial property mortgage loan ABN in China.

For the reporting period, the Bank's investment banking achieved RNB8.972 billion business income and underwrote 481 debt financing instruments totaling RMB375.510 billion in amount, ranking the 5th on the market[7].

International Business

The Bank focused on the core of customer management and professional services in its international business. It continued to consolidate and deepen the "Troika" business development pattern of "traditional basic business, cross-border investment and finance, and corporate foreign currency denominated assets and liabilities" with the precondition of business compliance. During the reporting period, the Bank strictly implemented various regulatory policies, and was rated a Class A bank by the State Administration of Foreign Exchange in the latter's assessment of bank implementation of regulations on foreign exchange management in 2018. Against the backdrop of continuous deepening of foreign exchange management and market-oriented reform of the Renminbi exchange rates, the Bank captured market opportunities and actively served the real economy. In light of the requirements of constructing the "Belt and Road" Initiative and the trend of Chinese-funded enterprises "going global" for development, the Bank established 30 export credit projects and helped Chinese-funded enterprises complete 34 issues of overseas debts. At the same time, the Bank promoted the development of the Free Trade Zone (FTZ) business in an orderly manner. Its FTZ cross-border loan disbursement increased by 73.21% year on year. In addition, the Bank successfully issued its first non-resident non-risk-bearing foreign currency wealth management product in the Shanghai FTZ. Further, the Bank actively carried out electronic innovation. Its blockchain domestic L/C system won the "The Best Blockchain Initiative, Application or Program Award" from the Asian Banker, the Second Prize for Science and Technology Development from the PBOC in 2017 and the Financial Innovation Award from the China Banking Association. The Bank continued to promote the intensive operation model. Its international business operation center completed the second-batch takeover of branch document business, taking over the document business of 27 branches to further reduce operating costs and operational risk through centralized processing.

For the reporting period, the Bank's forex purchase and sale recorded USD139.831 billion, representing a market share of 3.64%, rising to the top of all joint-stock banks and 5th among all domestic banks[8]; and its forex receipts and payments for international balance of payments registered USD259.081 billion, representing a market share of 3.69%, continuing to top all joint-stock banks[9]. Its cross-border Renminbi receipts and payments amounted to RMB301.113 billion, a year-on-year increase of 94.54%, ranking the first among joint-stock banks[10]. The Bank comprehensively strengthened the risk management of foreign currency loans, which kept improving the quality of foreign currency assets. As at the end of the reporting period, the Bank's balance of foreign currency non-performing assets was RMB681 million, and the non-performing ratio thereof was 1.44%, down 69.07 and 0.46 percentage points from the end of the previous year, respectively.

7 Ranking based on Wind Info data.

8 End of December 2018 data from the Monthly Statistics of SAFE.

9 Ibid.

10 End of December 2018 data from the Monthly Statistics of PBOC.

Asset Custody Business

The Bank upheld and continued to deepen its corporate business development model of "commercial banking + investment banking + custody". In addition, the Bank kept enhancing the development of its custody business operation system and institutional framework. During the reporting period, the Bank continued to consolidate the diversified development pattern for its custody business. The six trillion-level "big single products", i.e., public offering funds, asset management plans of securities companies, trust assets, bank wealth management, third-party regulatory products and private equity funds, all registered a sound momentum of development. The Bank won the bid for the custodianship of the occupational annuity plans of the central state organs and institutions, gradually forming distinctive competitive advantages. During the reporting period, the Bank's new operation system for asset custody, i.e., the "ACE•π FASTER" system, successfully went alive online, preliminarily achieving the development goals of "simple operation, smart process, integrated configuration, and real-time monitoring".

For the reporting period, the Bank overcame the adverse effects resulting from the scale reduction of Tianhong Yu'ebao after the regulators required the latter to reduce and divert its business. As at the end of the reporting period, assets under the Bank's custody recorded RMB8.44 trillion, an increase of RMB384.982 billion or 4.78% over the previous year. Despite the general decline of custody income in the industry, the Bank realized RMB3.535 billion income from its asset custody business, up 7.06% from last year. During the reporting period, the Bank ranked the 2nd among all joint-stock banks in terms of total custody business income and topped its peers in terms of the amount and growth rate of incremental custody income[11]. Among its income from assets custody business, RMB154 million income came from pension fund, up 16.20% from last year.

Special Topic: Inclusive Finance

In active response to the orientation of relevant government policies on vigorously developing inclusive finance, the Bank promoted the construction of an inclusive finance business system with enthusiasm. During the reporting period, the Bank established a joint task force across multiple departments on the basis of setting up the Inclusive Finance Leading Group with the chairperson as the group leader and the president and vice president in charge of inclusive finance as her deputies. In parallel with the establishment of the tier-one Inclusive Finance Department at the Head Office, the Bank paced up efforts to set up inclusive finance departments at the branches. In addition, the Bank built the operation and management platform that integrated "review, approval, disbursement, post-lending" management, making constant improvement to the organizational structure of inclusive finance. To actively support the development of inclusive financial services, the Bank also applied multiple approaches to increase policy support and resource input, such as profit subsidies for performance evaluation, special cost support, differentiated provisioning policies, and priority guarantee of loan size and supply, etc.

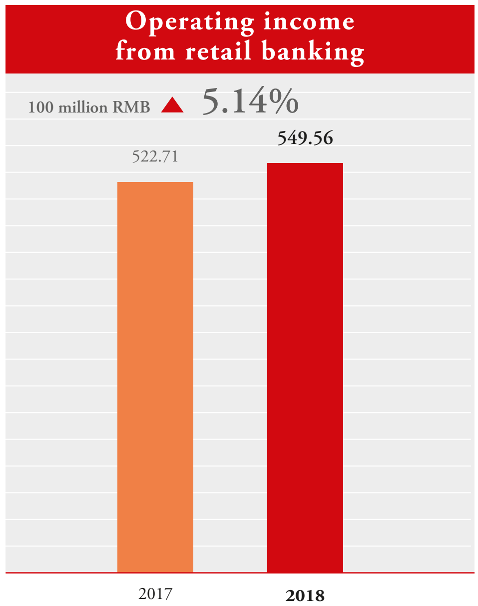
In line with the "short-term, frequent and fast" fund requirements of inclusive finance customers, and based on actual circumstances and real fund usage, the Bank set its positioning in inclusive finance as "simple, clear, extensive and appropriate", and focused on key areas to promote the development of standard products. While effectively controlling risks, the Bank accelerated the reengineering of business processes, greatly simplified the credit extension process and improved business efficiency. In order to reduce the financial costs of small and micro enterprises, the Bank launched several online functionalities, such as "borrow and repay at any time" and "loan renewal without principal repayment", giving rise to an inclusive finance product system that covered three major categories: basic products, featured products and innovative products.

To go "online, data-based and smart", the Bank actively built online financing channels and achieved online self-service throughout the processes of loan application, contract signing, fund withdrawal and loan repayment. In addition, the Bank leveraged big data and the Internet to develop models for review/approval automation and smart post-lending risk control, which resulted in parametric control and rapid processing of inclusive financial services.

11 According to the statistics released by the China Banking Association.

During the reporting period, the Bank successfully met the "two increase and two control" assessment requirements of the CBIRC and the conditions for the highest-grade RRR cut assessment criteria of the PBOC. As at the end of the reporting period, the balance of the Bank's inclusive finance loan balance as per the CBIRC assessment criteria[12] was RMB136.353 billion, an increase of RMB44.503 billion or 48.45% over the end of the previous year, which was 34.93 percentage points higher than the average growth rate of various other loans. The number of customers with loan balances recorded 82,200 accounts, an increase of 22,300 accounts or 37.18% over the end of the previous year; the loan interest rate was 6.10%, down 0.22 percentage point from the end of the previous year. Thus, the Bank achieved positive results in alleviating the financing difficulties of small and micro enterprises. The non-performing ratio of loans to small and micro enterprises as per the government definition[13] stood at 2.53%, which met the risk tolerance requirement of "no more than 2 percentage points higher than the non-performing ratio of various loans". As at the end of the reporting period, the Bank's balance of inclusive finance loans as per the PBOC's RRR cut criteria[14] totaled RMB142.729 billion, a growth of RMB40.242 billion over the end of the previous year, taking up 10.52% of the Bank's total incremental loans.

4.3.2 Retail Banking Business



During the reporting period, the Bank was confronted by internal and external economic and financial situations such as more intensive competition in wealth management business and growing maturity of financial technology (fin-tech). In response, the Bank upheld the "customer orientation" business concept and focused on development of customers, products, channels and foundational capabilities in order to become "the bank offering the best customer experience". It made continuous efforts to develop unique products such as Xinjin Bao, robo-advisor, going abroad finance, family trust, carte blanche asset management, mobile banking and credit card, and prioritized the advancement of three major business areas, i.e., asset business, wealth management and payment settlement. With innovations made to mobile channels and customer acquisition models as well as the support of big data and precision marketing technology, the Bank sustained relatively fast growth of its retail banking business while constantly upgrading customer management and service experience.

During the reporting period, the Bank realized RM54.956 billion net operating income from retail banking, an increase of 5.14% over last year, accounting for 35.11% of its total net operating income. Of this amount, RMB36.622 billion was net non-interest income, up 9.14% from last year, taking up 62.91% of the Bank's total net non-interest income, an increase of 0.52 percentage point. Credit card business contributed RMB30.815 billion to total net non-interest income from retail banking, accounting for 52.94% of the Bank's total net non-interest income. Fee-based income from bank cards and payment settlement recorded RMB1.06 billion, a growth of RMB311 million or 41.45% over last year, achieving a new breakthrough.

4.3.2.1 Retail Customer Management

Through precision customer marketing and more effective stratified management of retail customers, the Bank achieved systematic management of and service provision for retail customers and relatively high growth in the number of retail customers. As at the end of the reporting period, the Bank recorded 88.3176 million accounts of retail customers, a growth of 22.65% over the end of the previous year; and 735,000 accounts of medium-to-high-end customers[15], representing a growth of 25.11% over the end of the previous year.

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12 Refers to loans to small and micro enterprises no more than RMB10 million (inclusive) per account.

13 Refer to loans to small businesses, loans to micro enterprises, loans to industrial and commercial households and loans to small and micro business owners that meet the requirements of the Regulations on the Standards for Classifying Small and Medium-sized Enterprises promulgated by the four ministries including the Ministry of Industry and Information Technology.

14 Refers to loans no more than RMB5 million (inclusive) per account that are granted to small and micro enterprises, industrial and commercial households and small and micro business owners, as well as such loans granted for the purposes of rural household production and business operation, start-up business guarantee, consumption of registered poverty population, and financial aid for education.

15 Refers to customers each having at least RMB500,000 daily average AUM with the Bank.

By means of constructing a customer management system, integrating online and offline channels and making scenario-based customer acquisition, the Bank reinforced the building of retail banking brands for the middle and old-aged, female and young customers (collectively the "three major customer groups"), and set up exclusive rights for the "three major customer groups" in the "CITIC Red" rights system. As at the end of the reporting period, the Bank recorded 12.4023 million middle-and-old-aged customers, 7.5488 million female customers and 30.2332 million young customers, a growth of 23.14%, 25.42% and 22.13% over the end of the previous year, respectively.

The Bank continued to strengthen its mechanism for interaction between corporate and retail banking businesses to achieve mutual conversion of premium corporate and retail customer resources. As at the end of the reporting period, the Bank recorded 4.8943 million valid accounts of customers receiving its agency salary payments through such interaction; and registered RMB205.074 billion retail AUM for these customers. During the report period, the Bank newly acquired 5,706 accounts of high-end retail customers and 2,507 accounts of new base corporate customers[16].

4.3.2.2 Personal Deposit Business

Starting from customer needs and experience, the Bank focused its efforts on products and marketing, and pushed for the growth of personal deposits by multiple measures. In terms of products, the Bank vigorously promoted the creation of products in its liability business. Key liability products with market influence such as "Yue Yue Xi", personal large-amount deposit certificates and structured deposits were successively released. At the same time, through optimization of product functionalities, expansion of product types and stratification of product pricing, the Bank enabled its customers richer product choices and better service experience. The Bank continued to rely on product-sale scenes to innovate products, launching "Huoqi Bao" for large-amount settlement customers, "Xinyue Bao" for customers who had already paid deposits for their home purchases, and print-version personal large-amount deposit slips to customers relocating from demolished urban-rural conjunction areas. In terms of marketing, the Bank strengthened process management, ensured sound follow-up connection of matured deposits, matched the needs of elderly customers and customers with low risk bearing capability, and provided the customers with suitable products. As at the end of the reporting period, the Bank's balance of personal deposits registered RMB590.094 billion, an increase of 35.26% over the end of the previous year, hitting a new high in terms of annual growth.

4.3.2.3 Personal Loan Business

In active response to the policy orientation of the government, the Bank vigorously developed personal loan business, achieving rapid coordinated development of personal loan business in terms of profitability, quality and scale. During the reporting period, the Bank further built up its personal loan business by upgrading customer acquisition capability, improving products and optimizing processes. In terms of customer acquisition, the Bank continued to improve the three major approaches of customer acquisition, i.e., "online acquisition, channel acquisition and customer-recommend-customer acquisition". In terms of products, the Bank established a standard personal loan product system and further optimized the business processes and product functions for basic products such as mortgage loans, unsecured loans and pledge loans. At the same time, the Bank vigorously promoted the multi-scenario application of personal consumer loans, launched products based on the mobile banking terminal such as "Xin Miao Dai" (meaning CNCB instant loans), continued to expand credit data channels and continuously augmented the basic customer groups of consumer loans. As at the end of the reporting period, the Bank had accumulatively accessed more than 140 direct-connect and non-direct-connect data channels of the public provident fund and tax fund.

During the reporting period, the Bank continued to comply with the government requirements on property regulation and control at all levels and conducted its housing mortgage business accordingly. The Bank recorded RMB629.215 billion balance of home mortgage loans, a growth of RMB136.452 billion over the end of the previous year, with the growth rate being 10.54 percentage points higher than last year. As at the end of the reporting period, the Bank's balance of personal loans (excluding credit card) was RMB1,016.484 billion, representing an increase of 15.94% over the end of the previous year. During the reporting period, the weighted average interest rate of newly granted personal loans stood at 6.20%, a rise of 0.18 percentage point from last year.

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16 Refers to customers each having at least RMB10,000 daily average account balance with the Bank.

4.3.2.4 Key Businesses of Retail Banking

Wealth Management Business

The Bank enhanced product innovation in response to market changes and in line with customer needs. These efforts contributed to relatively rapid growth of its wealth management business. In terms of wealth management for retail customers, the Bank tried its best to push forward the transformation towards NAV products in accordance with the New Regulations on Asset Management, recording a 25.98% growth in the scale of existing NAV personal wealth management products by the end of the reporting period. In terms of agency fund sale, in line with the market conditions, the Bank vigorously promoted the sale of bond funds, achieving a 152.67% increase in the sale of non-monetary funds compared with the previous year. At the same time, the Bank's big single product "Xinjin Bao" continued to attract customer attention. As at the end of the reporting period, "Xinjin Bao" recorded 2.094 million accounts of newly subscribed customers, an increase of 5.84% over last year. The Bank carried out R&D and preparation of robo-advisor projects with great zest. During the reporting period, the Bank launched "CITIC Robo-Advisor"[17], providing customers with such functions as one-click purchase of fund portfolios, adjustment and optimization of positions, monthly investment reporting and fund diagnosis. During the reporting period, the cumulative yields on the portfolios outperformed the benchmarking main market indices.

As at the end of the reporting period, the retail customers of the Bank recorded total AUM balance of RMB1,784.626 billion and an AUM balance of RMB845.776 billion for VIP retail customers at the Bank, an increase of 20.09% and 23.48% over the previous year, respectively. For the reporting period, daily average AUM balance stood at 1,686.576 billion, up 20.23% compared with last year.

Private Banking Business

The Bank put forward the brand proposition of "guarding the warmth of inheritance with good faith" and formulated the 2018-2020 development plan for its private banking business based on the business philosophy of "creating value for customers" and the positioning of developing its private banking into "a profit center that integrates management and operation with management at higher levels and operation at lower levels". Relying on the Group's resource advantages and based on refined management and professional operation, the Bank improved the mechanisms and institutional arrangements of its private banking business and provided private banking customers with leading financial and non-financial comprehensive service solutions.

During the reporting period, the Bank established 15 private banking centers at various branches to enhance regional service and operation capabilities. It also provided private banking customers with diamond butler services, the first of its kind in the industry, and achieved exclusive total-channel private banking services such as online banking and online service. By integrating expert resources for family inheritance, the Bank's two big single products, i.e., family trust and carte blanche asset management, gained market reputation, leading the industry in terms of both market share and customer satisfaction. As a result, the private banking segment got a boost in its capability for comprehensive customer management, and continued to release customer value contribution.

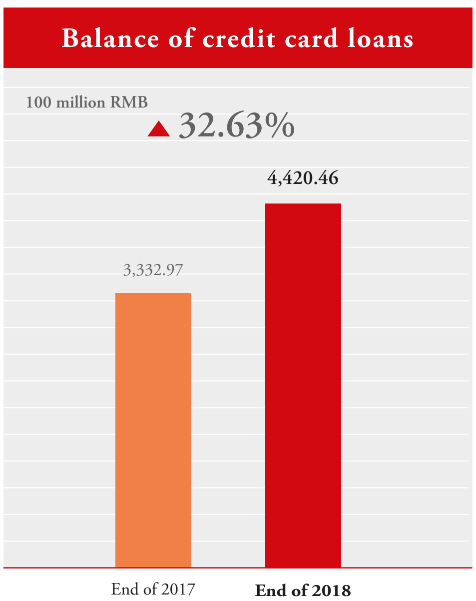
17 "CITIC Robo-Advisor" is a one-click personal wealth solution of the Bank that integrates data analysis, quantitative analysis of quantitative models and qualitative research results of expert teams. It selects premium funds from the entire market of public offering funds to build investment portfolios. Through smart analysis of users' customer portraits, "CITIC Robo-Advisor" accurately recommends fund portfolios, tracks market trends in real time and provides user portfolios with diagnostic analysis and dynamic rebalancing services.

As at the end of the reporting period, the Bank recorded 33,900 accounts of private banking customers, an increase of 7,203 accounts or 27.02% over the end of the previous year; and an AUM balance of RMB486.203 billion for its private banking customers, up RMB99.861 billion or 25.85% over the previous year end. The private banking business of the Bank won extensive market recognition (more than 20 awards domestically and abroad) in the year, including the honor of "Overall Best National Private Bank" from Asiamoney.

Credit Card Business

In credit card business, the Bank continued to practice the "smart development" business concept, adhered to "customer orientation", and comprehensively deepened management of both the full process and its various components. It also strove to create "top card choice" for customers and built differentiated competitive advantages. With an open attitude for win-win cooperation, the Bank partnered with many outstanding enterprises across different industries to deepen the channel potential and build a "financial ecosphere without boundaries" that covered all consumption scenes including life, entertainment, culture and business travel. With these efforts, the Bank provided customers with more humanized and personalized products and services.

The Bank accelerated the construction of the "finance +" system and continued to promote the "finance + business travel" strategy. Co-branded credit cards were issued in partnership with Sichuan Airlines, Okay Airways, Hebei Airlines and Luxury Card, and tri-party joint-branded credit cards were issued in cooperation with Air China and Ctrip to create the ultimate service experience of business travel for cardholders. At the same time, the Bank sped up the arrangement of the "finance + retail" layout, launching the first Yonghui-CNCB co-branded credit card with Yonghui Superstores, which was the exclusive credit card product to access the Yonghui Financial Supermarket, creating a new scene model for financial supermarkets. In exploring the new cross-sector possibilities in "finance + sports", the Bank joined hands with Real Madrid to launch Real Madrid's first exclusive fan credit card in China, which provided exclusive financial services for Real Madrid fans and was well received by the market. The Bank also introduced the "financial + health" one-stop service platform — Health Bank, the first of its kind in the industry, providing cardholders with comprehensive convenient health services such as registration, medical consultation, physical examination, dental cleaning and genetic testing. At the same time, the Bank cooperated with Zhong An Insurance to launch the co-branded credit card for Internet insurance, providing customers with all-round life protection and support that fit their specific needs.



As at the end of the reporting period, the Bank had issued a cumulative number of 67.0569 million credit cards, an increase of 35.27% over the end of the previous year, and recorded RMB442.046 billion balance of credit card loans, a growth of 32.63% over the end of the previous year. During the reporting period, the Bank's credit card transaction volume was RMB2,081.583 billion, an increase of 39.48% year on year; and the incremental number of issued credit card registered 17.4861 million, representing an increase of 43.44% over last year. For the reporting period, the Bank realized RMB46.023 billion income from credit card business, a growth of 17.81% over the previous year, which included RMB19.310 billion income from installment business. In addition, the Bank actively promoted credit card asset-backed securitization (ABS) business, accelerating credit-card asset turnover and thereby effectively reduced capital occupation. During the reporting period, the Bank cumulatively issued RMB105.266 billion credit card installment ABS products and RMB1.433 billion credit card non-performing asset ABS products.

Going Abroad Financial Services

Going abroad finance is a unique big single product of the Bank's retail banking business with a history of 20 years and a track record of serving going-abroad customers by more than 20 million person-times. Thanks to continuing business expansion, the Bank is now the authoritative financial institution in partnership with the embassies of 9 countries (including the USA, the UK, Australia and Singapore, etc.) for provision of visa services. The Bank has developed a system of products in five major categories, i.e., foreign currency liabilities, cross-border settlement, visa, credit certification and global asset allocation. During the reporting period, the Bank continued to innovate its going abroad financial services in line with customer needs and pain points and pursuant to its goal of becoming an industry leader in personal foreign exchange business. In particular, the Bank launched competitive products and services such as customized foreign currency deposits, foreign currency Xinjin Bao, smart foreign exchange purchase and sale, and the UK visa visiting service. By holding events together with the U.S. Embassy in China to celebrate the 20-year partnership, the Bank further consolidated its professional authority and advantages in going abroad financial services. In addition, the Bank organized a strong team of 2,000 professionals engaged in going abroad financial services and personal foreign exchange business, and built a strong team of 400 well-rounded international planners. At the same time, the Bank successfully launched its online platform for going abroad financial services, which, through an "online + offline" and "financial + non-financial" going abroad financial ecosphere, satisfied the financial service needs of customers before, during and after their overseas trips for various purposes including tourism, studies and business travels.

As at the end of the reporting period, the Bank recorded more than 5.6631 million accounts of customers using its going abroad financial services, bringing in 420,600 new customers for the Bank, and the corresponding balance of personal foreign currency deposits with the Bank reached USD5.19 billion, up 31.54% over the end of the previous year.

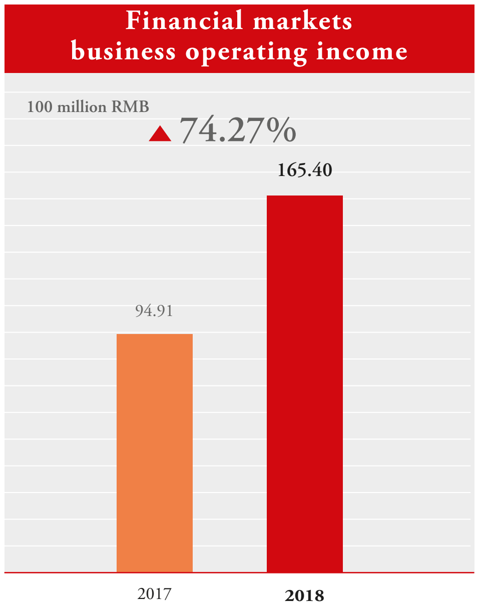
4.3.2.5 Consumer Rights Protection and Service Quality Management

After setting up the Consumer Rights Protection Committee under the Board of Directors and the Consumer Rights Protection Office as a tier-one managerial function, the Bank continued to improve the management system for consumer rights protection at the branches in accordance with relevant work requirements of the CBIRC. As at the end of the reporting period, the Bank's 38 tier-one branches had all established consumer rights protection functions. In order to strengthen the inspection of consumer rights protection and ensure compliance of services and sales, the Head Office supervised its service quality and consumer rights protection by various means such as unannounced visits, announced outlet inspections, monitoring and inspections and mutual inspections between branches. As always, the Bank adhered to the concept of developing "a bank of best customer experience". To this end, it launched the project of "building distinctive outlet features" across the board for the sub-branches to form unique features in terms of outlet design, customer service, event organization and product marketing. At the same time, through the retail business process penetration project, the "branch experience officer" initiative and other activities, the Bank listened to the voice of the front line, paid attention to the opinions of the branches, and established a bottom-up information feedback and optimization mechanism. These efforts continuously improved its service quality and internal management.

During the reporting period, in the competitions held by the China Banking Association (CBA), the Bank received the "2018 Outstanding Contribution Award for Civilized Standard Services in the Chinese Banking Industry" and 40 of its outlets made to the list of "1,000 Role Model Units of the Chinese Banking Industry for Excellence in Service Provision in 2018", a leading runner among all joint-stock banks.

4.3.3 Financial markets business

In face with the grim and complex financial environments at home and abroad, the Bank actively promoted the transformation of its financial markets business with the objective of shifting from scale expansion to quality improvement, from holding for profit to trading for profits and from product marketing to customer management. These efforts enabled continuing optimization of the asset-liability structure and significantly improved the profitability of its financial markets business.



For the reporting period, the Bank's financial markets business segment recorded operating income of RMB16.540 billion, a growth of 74.27% over last year, representing a 10.57% proportion in the Bank's total operating income. Of this income figure, non-interest income from financial markets business recorded RMB8.150 billion, an increase of 24.11% year on year, accounting for 14.00% of the Bank's total net non-interest income.

4.3.3.1 Interbank Business

In its interbank business, the Bank made active efforts to implement the goals of the new three-year strategic plan. Specifically, the Bank made pre-judgement of the market situation in advance, captured market opportunities, deepened the construction of customer management system, focused on key businesses and effectively reduced costs. As a result, the interest spread between its interbank assets and liabilities expanded markedly, and asset quality got a continuous boost. As at the end of the reporting period, the Bank's balance of financial interbank assets (including deposits and placements with, and loans to banks and non-bank institutions) recorded RMB222.304 billion, representing a drop of 11.66% over the end of the previous year; and its balance of financial interbank liabilities (including deposits and placements from banks and non-bank financial institutions) amounted to RMB850.065 billion, an increase of 2.01% over the end of the previous year.

During the reporting period, the bill business exhibited the trend of developing towards standard and centralized operation. In response, the Bank leveraged its advantages in centralized operation of its bill business at the Head Office and branch centers. In particular, the Bank continuously accelerated the turnover rate of bills and effectively improved resource use efficiency for economy of scale. It adopted multiple measures at the same time to promote the development of bill direct discount business according to corporate customers' financing demand, and thereby helped improve financing efficiency for the real economy and markedly enhanced its ability to serve the real economy. During the reporting period, the Bank's volume of bill direct discount business exceeded RMB500 billion, including RMB120 billion financing for support to private enterprises; the average daily balance of bill rediscounting reached RMB14.5 billion, up more than 50% over the previous year, with all bills from small and micro enterprises. In September 2018, the Bank launched "Xin Miao Tie", an innovative self-service electronic discounted bill product. At the end of the year, "Xin Miao Tie" recorded over 1,400 accounts of subscribed customers, and more than RMB11.5 billion discounted financing, becoming an important starting point for the Bank to support inclusive finance. As at the end of the reporting period, the balance of the Bank's bill assets amounted to RMB335.865 billion, representing an increase of 82.08% compared with the end of the previous year; and the proportion of electronic bill business stood at 99.37%, representing an increase of 0.85 percentage point over the end of last year.

The Bank built the "CITIC Interbank+" platform, the interbank financial service platform built with priority efforts, and continued to research and develop new products and optimize exiting functionalities during the reporting period, resulting in constant improvements to customer experience. As at the end of the reporting period, the platform had 1,216 accounts of interbank legal-person customers, an increase of 49.02% over the end of the previous year, and recorded a transaction volume of RMB1.43 trillion, up 12.77% from last year.

4.3.3.2 Financial markets business

The Bank actively conducted currency market transactions such as Renminbi interbank lending, borrowings and bond repos. While meeting the needs for liquidity management, the Bank also improved the operating results of short-term capital. As at the end of the reporting period, the Bank recorded a RMB21.90 trillion total volume of money market transactions. At the same time, the Bank fully leveraged active liability financing instruments such as interbank certificates of deposit. With RMB873.230 billion interbank certificates of deposit issued during the reporting period, the Bank became a market leader in terms of the volume of such issuance.

The Bank offered pertinent multi-layer exchange rate risk management solutions to meet customer needs for financing and value preservation, cross-border M&A, hedging forex receipt and payment, and management of Renminbi and foreign currency denominated assets and liabilities. Its innovative exchange rate product portfolios included forex trading, spot and forward forex purchase and sale, swaps, options and others. Thus, the Bank helped customers achieve value preservation and appreciation of their forex assets. During the reporting period, the Bank completed USD1.97 trillion forex market making transactions, up 11.29% from last year, and continued to be on the list of top market makers at the interbank forex market. The Bank closely followed market trends, optimized bond asset allocation, appropriately extended investment cycles, and made flexible choice of trading targets in order to tap the relative value change of different assets, and at the same time emphasized prevention and control of credit risk to improve the overall return on bond assets. In active response to regulatory policies, the Bank promoted the development of "Bond Connect" business, further consolidating its status as a core market maker at the interbank bond market. The Bank further optimized the structure of the precious metal leasing business, actively supported the gold-user entities in the real economy, and at the same time boosted trading to promote steady development of the gold import business. During the reporting period, the Bank ranked the 4th[18] on the market for gold market making by way of book finding, and was successfully shortlisted on the first groups offering forward silver quotations, further expanding its scope of precious metals market making.

4.3.3.3 Asset Management Business

During the reporting period, the PBOC, the CBIRC and other regulators successively issued a series of regulatory documents such as the Guiding Opinions on Regulating Asset Management Business of Financial Institutions and the Measures for the Regulation of Wealth Management Business of Commercial Banks (collectively "the New Regulations on Asset Management") to further regulate the asset management business of commercial banks in a comprehensive manner.

In active response to changes in the policy environment, the Bank steadily promoted the transformation of its asset management business. In accordance with the policy orientation of "managing other people's wealth on their behalf as entrusted", the Bank further strengthened the ability for active management of wealth management assets and allocation of general-category assets. Its focus was placed on reinforcing investment in standardized debt assets, making appropriate arrangements in equity assets and cross-border market operations, and ensuring successful reduction of non-standardized assets or transfer of such assets to standardized assets. At the same time, the Bank continued to promote the transformation of wealth management business, increased resource input, accelerated the rectification of existing business, and promoted the restructuring of wealth management business into a corporation. To this end, the Bank comprehensively pushed forward the transformation of products, assets, customers, sales, risks, operations, and mechanisms, and strove to build a reliable boutique asset management business with unique characteristics.

As at the end of the reporting period, the Bank's existing scale of non-risk-bearing wealth management products recorded RMB925.259 billion, down 2.89% from the end of the previous year, in which NAV products took up a proportion of 26.44%. The overall profile of the products remained healthy and stable. Due to the impact of factors such as the New Regulations on Asset Management, the currency market and the payment of VAT, the Bank slowed down the investment pace of wealth management funds, recording a decline in the overall yield on its asset management business. For the reporting period, the Bank's wealth management business realized income of RMB2.75 billion, a decrease of 50.32% from the previous year and generated total yield of RMB57.182 billion for customers, an increase of 25.25% over last year.

18 Based on data from the Shanghai Gold Exchange.

Special Topic: Impact Analysis of the New Regulations on Asset Management

The Bank actively responded to the challenges brought by the New Regulations on Asset Management on its wealth management business. Systematic responses were put in place to effectively promote the healthy and relatively fast development of wealth management business. First, on 13 December 2018, the Board of Directors of the Bank reviewed and approved the proposal on establishing a wholly-owned subsidiary for wealth management business with a registered capital of no more than RMB5 billion. Second, the Bank formulated a transformation plan for its asset management business. In accordance with the development requirements of "integrating business strategies, professionalizing asset management, differentiating marketing services, and branding social influence", the Bank strove to build a reliable boutique asset management business. Third, the Bank comprehensively sorted out the main business processes and operational specifications for product launch, investment, trading, custody, information disclosure, risk control, and compliance management, made full use of the policy transition period, and further improved the asset management system. Fourth, the Bank made innovations to its businesses and products. Specifically, the Bank reformed existing products, transforming open-ended products into quasi monetary funds, transforming period products into closed NAV products; adjusted and optimized the maturity structures of wealth management products and enriched long-term wealth management product lines; innovated fixed-income products, hybrid products and equity products, by improving the NAV performance of the products while striving to reduce net value fluctuations and fall after rise and enhancing stability of product valuation. Fifth, the Bank consolidated its customer base. Among other things, the Bank strictly implemented the qualified investor system by reinforcing the testing and assessment of customer risk tolerance and investment willingness; and further broke down its customer groups to formulate differentiated marketing strategies for different types of customers and design competitive exclusive products accordingly. Sixth, the Bank sped up its system construction, and re-examined and accelerated the construction of its asset management system, in order to meet the regulatory requirements on valuation and accounting of NAV products and measurement of risk assets. After smooth completion of the second phase of the asset management system, the Bank accelerated the construction of its third phase. Seventh, the Bank increased the offering of NAV products.

The Bank adopted the following mindset for handling non-standardized wealth management assets: According to the relevant requirements of the New Regulations on Asset Management, before the conclusion of the transition period (end of 2020), where a bank asset management product is directly or indirectly invested in non-standardized debt assets (abbreviated as "non-standardized assets"), the termination dates of the underlying non-standardized assets shall not be later than the expiration date of the closed asset management product or the latest open day of the open-ended asset management product. As at the end of the reporting period, the Bank had completed the combing and screening of the existing non-standardized assets, and actively studied and discussed the post-transition asset handling plan. The mindset for handling the existing non-standardized assets is as follows: for non-standardized assets with maturity dates before the end of the transition period, they will naturally expire on their maturity dates; for non-standardized assets with maturity dates after the end of the transition period, if the remaining period is relatively short, the Bank will launch special products compliant with the New Regulations on Asset Management to connect with the expiring assets; for assets that meet the conditions for non-standardized to standardized transfer, the Bank will actively convert them into standardized assets by means such as issuing ABS and ABN; for assets with relatively long remaining period and other assets, the Bank will handle them by requiring the borrowers to repay the loans in advance, transferring the assets, or returning the assets to the balance sheet; and for some equity assets with longer maturity, when relevant conditions are met, they will be handled through asset transfer.

4.3.4 Comprehensive Financial Services

The Bank adhered to the business concept of "customer orientation" and made full use of the unique CITIC Group advantages in placing financial and non-financial businesses on an equal footing to continuously enhance in-depth business cooperation with the subsidiaries of CITIC Group and its own subsidiaries on all fronts and in multiple areas and meet the customer needs for comprehensive financial services.

In terms of CITIC group synergy, for the reporting period the Bank provided enterprises with comprehensive finance of RMB625.843 billion in conjunction with CITIC Group's financial subsidiaries by means of syndicated loans, bond underwriting, equity financing and private equity investment, up 2.67% over last year. In addition, the Bank made RMB409.471 billion agency sale of products from CITIC Group's financial subsidiaries, a growth of 29.87% over last year. As at the end of the reporting period, the Bank jointly managed RMB16.573 billion enterprise annuities in partnership with CITIC Group's subsidiaries, an increase of 3.81% over the end of the previous year; and provided custody services to RMB1,133.602 billion products of CITIC Group's subsidiaries, representing an increase of 0.16% compared with the end of last year.

In terms of parent-subsidiary synergy, the Bank integrated the professional and online service resources of CITIC Financial Leasing and CITIC aiBank and strengthened innovation of product and service models to maximize the improvement of customer experience. During the reporting period, in cooperation with CITIC Financial Leasing, the Bank implemented 20 bank-lease projects with total investment of RMB9.641 billion. In addition, the Bank executed 42 joint projects in cooperation with CITIC aiBank, with total investment of RMB3.084 billion.

In respect of cross-border synergy, in line with the general trend of transformation and the requirements of internationalized business operation, the Bank used cross-border synergy as a highlight feature of its services for corporate customers. With CNCBI and CNCB Investment as the major service platform at home and abroad, the Bank expanded its cooperation radius and enriched its service contents, providing integrated comprehensive cross-border services for customers. During the reporting period, the cross-border projects jointly implemented by the Bank and its subsidiaries recorded a combined amount of RMB221.279 billion.

In terms of regional synergy, the Bank actively implemented the national strategy on regional coordinated development and issued the Work System of the Regional Coordinated Development Committee of CITIC Bank. It established the Regional Coordinated Development Committee and the respective regional coordination leading groups for the Beijing-Tianjin-Hebei region, the Jiangsu-Zhejiang-Shanghai region and the Guangdong-Hong Kong-Macao Greater Bay Area. As such, the Bank continued to promote business synergy among branches in the same regions. During the reporting period, the Bank completed surveys of more than 200 mainstream enterprises already stationed in the Xiong'an New Area and became the first commercial bank to extend loans to Xiong'an Group. The Bank also actively responded to the national strategy on regional integration in the Yangtze River Delta, and increased its services to enterprises doring business for "agriculture, farmers and rural areas" as well as micro, small and medium-sized enterprise. In addition, leveraging on the advantages of internal and external business interactions and industrial resources of CITIC Group, the Bank constructed a collaborative platform in the Hong Kong and Macao region to comprehensively support the construction of the Guangdong-Hong Kong-Macau Greater Bay Area.

4.3.5 Financial Technology

The Bank regards financial technology as an important breakthrough for its innovation and development. It actively promoted the application of new technologies such as big data and artificial intelligence in customer management, product innovation and risk control, and accelerated the construction of an integrated channel system. These efforts comprehensively enhanced business service capabilities and customer experience.

The Bank adhered to the mobile finance strategy and used mobile banking as its main battle field of customer management. During the reporting period, the Bank released Mobile Banking 5.0, launched voice banking, QR code payment and the exclusive version of private banking, and upgraded the smart recommendation engine and customer labelling system. All these built its personalized recommendation service capability and enhanced customer experience. In addition, the Bank made further efforts to have its deposit, loan and forex products go online, basically achieving online full coverage of retail products. In terms of mobile banking security control, the Bluetooth Key was added as a money transfer support, and explorations were made to construct a trustable transaction environment, which further enhanced customer security experience.

The Bank established a comprehensive partnership with Iflytek to jointly explore and cultivate the application of artificial intelligence in the financial industry, build a smart technology service era of AI credit cards, and provide users with high-quality services such as AI credit cards, voice interaction and smart payment. The Bank launched the 5.0 version of its Mobile Card Space APP, further accelerated the application of artificial intelligence technology, and launched more than 10 smart services such as face recognition login and VR customer service online. With these initiatives, the Bank created exclusive user experience of "one-stop financial services" and promoted the building of a smart ecology. The number of active APP users reached 10 million per month. Through continuous expansion of the new media platform resources, the Bank formed a matrix layout comprising WeChat/Alipay service accounts, WeChat Mini Programs, short videos, Weibo and social media groups. The cumulative number of followers continued to grow substantially.

During the reporting period, the Bank invested approximately RMB3.58 billion in various types of information technology. While continuing to consolidate its information technology infrastructure, the Bank kept increasing its investment in developing its information technology foundation and accelerated its deployment in artificial intelligence, blockchain, cloud computing and big data. These efforts achieved remarkable results. In the application of artificial intelligence, "CITIC Brain", the first AI financial service platform among all joint-stock banks, began to provide customers with tailor-made precision marketing services. The AI outbound card marketing calls supported by "CITIC Brain" recorded a success rate 16 times higher than that of the traditional outbound calls. The compliance AI blacklist matching introduced by the Bank recorded a precision rate significantly higher than that achieved by foreign mainstream products. "CITIC Brain" has attained the preliminary capacity for smart application and service in multiple areas such as smart trading, smart marketing, smart risk control, smart service provision and smart operation. A promising prospect of application is expected of "CITIC Brain". In the application of blockchain, the Bank has established, in cooperation with its peers, the largest inter-bank blockchain cooperation ecology in China. The cumulative transaction volume of the blockchain trade finance platform exceeded RMB10 billion. In the construction of cloud computing infrastructure, the Bank independently researched and developed a financial-grade distributed database, and jointly owned a number of national patents with its partners. The deployment of X86 servers increased by 30% year-on-year, and 53% of the applications were already migrated to the cloud platform, improving system deployment efficiency by more than 20%. In big data R&D and application, the Bank's big data platform built 10 technical components and 23 types of business applications. Its distributed storage capacity increased by 60% year-on-year; its data capacity reached 3.6PB; and its processing capacity increased by 40%, reaching 400 million messages per day on average.

4.3.6 Information Technology

The Bank led the development of financial technology with the twin-wheel drivers of mechanism innovation and technology innovation, and empowered business development with digital and smart transformation. Through the introduction of a series of practices such as incentives to reward major innovations, rapid promotion for the technology sequences, and IT-integrated team assignment to improve quality, the Bank raised speed and stimulated endogenous motivation and internal vitality for innovation and development of financial technology. In addition, the Bank initiated the future-oriented implementation of the eight transformation projects, made smooth progress in constructing the project on migrating its core business system and credit card system to the "cloud architecture", met expectations in the construction of infrastructure architecture transformation project groups including the enterprise-level development platform, data analysis cloud platform, hybrid IT infrastructure platform, and test service cloud platform, and had put some of their functionalities into practical use. In addition, the Bank enhanced the research and development of big data and artificial intelligence applications across the bank, integrated big data, AI algorithms, application model management, and launched "CITIC Brain", a framework-driven enterprise-level artificial intelligence application platform.

During the reporting period, the Bank continued to consolidate the information technology risk control system and information security protection system, further constructed intensive, automated and smart platforms for operation and maintenance, improved the data center remote disaster recovery system, and comprehensively promoted the CITIC cloud platform. These efforts markedly enhanced its capacity for safeguarding operation and maintenance.

4.3.7 Distribution Channels

4.3.7.1 Physical outlets

As at the end of the reporting period, the Bank had 1,410 outlets in 146 large and medium-sized cities in mainland China, including 38 tier-one branches (directly managed by the Head Office), 117 tier-two branches, and 1,255 sub-branches (including 58 community/small and micro sub-branches), plus 2,054 self-service banks, 7,053 self-service terminals and 5,534 smart teller machines. As such, the Bank had developed a diversified outlet pattern that consisted of smart (flagship) outlets, comprehensive outlets, boutique outlets, community/small and micro outlets and off-bank self-service outlets.

With its outlets basically covering all large and medium-sized cities in China, the Bank shifted its focus of domestic outlet establishment to layout optimization and profit improvement. Allocation of resources for outlet construction favored developed cities and regions such as Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou and Nanjing. At the same time, as an active response to the national "13th Five-Year Plan", the Bank supported the economic development of key areas such as the Free Trade Zones, Special Economic Zones and New Areas.

In terms of the layout of overseas outlets, CNCBI, an affiliate of the Bank, had 38 outlets in Hong Kong SAR, Macao SAR, New York, Los Angeles, Singapore and mainland China. CNCB (Hong Kong) Investment Co., Ltd. had 3 subsidiaries in Hong Kong and mainland China. JSC Altyn Bank had 6 outlets and 1 private banking center in Kazakhstan. In line with its 2017-2020 Plan for Overseas Development, the Bank made active efforts to promote the development of its internationalization. In particular, it constructed management frameworks for human resources, businesses, systems, authorization, and performance evaluation of overseas affiliates, and improved the efficiency of feedback on regulators' statistical needs. In addition, it pushed forward the preparations for establishment of its London, Sydney and Hong Kong branches in an orderly manner.

4.3.7.2 Online Channels

Focusing on mobile banking, the Bank accelerated the integration of its online channels, rapidly enhanced its online financial services capabilities, and sustained relatively fast growth in customer quantity and quality.

As at the end of the reporting period, the Bank recorded 36.6997 million accounts of mobile banking customers, an increase of 9.3734 million accounts or 34.30% over the end of the previous year; registered 6.8713 million monthly accounts of active mobile banking customers, up 51.78% from last year; and the volume and value of mobile banking transactions stood at 186 million and RMB6.29 trillion, up 45.85% and 48.61% over the previous year, respectively. There were 38.0489 million accounts of personal online banking customers, an increase of 10.5394 million accounts or 38.31% over the end of the previous year. The hotline of the Bank's Credit Card Customer Service Center received 124 million incoming calls, including 56.2999 million calls transferred to automated voice service and 67.9878 million calls transferred to manual service, achieving a 20-second manual response rate of 80.54%, a customer satisfaction rate of 98.36%, and a satisfaction rate of 96.95% regarding the handling of customer complaints, and generated total annual income of RMB9.234 billion. By actively making outgoing calls to customers, the Credit Card Customer Service Center proactively provided customer care, telephone notice and other services, communicating with customers by 505,700 person-times in total. The hotline of the Bank's Debit Card Customer Service Center received 69.674 million incoming calls, including 43.936 million calls transferred to the Credit Card Customer Service Center, 20.138 million calls transferred to debit-card automated voice service and 5.60 million calls transferred to manual service, achieving a 20-second manual response rate of 85.73%, a customer satisfaction rate of 99.07% and a satisfaction rate of 99.93% regarding the handling of customer complaints. By actively making outgoing calls to customers, the Debit Card Customer Service Center proactively provided customer care, telephone notice and other services, communicating with customers by 4.2712 million person-times in total.

4.3.8 Subsidiaries and Joint Ventures

4.3.8.1 CIFH

CIFH was incorporated in Hong Kong in 1924. It was acquired by CITIC Group in June 1986 and restructured to become an investment holdings company after its acquisition of the then Hong Kong Chinese Bank Limited in 2002. It is now a wholly-owned subsidiary of the Bank, with an issued share capital of HKD7.503 billion. CIFH is the main platform for the Bank to conduct its overseas businesses. Its business scope includes commercial banking and non-banking financial services. CIFH conducts its commercial banking business mainly via its holding subsidiary CNCBI (in which CIFH holds a 75% equity interest), and conducts its non-banking financial business primarily via CIAM (in which CIFH holds a 46% equity interest).

As at the end of the reporting period, CIFH had total assets of HKD365.769 billion, an increase of 5.89% over the end of the previous year, and a total number of 2,146 employees. For the reporting period, CIFH realized net profit of HKD2.638 billion, down 4.54% year on year.

CNCBI: As at the end of the reporting period, CNCBI recorded total assets of HKD362.945 billion, a growth of 5.41% over the end of the previous year. For the reporting period, CNCBI realized operating income of HKD8.41 billion, an increase of 6.82% year on year, of which net interest income grew by 18.64% year on year; its net profit recorded HKD3.008 billion, a growth of 7.12% year on year.

During the reporting period, CNCBI vigorously developed its cross-border business by riding on the opportunities arising from "the Belt and Road" Initiative and the Guangdong-Hong Kong-Macau Bay Area Development strategy, effectively leveraging its location advantage, and through increasingly close interaction and cooperation with the Bank and CITIC Group. It realized RMB149.4 billion cross-border Renminbi trade settlement in total. With the growing need of mainland Chinese enterprises for overseas financing and rapid growth in cross-border mergers & acquisitions made by such enterprises, CNCBI enjoyed a sound momentum of development in its debt capital market business, ranking the 5th among all Chinese institutions in Hong Kong in terms of the underwritten amount[19]. For the report period, CNCBI realized HKD234 million commission income from the debt capital market business and recorded a more than 50% year-on-year growth in cross-border business income relating to personal and commercial banking.

CIAM: CIAM continued to comprehensively promote its corporate reform and business transformation and strengthen its management foundation. Leveraging the comprehensive advantages of CITIC Group and the structural value of international assets, CIAM actively expanded the boutique private equity investment fund business and shareholder related business, and reinforced the management of existing investment portfolios. During the reporting period, CITIC CLSA Securities became a 15% equity holder of CIAM. As at the end of the reporting period, CIAM recorded HKD1.69 billion net assets and HKD1.89 billion total assets.

4.3.8.2 CNCB Investment

CNCB Investment is an overseas controlled subsidiary of the Bank established in Hong Kong in 1984 with a registered capital of HKD1.889 billion. The Bank holds 99.05% of the equity interest in CNCB Investment and CNCBI holds the rest 0.95%. The business scope of CNCB Investment covers lending (it holds a Hong Kong money lender license), investment (mainly including debt securities investment, fund investment, stock investment and long-term equity investment, etc.), and the conduct of overseas licensed investment banking business and domestic equity investment fund management business via its own subsidiaries.

CNCB Investment positions itself as the overseas investment banking platform of the Bank and aspires to develop itself into "the best overseas boutique investment bank". It fully leverages its unique features and advantages that lie in the combination of debt financing and equity investment to engage in licensed investment banking businesses in Hong Kong, such as securities underwriting, securities consulting, corporate financing advisory services and asset management, and conduct private equity investment fund management business in mainland China. During the reporting period, CNCB Investment rapidly developed its licensed investment banking businesses and steadily pushed forward key cross-border investment and financing businesses. Meanwhile, the Bank made breakthroughs in its active asset management business, paced up the mobilization of existing assets, endeavored for stronger risk control and compliance, and optimized regulations and processes. All these contributed to higher business income and better internal management.

During the reporting period, due to the impact of the general situation of the capital market, CNCB Investment recorded net profit attributable to its equity holders equivalent to RMB530 million, a drop of 37.53% from last year; and its income from licensed investment banking businesses was equivalent to RMB126 million, a substantial growth of 361% over last year. As at the end of the reporting period, CNCB Investment had total assets equivalent to RMB21.911 billion, 8.42% more than the last year end, and AUM equivalent to RMB117.125 billion, a slight decline of 0.98% from the end of the previous year.

4.3.8.3 CITIC Financial Leasing

Wholly owned by the Bank, CITIC Financial Leasing was incorporated in April 2015 with a registered capital of RMB4 billion. As an important strategic layout for the Bank to serve the real economy, CITIC Financial Leasing pursues leasing business in the three major areas of "new energy, new materials and new environment" in accordance with the strategy of "professional, market-oriented and international" development.

19 According to the Bloomberg ranking of China offshore bond underwriting.

During the reporting period, CITIC Financial Leasing continued to engage deeply in the field of green leasing and kept exerting its strength in the field of photovoltaic power generation, establishing itself as the leasing company holding the largest number of photovoltaic power plants in the industry. It signed strategic cooperation agreements with numerous leading enterprises in different industries. With BYD, CITIC Financial Leasing completed its first order of lease business for new energy vehicle manufacturer, thus further expanding its business to the Chinese new energy vehicle sector. As of the end of the reporting period, CITIC Financial Leasing's asset balances in the five areas of clean energy, energy conservation and environmental protection, high-end equipment, people's livelihood and modern transportation accounted for 51.71%, 9.17%, 14.18%, 19.98%, and 4.96%, respectively, indicating CITIC Financial Leasing's continuous optimization of business structure and growing influence in green leasing. The balances of green lease assets in these five areas accounted for a combined 67.21% of the total, an increase of 5.44% from the end of the previous year.

As at the end of the reporting period, CITIC Financial Leasing recorded total assets of RMB50.217 billion. For the reporting period, CITIC Financial Leasing realized cumulative lease grant of RMB13.827 billion, operating income of RMB1.206 billion and net profit of RMB518 million, an increase of 24.65% over the previous year.

4.3.8.4 CITIC aiBank

CITIC aiBank officially opened for business on 18 November 2017 with a registered capital of RMB2 billion. It is a new type of Internet bank jointly established by the Bank and Baidu, with the Bank and Baidu holding 70% and 30% of its equity interest, respectively. During the reporting period, the Bank and Baidu subscribed for the new shares issued by CITIC aiBank with their original shareholding ratios remaining unchanged. After the capital increase, the registered capital of CITIC aiBank reached RMB4 billion.

2018 is the first complete business year for CITIC aiBank. During the reporting period, CITIC aiBank achieved high-speed and high-quality development, recording an asset scale of RMB35.9 billion, more than 12 million users, and nearly RMB80 billion inclusive finance loans disbursed to over 4 million individual users and 580,000 small and micro business owners online. The indicators such as the capital adequacy ratio, the ratio of allowance for impairment of loans to total loans and the allowance coverage ratio were all in compliance with regulatory standards.

During the reporting period, CITIC aiBank comprehensively strengthened its foundational capabilities in technology, data, product, channel and liquidity, and enhanced the three core competencies of smart risk control, smart accounts and smart services. At the same time, the bank paced up its strategic process on all fronts and started to arrange for platform-based development. Meanwhile, CITIC aiBank upgraded its development from focusing on "financial services" to development with the dual engines of "financial services + financial technology", and its strategy and organization from version 1.0 to version 2.0 toward platform-based development and ecological evolution. In addition, CITIC aiBank adopted the "KPI + OKR + values" evaluation system, harvesting early fruits in market-oriented operations. Among others, it had the ability for platform-based development, achieved rapid turnover of credit assets, and sped up the strategic process on all fronts. In addition, the aiBank culture featuring "integrity and compliance, simplicity and efficiency, innovation and entrepreneurship, and market leadership" took shape, with great vitality in its market orientation. The "O+O" and "B+B" (online + offline, business + banking) open-ended banking model of CITIC aiBank withstood market test and won recognition from users. On 22 November 2018, under the guidance of the CBIRC, CITIC aiBank officially released the "aiBank Model", arousing extensive market attention and significantly enhancing its brand influence.

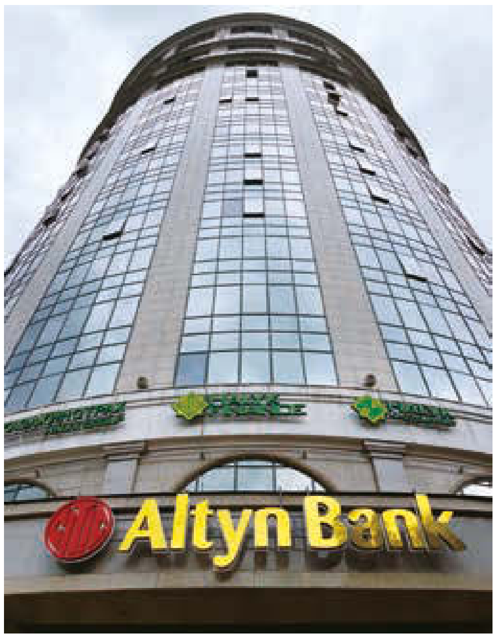
4.3.8.5 Lin'an CITIC Rural Bank

Lin'an CITIC Rural Bank, located in Lin'an District, Hangzhou City, Zhejiang Province, officially started operation on 9 January 2012. It has a registered capital of RMB200 million, with the Bank holding 51% of its equity interest and another 13 enterprises holding the rest 49%. Lin'an CITIC Rural Bank is mainly engaged in general commercial banking business.

During the reporting period, Lin'an CITIC Rural Bank supported the real economy with enthusiasm, and fulfilled its obligations and responsibilities in connection with inclusive finance and the rural revitalization strategy. In particular, it continued to optimize the credit structure, prioritizing support to rural households and individual industrial and commercial households in its loan disbursement. For personal microfinance customers, the bank carried out micro-finance customer marketing and loan disbursement, focusing on the distinctive farming industries such as alpine breeding, fruit planting, nut business via e-commerce, rural tourism as well as small and medium-sized enterprises and individual industrial and commercial households in the Lin'an area. With the adoption of multiple measures such as differentiated preferential interest rates and credit extension for whole villages, the bank did a good job in supporting agriculture, the rural area and small farmers.

As at the end of the reporting period, Lin'an CITIC Rural Bank recorded RMB1.651 billion total assets, up 23.90% over the end of the previous year; RMB1.241 billion balance of customer deposits, a growth of 31.21% over the last year end; and RMB1.121 billion combined balance of various loans, a growth of RMB0.226 billion or 25.23% over the end of the previous year; and a daily average loan balance of RMB1.027 billion, an increase of RMB162 million or 18.82% compared with the end of last year. Lin'an CITIC Rural Bank realized a net profit of RMB34 million for the reporting period, a growth of 33.77% over last year. Its capital adequacy ratio stood at 26.55%; allowance coverage ratio was 497.92%; and the ratio of allowance for impairment of loans to total loans recorded 4.95%.

4.3.8.6 JSC Altyn Bank



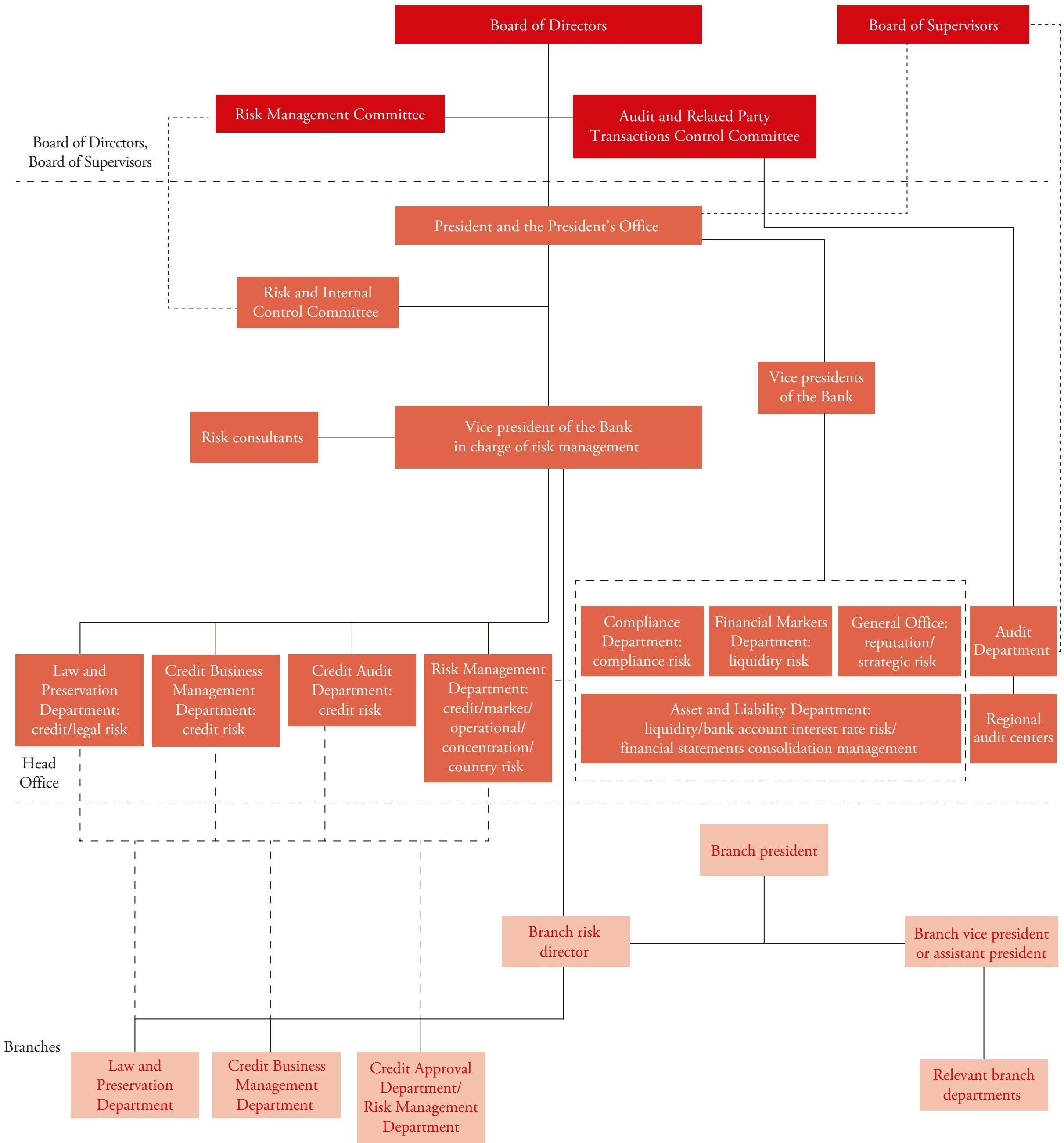
JSC Altyn Bank was formerly an affiliate of HSBC established in Kazakhstan in 1998. In November 2014, it was wholly acquired by the JSC Halyk Bank of Kazakhstan, the largest commercial bank in the country. On 24 April 2018, the Bank completed the acquisition of a majority stake in JSC Altyn Bank and became the first Chinese bank to acquire bank equity in the countries along the "Belt and Road". After the completion of the transaction, the Bank held 50.1% of the equity in JSC Altyn Bank, while China Shuangwei Investment Co., Ltd. and JSC Halyk Bank held the rest 9.9% and 40% equity, respectively. JSC Altyn Bank's Fitch rating was BBB-, the highest rating among all commercial banks in Kazakhstan.

Based in Kazakhstan, JSC Altyn Bank focuses on expanding into the Central Asia region and strives to develop itself into the enterprise offering the best comprehensive financial services in the geographical areas covered by the "Belt and Road" Initiative. It will make full use of the advantages of its shareholders to create distinctive businesses, improve its business levels in areas such as corporate and retail banking, trade finance, financial markets and Renminbi clearance and settlement. While continuing to deep plow the local market, JSC Altyn Bank will provide a full range of quality services to Chinese enterprises. At the same time, JSC Altyn Bank will use more mature payment tools, mobile banking, big data and other technologies to accelerate business expansion and platform construction, and strive to capture early-bird market opportunities.

As of the end of the reporting period, JSC Altyn Bank recorded total assets of 443.036 billion tenge (equivalent to RMB7.928 billion), net operating income of 18.787 billion tenge (equivalent to RMB349 million), net profit of 10.46 billion tenge (roughly equivalent to RMB195 million) and its ROA and ROE stood at 2.63% and 26.17%, respectively.

4.4 Risk Management

4.4.1 Risk Management Structure



4.4.2 Risk Management System and Techniques

The reporting period witnessed complex and changeable economic and financial situations at home and abroad. In response, the Bank took the initiative to strengthen the pre-judgment of the economic and financial situations and formulated action plans to fight the tough battle of preventing and resolving financial risks and actively guard against various risks. The Bank vigorously promoted the construction of a risk and compliance culture, and kept improving the total risk management system. In addition, the Bank improved various risk management policies and regulations, worked hard to build optimal processes for its corporate loan business and carried out uniform risk management and control thereof. In addition, the Bank improved the credit review and approval system, tightened risk early warning management, and made continuous efforts to improve its risk management comprehensive assessment system. At the same time, the Bank reinforced the management of cross financial risks and responded to market volatility in appropriate ways. In addition, the bank increased support for the real economy, built a new risk control system for inclusive finance, supported the steady development of inclusive financial services, and promoted the return of its banking business to the basics of financial services.

During the reporting period, the Bank controlled the limit indicators of large-amount risk exposures within the scopes permitted by the regulators. In addition, the Bank strictly implemented various regulatory requirements, continuously strengthened the management of large-amount risk exposures, and carried out a series of work in terms of regulation development, system optimization, statistical monitoring and periodic reporting, effectively building up its ability to control large-amount risks.

The Bank continued to enhance its capacity for research and development of risk management technology and deepened the application of risk quantification results. During the reporting period, self-discretionary optimization and independent verification of the rating models for corporate and retail banking businesses were continuously conducted to effectively control model risks; the credit risk rating model was effectively embedded in the entire process of credit business to enhance the quality of risk decision making; efforts were made to steadily promote the construction of the bond rating system and the inclusive finance online approval model. The Bank also successfully implemented numerous R&D results such as automatic public opinion early warning, and anti-fraud in personal lending. In addition, the Bank officially adopted the expected loss approach under the new accounting standards to calculate the impairment of financial assets, analyze the trend of impairment movements on a monthly basis, and strengthened emergency monitoring. During the reporting period, the internal rating approach was used for both the corporate and the retail credit asset businesses (excluding credit cards) for economic capital evaluation, effectively improving its capital management and risk management levels.

4.4.3 Credit Risk Management

Credit risk refers to the risk of a bank incurring losses in its business due to the failure of its borrowers or transaction counter-parties to fulfill the obligations specified in relevant agreements or contracts.

4.4.3.1 Credit Risk Management in Corporate Business

In accordance with the principle of “optimizing structure, facilitating turnover, improving profitability and controlling risk”, the Bank allocated assets for its corporate business from the dimensions of industry, region, customer and product, and continuously optimized the credit structure of its corporate business.

In terms of the industry dimension, the Bank captured the opportunities available from the structural reform of the supply side and the upgrading of the industrial structure, and treated the traditional industries in different ways (“protect” or “reduce”), and fully expanded the businesses relating to the “three big, three high, three new”[20]. At the same time, the Bank insisted on stratified management of various industries and set rigid exit requirements for the industries in the “reduce” category.

20 The “three big, three high, three new” refers to “big culture, big health and big environmental protection”, “high tech, high-end manufacturing, high quality service and consumption industries”, and “new materials, new energy and new business models”.

In terms of the customer dimension, the Bank continued to strengthen the "Three Large and One High"[21] customer positioning, focusing on promoting credit cooperation with strategic customers, and effectively consolidating and expanding the customer base. At the same time, the Bank continuously optimized the structure of its credit customers, highlighting the cultivation of leading enterprises in concerned industries, and tapping the growth potential of listed companies. At the same time, the Bank rode on the opportunities arising from the regulation over local government debts, actively carried out business cooperation with incremental government financing, and rendered enthusiastic support to PPP projects that were compliant with the national policy orientation and government procurement service projects that involved tasks uniformly arranged by the government such as shantytown renovation and ex-situ poverty alleviation and relocation work. In addition, the Bank reinforced exit from low-quality and low-efficiency customers and defined and detailed exit targets and progress requirements via management by name list.

In terms of the product dimension, the Bank strongly supported the extension of fixed-asset loans to national key infrastructure projects; steadily expanded the market space of supply chain finance products such as auto finance; actively participated in processes such as the ownership reform of state-owned enterprises and the "going global" of enterprises, providing customers with innovative products and services in investment banking and asset management. These efforts improved the Bank's capacity for providing comprehensive financing services and generating income therefrom, and gave rise to a reasonable financing structure.

In terms of the regional dimension, the Bank continued to optimize the regional layout of its credit business, fully mobilized resources, and leaned further towards key areas designated by the national strategies such as the Beijing-Tianjin-Hebei region, the Xiong'an New Area, the "Belt and Road" Initiative, the Yangtze River Economic Belt, the Guangdong-Hong Kong-Macao Greater Bay Area and the Free Trade Zones as well as those branches with stronger risk management capabilities.

4.4.3.2 Credit Risk Management of Personal Loans

The Bank strictly implemented the government policy on macro regulation and control to ensure compliant operation and risk controllability of its personal loan business. It used scorecards and other retail credit risk measurement models in combination with logicalized business rules to effectively identify and manage credit risk. In addition, the Bank introduced third-party external data, reinforced in-depth tapping of personal credit data, improved personal credit portraits, explored the construction of anti-fraud models, and further enhanced its ability for credit risk control of personal loan business. By optimizing post-lending inspection and the risk early warning system, the Bank was able to carry out online post-lending inspections and achieve early warning management of credit risk. In addition, it realized system monitoring of credit risk via information sharing and rigid control on key process nodes such as pre-lending application, review and approval in the lending process, loan disbursement and post-lending inspection with the use of risk early warning signals.

During the reporting period, the Bank implemented the requirements of total risk management by moving risk management of personal loan business to earlier stages, e.g., embedding risk prevention and control elements into the course of product creation and process design of personal loan products. By establishing a standardized personal loan product system, the Bank provided its business units with standard uniform products to realize systematic control of credit risk. As at the end of the reporting period, the Bank's non-performing balance of personal loans (excluding credit card loans) recorded RMB6.674 billion, corresponding to an NPL ratio of 0.66%, a drop of RMB583 million or 0.17 percentage point from the end of the previous year.

4.4.3.3 Risk Management of Credit Card Business

In recent years, personal consumer finance business exhibited a momentum of high-speed development. With personal loan business gradually expanding from commercial banks to various consumer finance companies and Internet platforms, there is a growing phenomenon of individual consumers simultaneously borrowing from multiple financial or quasi-financial institutions (abbreviated as "multiple borrowing"). During the reporting period, the regulatory authorities further reinforced regulatory supervision over the relevant industries including Internet consumer finance, P2P and small-amount lending, and successively introduced a series of policies to rectify Internet finance and eliminate industry chaos, which played an important role in eliminating industry chaos, safeguarding fair competition in the market and healthy development of the market, and effectively avoided the occurrence of systemic risks. Due to the impacts of the macroeconomic and regulatory environments, the asset quality of the multiple-borrowing customer group deteriorated and affected the credit card industry to some extent. As at the end of the reporting period, the Bank recorded RMB8.195 billion balance of non-performing credit card loans, corresponding to an NPL ratio of 1.85%, up 0.61 percentage point from the end of the previous year; and RMB15.85 billion overdue credit card loans, corresponding to an overdue rate of 3.59%, up 0.84 percentage point from the end of the previous year.

21 Refers to large industries, large customers, large projects and high-end customers.

In response to the impact of multiple borrowing on the quality of credit card loans, the Bank pertinently strengthened the risk management of credit card business and continuously upgraded its risk prevention and control strategies. In terms of pre-lending access, the Bank strictly examined customer credibility, prudently selected customers in conjunction with credit reporting and other relevant information, added rules on rejecting customers suspected of multiple borrowing, and put into full play the role of risk rating prediction modeling tools in customer access. In terms of risk management and control in the lending process, the Bank formulated the rules on management and control of customers suspected of multiple borrowing to expand the scope of early warning against high-risk customers. In addition, the Bank further improved its credit extension rules, implemented differentiated credit extension, and dynamically adjusted loan extension based on the customer's card use and debt repayment situations. When making dynamic adjustments to the credit lines of the existing customers, the Bank adopted proactive control measures against high-risk customers suspected of multiple borrowing, such as reducing credit lines, ahead-of-schedule collection and withdrawal. In respect of the post-lending collection of non-performing assets, the Bank implemented a series of collection policies for high-risk customers such as those suspected of multiple borrowing, and continuously explored business cooperation with external institutions such as the public security, the procuratorate and the judiciary, credit reporting agencies and big data companies, and applied technology innovations such as big data to continuously improve the efficiency and effectiveness of loan collection management, and upgrade the capability for collection from high-risk customers. At the same time, the Bank implemented long-term special monitoring and crackdown against high-risk customers suspected of multiple borrowing and non-compliant card-use behaviors such as credit card cashing out.

In response to the emergence of problems such as Internet-based financial crimes turning into an industry and massive occurrence of financial fraud, the Bank actively applied new technologies to strengthen its screening, monitoring and interception capabilities, so that it could stringently prevent financial fraud risks. In combination with advanced technologies and functionalities such as ID card recognition devices, face recognition, image recognition, real name verification of operators, and UnionPay authentication to enhance the identification and verification of customer identity authenticity in the access phase, thus effectively preventing and intercepting the risk of customer identity faking, and improving the integrity, accuracy and authenticity of customer information. At the same time, the Bank independently researched and developed big data models such as fraud scoring application, decision trees and complex relationship networks to identify fraud risks such as bad intermediary packaging and multiple borrowing. These models, capable of effectively identifying high-risk customers such as customers with fake identity and short-term high-frequency borrowers, played a robust role in preventing and controlling credit risk and fraud risk.

4.4.3.4 Risk Management in Asset Management Business

During the reporting period, the Bank continued to optimize the credit risk review methodology and enhance professional management and review capability. Among other things, the Bank kept optimizing its credit qualification rating scorecard, researched and developed quantitative analysis models, reinforced field survey and set asset-category-specific and industry-specific review standards. In key risk areas, the Bank prepared the business access name list, established the limit management mechanism and enhanced the execution of credit policies, in a bid to improve the efficiency of asset allocation management. In addition, the Bank intensified post-investment risk management. Specifically, the Bank established the daily risk monitoring mechanisms, organized and promoted risk screening of existing assets, and improved risk pre-judgment and resolution capabilities. In addition, the Bank enhanced the development of the risk management system, pushed for the fulfillment of "Defense Line 1" risk management responsibilities, clarified the main actors and their duties in post-lending management, and formulated risk early warning and disposal processes and mechanisms.

During the reporting period, the Bank maintained stable risk management in its asset management business in the overall sense, with no default or inadequate repayment of any matured wealth management product.

4.4.3.5 Credit Risk Management in Financial Markets Business

During the reporting period, in the face of frequent default incidents at the domestic bond market, the Bank took various measures in response. It comprehensively sorted out the stock of bonds it was holding, conducted in-depth screening of credit risk, strengthened monitoring of price fluctuations and negative news of key bonds, actively developed emergency response plans for medium and high-risk bond assets and continued to improve the dynamic management of credit risk in the bond business.

During the reporting period, the Bank's self-operated bond assets enjoyed excellent credit qualifications. The issuers that issued the unsecured bonds held by the Bank were mainly large enterprises and institutions with high credit ratings and sound operating results.

4.4.3.6 Loan Monitoring and Post-Lending Management

Against the backdrop of macroeconomic slowdown, tighter regulation and prevention of systemic financial risks, the Bank endeavored to adapt to the market and policy changes. It focused on fulfillment of credit asset quality indicators to ensure stability of asset quality bank-wide on the one hand, and emphasized the “development of systems, platforms and frameworks” to promote the implementation of its three-year development plan on the other. During the reporting period, the Bank prioritized its efforts to enhance the following aspects:

The Bank continued to improve the construction of its post-lending management system and improved effective implementation of rules and regulations. First, the Bank strengthened and improved the implementation of rules and regulations. Among other things, the Bank improved the rules and processes of the Three Defense Lines in post-lending management, and organized the implementation of a series of regulations on training, inspection and case analysis to ensure their effective execution. Second, the Bank managed customers by category. It classified existing customers into the four categories of “support, maintain, reduce and exit” and managed them as such, which promoted adjustment of asset structure across the bank. Third, the Bank carried out risk warning or risk screening for businesses such as stock pledge and comprehensive financing credit extension; conducted “online check” with the support of the new generation credit business system; and organized KPMG and PwC auditors to conduct third-party post-lending inspections.

The Bank strengthened its risk early warning and resolution mechanisms. The monitoring indicators on abnormal capital flows were embedded into the total risk management system; the big-data-based credit analysis model was developed; the big data risk screening and early warning mechanisms were established; and the large customer risk monitoring and reporting mechanism set up to carry out off-site monitoring of the top 30 large corporate loan customers of the branches. In addition, the Bank developed monitoring indicators on operational risk and a dynamic monitoring mechanism, including the six major operational risk KRI indicators, i.e., early warning, collateral, credit reporting, category-specific provisioning, loan use and disbursement and file management. The Bank strengthened the development of the collateral management system. Among other things, it implemented regulatory policies and internalized external regulations on collateral management to ensure compliant business operation, reviewed and finalized the access of collateral valuation firms in a centralized manner and carried out centralized verification of collateral revaluation.

The Bank made constant improvements to the new-generation credit business system. Among other things, the Bank completed online launch of the functionalities optimized under Phase I of the project, with supporting regulations formulated and existing regulations revised at the same time. All on- and off-balance-sheet and comprehensive financing businesses achieved full-process online operation in a stably running system. In addition, the Bank initiated Phase II of the new-generation credit business system project to further optimize the functionalities of the credit management APP and continuously promote the construction of digital archives for credit business.

For relevant information about the Bank’s credit risk profile as at the end of the reporting period, please refer to Note 61(a) to the financial statements contained in this report.

Special Topic: Disposal of Non-Performing Assets

During the reporting period, the generation of non-performing assets in the banking industry remained at a high speed. The Bank adopted various measures to actively promote the management of non-performing assets and disposed RMB73.309 billion principal of non-performing assets in total. Of this figure, cash collection recorded RMB24.331 billion, regular write-offs and assignment and write-off in batches totaled RMB44.732 billion and disposal by other ways totaled RMB4.246 billion.

In terms of cash collection, during the reporting period, the Bank completed RMB28.723 billion cash collection (including principal and interest recovery of non-performing loans, cash collection of assets written off and liquidation of repossessed assets), hitting a historical new high. This amount included RMB2.441 billion cash collection of written-off assets, up 67.00% year on year and RMB1.314 billion recovery of interest on non-performing loans, a year-on-year increase of 20.99%.

In terms of outbound transfer, the non-performing loan transfer market obviously favored the buyers during the reporting period, with acute contradiction between supply and demand, plus volatility and downward trend of the transfer prices of non-performing assets. In this regard, the Bank planned in advance, captured the opportunity, and made effective use of the high transfer price window periods in the second and third quarters to increase the disposal of non-performing assets. Cumulatively, the Bank transferred RMB34.853 billion non-performing assets in batches, achieving a transfer recovery rate that was significantly higher than the market average.

In terms of debt-to-equity swaps, the Bank actively responded to the relevant government policies on pushing the banks to carry out debt-to-equity swaps. With full use of debt-to-equity swaps, the Bank further improved its asset quality and revitalized existing assets. Under the principle of adhering to market orientation, the Bank actively and steadily promoted relevant work of debt-to-equity swaps. During the reporting period, the Bank completed three transactions of market-oriented debt-to-equity swap business, involving approximately RMB2.6 billion conversion of debt into equity.

4.4.4 Market Risk Management

Market risk refers to the risk of on-and off-balance sheet businesses of a bank incurring losses due to unfavorable changes in market prices (including interest rate, exchange rate, stock price and commodity price). The main market risk confronting the Bank includes interest rate risk and exchange rate risk. The Bank has established a market risk management system covering risk identification, measurement, monitoring and control. It manages market risk through product access approval and risk limit management, and thus controls market risk within the acceptable and reasonable range and maximizes risk-adjusted returns.

During the reporting period, the risks and volatilities of the stock market, bond market and foreign exchange market intensified, and the cross-contagion between various types of risks became increasingly obvious. The Bank actively researched and responded to market volatility, made its market analysis more forward-looking, dynamically adjusted market risk limits, continued to do risk monitoring and reminding, continuously improved refined management of market risk, and strongly supported the development of relevant financial markets businesses based on risk control.

4.4.4.1 Interest Rate Risk Management

Interest rate risk refers to the risk of bank accounts incurring losses in overall earnings and economic value due to unfavorable changes in factors such as interest rate and maturity structure. It includes re-pricing risk, yield curve risk, benchmark risk and option risk. The Bank manages its interest rate risk for the overall objective of observing its prudent risk preference principle and ensuring that adverse impacts of interest rate movements on the Bank's profit and value are controllable.

During the reporting period, global economic development was very uneven, while domestic and foreign market interest rates changed constantly. As an active response to domestic and overseas market and situational changes, the Bank continued to improve the risk management framework and optimized the risk monitoring indicators. It also completed the upgrade and trial operation of the relevant risk management systems, elevating dynamic simulation and automated data collection of the system. On this basis, the Bank analyzed item by item the gaps between the latest regulatory requirements of the Guidelines for Managing Interest Rate Risk of Bank Books of Commercial Banks (as amended) and its actual situation of managing interest rate risk of bank books. The first round of data governance work pursuant to the latest regulatory stipulations was completed in the first half of 2018. In the second half of 2018, the Bank initiated and completed the bidding invitation for the "Consulting Project for Compliance with the New Regulatory Requirements on Management of Interest Rate Risk of Bank Books".

As at the end of the reporting period, the Bank had basically complied with relevant regulatory requirements in terms of system function, measurement framework and institutional architecture. Follow-up measures will ride on the opportunities available from the implementation of the consulting project to focus on upgrading the overall management of interest rate risk of bank books from the two perspectives of model improvement and management enhancement. At the same time, the Bank continued to make comprehensive use of multiple methods including interest rate sensitivity gap analysis, net interest income sensitivity analysis and stress test to measure various types of risks as well as analyze risks and estimate net interest income on a regular basis. In addition, the Bank actively applied management means such as price control and regulation to conduct structural analysis and produce special reminders and guidance on the sources of interest rate risk for existing key products and new products, and tried precise management of interest rate risk of bank books to build the capacity for market-oriented, self-discretionary and differentiated pricing and reasonably set up portfolios and maturity structures for asset and liability products. Thanks to all these efforts, the Bank was able to control the interest rate risk of bank books within the tolerable range.

For relevant information about the Bank's interest rate gaps as at the end of the reporting period, please refer to Note 61(b) to the financial statements contained in this report.

4.4.4.2 Exchange Rate Risk Management

Exchange rate risk refers to the risk of on- and off-balance sheet businesses of a bank incurring losses due to unfavorable changes in exchange rates. The Bank mainly measures the magnitude of exchange rate risk through foreign exchange exposure analysis. Its foreign exchange exposure mainly comes from the foreign exchange position formed through foreign exchange transactions and from foreign currency capital and foreign currency profits. The Bank manages exchange rate risk by reasonably matching Renminbi and foreign currency denominated assets with liabilities denominated in the same currencies and by making appropriate use of derivative financial instruments. For businesses with potential exchange rate risk such as forex purchase and sale and forex trading, the Bank sets corresponding foreign exchange exposure limits to control its exchange rate risk at an acceptable level.

The exchange rate risk of the Bank was mainly subject to impacts of the Renminbi exchange rate against the US dollar. In 2018, the exchange rate of the RMB against the US dollar jumped up first and went down later, with growing two-way fluctuations. The central parity exchange rate of the Renminbi fell by a cumulative 4.8% for the year. Thanks to its proactive responses to forex market fluctuations, continuous improvement of the measurement and management of the forex exposures of the whole bank, strict control of the forex risk exposures of relevant businesses and more intensive routine risk monitoring, early warning and reporting, the Bank was able to control its exchange rate risk within the acceptable range.

For relevant information about the Bank's foreign exchange exposures as at the end of the reporting period, please refer to Note 61(b) to the financial statements contained in this report.

4.4.5 Liquidity Risk Management

Liquidity risk refers to the risk that a bank is unable to obtain adequate capital in a timely manner and at reasonable cost to repay matured debts, perform other payment obligations or meet other capital needs for the conduct of normal business. The Bank has set up a robust governance structure for liquidity risk management, which clearly lays out the division of duties among the Board of Directors, the Board of Supervisors and the senior management and their subordinate specialized committees and the relevant departments of the Bank in the management of liquidity risk, and explicitly defines the strategies, policies and procedures on liquidity risk management. The Bank maintains a prudent liquidity risk level, and effectively identifies, measures, monitors and controls liquidity risk by implementing a prudent coordinated liquidity risk management strategy. The Group has put in place a uniform liquidity risk management framework. The Head Office is responsible for formulating liquidity risk management policies and strategies of the Group and its legal-person institutions, and for managing liquidity risk at the legal-person institution level in a centralized manner. All domestic and overseas affiliates of the Group are responsible for developing and implementing their own strategies and procedures for liquidity risk management pursuant to the requirements of competent regulators and within the Group's master policy framework on liquidity risk management.

During the reporting period, domestic commercial banks found the policy and market environments for liquidity management improving in the overall sense. The central bank continued its prudent and neutral monetary policy, providing medium- to long-term liquidity through 4 targeted reserve requirement ratio (RRR) cuts and the use of medium-term lending facility (MLF). These efforts helped maintain generally moderate market liquidity. During the reporting period, the short-term money market terminal interest rate declined somewhat amid general stability, while the medium and long-term money market terminal interest rates went down in the overall sense. Therefore, the Bank continued to reinforce liquidity risk management, enhanced liquidity risk measurement and monitoring, kept practicing liquidity risk limit management, conducted stress test on a regular basis, and organized emergency drills. It also coordinated management of assets and liabilities to ensure a basic match between funding sources and fund uses. Moreover, the Bank reinforced management of active liabilities to ensure smooth financing channels, including borrowings from the central bank, money market, interbank certificates of deposit and interbank deposits, and diversified the sources of active liabilities. The Bank also improved routine liquidity management, reinforced market analysis and pre-judgment and thereby managed liquidity in a more forward-looking and proactive manner.

The Group's liquidity coverage ratio as at the end of the reporting period is set out below.

Unit: RMB million

	31 December 2018	31 December 2017	Increase/ Decrease	31 December 2016
Liquidity coverage ratio	**114.33%**	97.98%	UP 16.35 percentage points	91.12%
Qualified premium liquid assets	**553,870**	507,004	9.24%	398,555
Net cash outflow in the coming 30 days	**484,454**	517,472	-6.38%	437,403

Note: The Group disclosed relevant information on its liquidity coverage ratio in accordance with the Rules on Disclosure of Liquidity Coverage Ratio of Commercial Banks (CBRC Decree [2015] No.52).

For relevant information about the Group's liquidity gaps as at the end of the reporting period, please refer to Note 61(c) to the financial statements contained in this report.

4.4.6 Operational Risk Management

Operational risk refers to the risk of losses resulting from imperfect or deficient internal procedures, employees and information technology systems and external incidents. It includes legal risk but excludes strategic risk and reputation risk. During the reporting period, the Bank continued to strengthen its operational risk control and intensified the daily management of operational risk. It organized a re-examination of the key operational risk indicator system, established a stratified hierarchical indicator monitoring system, and improved the capability for in-process monitoring of operational risk. At the same time, the Bank reinforced the mechanism for grading and reporting risk incidents and priority screened some of the businesses highly prone to operational risk such as pledge of receivables. Moreover, the Bank made further efforts to establish a robust risk management system for its outsourcing business. In particular, the Bank strengthened routine review, management and comprehensive assessment of outsourcing risk, continued to optimize the outsourcing management information system, and effectively standardize outsourcing behavior and prevent outsourcing risk. In addition, the Bank built up capacity for emergency response, improved the business continuity management system, and had its units at all levels organize emergency drills in various forms. It also further strengthened the prevention and control of information technology risks and conducted comprehensive assessment and continuous monitoring of such risks. During the reporting period, the operational risk management system of the Bank enjoyed stable operation, placing operational risk under control in the overall sense.

4.4.7 Anti-Money Laundering

During the reporting period, the Bank reinforced its risk management and internal control against money laundering and further improved its money laundering risk management system pursuant to the regulatory requirements on anti-money laundering such as the Law of the People's Republic of China on Anti-Money Laundering and the Guidelines for Risk Management regarding Money Laundering and Terrorist Financing in Corporate Financial Institutions (Trial). In particular, the Bank defined the anti-money laundering management responsibilities of the Board of Directors, the Board of Supervisors, and the senior management, incorporated money laundering risk management into its authorization system, established the goal of constructing an anti-money laundering risk management culture, and strove to build an "all-employee, all-aspect and full-process" money laundering risk management culture.

In terms of organizational structure, the Board of Directors authorized its Risk Management Committee to perform part of its responsibility for money laundering risk management and the president of the Bank to lead money laundering risk management. In addition, the Bank strengthened the decision-making role of the Anti-money Laundering Leading Group at the Head Office and incorporated all departments of the Head Office as members into the group, an effective guarantee that the duties for money laundering risk management were effectively performed. In terms of anti-money laundering regulations, the Bank revised its top-level regulations and special rules, such as the basic requirements on anti-money laundering, policies on money laundering risk management, reporting of large-amount and suspicious transactions, assessment and classification of customer money laundering risks and customer identification; introduced special measures and internal controls on money laundering risk assessment of products/business, transaction monitoring, business management in sanctioned countries, management of overseas affiliates and performance evaluation. These efforts provided the institutional basis for anti-money laundering management. In terms of job and personnel management, the Bank established the anti-money laundering job qualification certification system, achieved hierarchical job management, strengthened the development of professional talents, and built an "echelon" professional anti-money laundering team to comprehensively enhance the professional competence of anti-money laundering personnel. In terms of risk management measures and methods, the Bank carried out trial assessment of money laundering risks of products/businesses, evaluation of transaction monitoring standards and analysis of money laundering types, and put in place risk-oriented targeted control measures. In addition, the Bank organized customer money laundering risk assessment with the use of the "weighted approach", implemented and dynamically adjusted control measures, continued self-assessment of money laundering risks, actively implemented the requirements on identification of beneficiary owner identity, and conscientiously implemented relevant regulatory stipulations. In terms of system construction, the Bank continued to optimize the anti-money laundering information system, completed Phase III of the anti-money laundering risk management system, optimized the models for customer money laundering risk assessment and suspicious transaction monitoring, established a typical case database and a manual screening guide library, and established and improved the customer money laundering risk information sharing mechanism. All these boosted the ability of system tools to support risk management in a continuous manner. In terms of supervision over key projects, the Bank, as a representative of the joint-stock commercial banks in Beijing, organized, participated in and successfully completed the response to the assessment of the Financial Action Task Force on Money Laundering (FATF), demonstrating excellent professional quality and the good image of listed companies fulfilling their international obligations.

4.5 Capital Management

During the reporting period, in line with changes in both the internal and external situations, the Group continued to uphold the "capital light, asset light and cost light" development strategy. It drove forward light-style asset business in accordance with the asset-liability strategy of "accelerating turnover and adjusting structure" to save capital occupation. The Bank practiced total capital management, including capital adequacy ratio management, capital planning, capital allocation and capital evaluation management. The goal of the Group's capital management was to continuously comply with capital regulatory regulations and policy requirements, maintain a reasonable level of capital adequacy ratio, optimize the business structure and increase the efficiency and return of capital use. The Group calculated, managed and disclosed its own and the Bank's capital adequacy ratios according to the Provisional Measures for Capital Management of Commercial Banks promulgated by the former CBRC in June 2012.

The Group continued to strengthen its capability for internal capital accumulation and at the same time took the initiative to optimize its business structure and control capital consumption, with its capital adequacy ratios at all levels rising amid stability. As at the reporting period, the Group recorded the following capital adequacy profile: a capital adequacy ratio of 12.47%, an increase of 0.82 percentage point from the end of the previous year; a 9.43% tier-one capital adequacy ratio, 0.09 percentage point higher than the end of the previous year; and a 8.62% core tier-one capital adequacy ratio, up by 0.13 percentage point from the end of the previous year, meeting all regulatory requirements.

During the reporting period, the Group continued to reinforce its capital constraint and allocation mechanisms for continuous implementation of the capital-light development strategy. In its efforts to further enhance the capital allocation and evaluation system with "economic profit" and "return on capital" at the core, the Group steadily promoted the application of the internal rating approach in capital evaluation. In addition, it adopted the dual-line management model, i.e., "limit management of regulatory capital" and "benchmarking evaluation of economic capital", to coordinate the balance of regulatory capital and economic capital, and guided the business units to rationalize their asset structures under the capital constraints. At the same time, the Group continued to push forward asset turnover and mobilize existing assets to provide space for capital saving and enhance its ability to serve the real economy.

Capital adequacy ratios

Unit: RMB million

Item	31 December 2018	31 December 2017	Increase (%)/ Decrease	31 December 2016
Net core tier-one capital	**403,354**	366,567	10.04	342,563
Net tier-one capital	**441,122**	403,378	9.36	382,670
Net capital	**583,392**	502,821	16.02	475,008
Risk-weighted assets	**4,677,713**	4,317,502	8.34	3,964,448
Core tier-one capital adequacy ratio	**8.62%**	8.49%	Up 0.13 percentage point	8.64%
Tier-one capital adequacy ratio	**9.43%**	9.34%	Up 0.09 percentage point	9.65%
Capital adequacy ratio	**12.47%**	11.65%	Up 0.82 percentage point	11.98%

Leverage ratio

Unit: RMB million

	31 December 2018	31 December 2017	Increase (%)/ Decrease	31 December 2016
Leverage ratio	**6.37%**	6.18%	Up 0.19 percentage point	5.47%
Net tier-one capital	**441,122**	403,378	9.36	382,670
Adjusted balance of on-and off-balance sheet assets	**6,928,004**	6,527,276	6.14	6,994,025

Note: The Group calculated its leverage ratio in accordance with the provisions of the Rules on Leverage Ratio of Commercial Banks (Revised) (CBRC Decree [2015] No.1). For detailed information about leverage ratios, please refer to the column on investor relations at the Bank's website http://www.citicbank.com/about/investor/financialaffairs/gglzb/.

4.6 Material Investments, Material Acquisitions and Disposal and Restructuring of Assets

The meeting of the Board of Directors of the Bank convened on 7 June 2017 deliberated and approved the Proposal on the Matters relating to the Acquisition of Equity in JSC Altyn Bank, giving consent that the Bank and its partner China Shuangwei Investment Co., Ltd. jointly acquire the 60% stake in JSC Altyn Bank previously owned by JSC Halyk Bank of Kazakhstan. The Bank acquired 50.1% equity in JSC Altyn Bank. Both parties signed an equity transaction agreement with the JSC Halyk Bank of Kazakhstan on the same day. The acquisition target JSC Altyn Bank is a commercial bank established in Kazakhstan mainly engaging in corporate and personal deposit and loan businesses. The acquisition was approved by the relevant regulators in both China and Kazakhstan and the transaction was delivered on 24 April 2018 (Beijing time). After the acquisition, the Bank holds a 50.1% stake in JSC Altyn Bank.

The meeting of the Board of Directors of the Bank convened on 26 March 2018 deliberated and approved the Proposal on Increasing the Share Capital of CITIC aiBank Corporation Limited, giving consent that the Bank and Baidu respectively subscribe for 1.4 billion and 600 million shares of CITIC aiBank's additional new shares issued in cash at a par value of RMB1 per share while maintaining their original shareholding percentages. Accordingly, the Bank and Baidu increased the share capital of aiBank by RMB1.4 billion and RMB600 million, respectively. After the capital increase, CITIC aiBank's registered capital went up from RMB2 billion to RMB4 billion, and its total number of shares grew from 2 to 4 billion, all of which were registered ordinary shares with a par value of RMB1 per share. The Bank and Baidu now hold 2.8 billion and 1.2 billion shares of CITIC aiBank, with their shareholding percentages remaining at 70% and 30%, respectively. The shareholder rights and obligations of the Bank and Baidu, their number of seats on the Board of Directors and their voting rights as agreed in CITIC aiBank's articles of association remain unchanged.

Except for those already disclosed and the day-to-day businesses such as transfer of credit assets that were involved in its business operation, the Bank was not aware of any other material acquisitions or disposals of assets or equity or mergers of enterprises that took place in the reporting period.

Please refer to the relevant announcements that the Bank disclosed on the official websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) for relevant information.

4.7 Information about Structured Vehicles Controlled by the Bank

For relevant information about structured vehicles beyond the scope of the Bank's consolidation of financial statements, please refer to Note 65 to the financial statements contained in this report.

4.8 Outlook

4.8.1 Development Trends, Risks and Challenges of the Banking Sector

The world in general is confronted by major changes unprecedented in the past 100 years. The Chinese economy faces downward pressure in the short term but remains in a period of important strategic opportunities in the long run.

On the one hand, the development of the banking industry faces challenges. With rising uncertainties in the global economy, unclear prospects of the China-US economic and trade relations, acute structural contradictions of the Chinese economy, considerable downward pressure on economic growth and ongoing exposure of financial risks, prevention and resolution of financial risks is an arduous task for commercial banks. The further and quicker opening up of the financial market, while boosting maturity of the domestic market, will also significantly intensify market competition. The Chinese regulators will maintain the pattern of "stringent regulation and severe penalty", continue to resolve the risks of shadow banking and Internet finance, promote the transformation of wealth management business, ensure the flow of capital into the real economy, and take a tougher and harsher stance in the governance of violations and irregularities. Accordingly, financial institutions will return to the basics of financial services in their operation, intensify risk management and internal control, and pursue high-quality sustainable development.

On the other hand, commercial banks face new opportunities for development. China will strengthen the countercyclical adjustment of macroeconomic policies, continue to implement an aggressive fiscal policy and a prudent monetary policy, increase support to private companies and small and micro enterprises, pace up infrastructure construction, promote the formation of a strong domestic market. All these offer opportunities for commercial banks to make asset investment and carry out deposit marketing. China will accelerate high-quality development, focusing on the main line of supply-side reform. In particular, the Chinese government will continue the disposal of "zombie enterprises" and make precise efforts in areas such as manufacturing upgrade and SME innovation, and promote key regions such as the Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta to become the power sources and champions of high-quality development. This provides a broad space for structural adjustment, transformation and development of commercial banks. In addition, China will further deepen its reform and opening up, promote the shred construction of the "Belt and Road" Initiative, increase the proportion of direct financing, set up the Science and Technology Innovation Board (STIB) and pilot the registration-based initial public offerings (IPO) system. These will bring opportunities for commercial banks to engage in businesses such as mergers and acquisitions, equity finance and cross-border operations.

The Bank will ride on the trend of China's economic development, grasp the opportunities available from economic growth and transformation, continuously improve its risk management system, strengthen the guiding role of its credit policy, optimize its asset allocation, improve risk prevention and control in key areas, reinforce accountability for non-performing loans, and constantly improve the quality and efficiency of its service to the real economy.

4.8.2 Implementation Review of the 2018-2020 Development Strategy

In 2018, based on the successful completion of the goals and tasks of the 2015-2017 Strategic Plan of CITIC Bank, the Bank published and implemented the 2018-2020 Development Plan of CITIC Bank (abbreviated as the "new three-year development plan"). According to the requirements of the new three-year development plan, the Bank will keep its mission in mind, return to the basics of financial services, deepen reforms, develop with sure steps and aspire to become "the enterprise offering the best comprehensive financial services". The Bank established the leading group and task forces for implementation of the plan, formulated the task table and roadmap for the "8100 Project"[22] under the plan and 16 supporting programs for plan implementation, and promoted fulfillment of the tasks of the new three-year development plan in an orderly manner. During the reporting period, the plan was effectively implemented in the overall sense, with all the 100 key tasks achieved scheduled progress.

First, the Bank served the real economy with enthusiastic effective actions. Among others, the Bank established the Regional Coordinated Development Committee and the Leading Group for Coordinated Development of Key Regions. In addition to hosting the "Xiong'an CITIC Financial Summit", the Bank became the first commercial bank to issue loans to Xiong'an Group. In inclusive finance, the Bank completed the CBIRC's "two increase and two control" assessment for the whole year in advance, and met the conditions for the highest-grade RRR cut assessment criteria of the PBOC. In addition, the Bank convened a symposium with private entrepreneurs, issued the "fourteen" support measures, and created the first medium- and long-term risk mitigation tool for private enterprises in the country. Because of its greater efforts to support the green economy, the Bank won the "Best Green Finance Award" from the China Banking Association.

Second, business transformation went further. The transformation of corporate banking business was fully rolled out, resulting in continuous enhancement of the awareness to develop corporate customer groups, the awareness to provide integrated services and the awareness to carry out active risk management. As at the end of the reporting period, the Bank's corporate banking business registered progress amid stability and continuous optimization of asset structure, with loans to industries in the "support" and "optimize and adjust" categories increasing by RMB56.631 billion and loans to industries in the "control", "reduce and exit" categories decreasing by RMB50.178 billion. The transformation of retail banking business continued to achieve better efficiency and effectiveness. Personal deposits increased by RMB179.071 billion or 33.57% annually, both hitting a historical high. The Bank's retail AUM recorded nearly RMB1.8 trillion; balance of personal loans exceeded RMB1 trillion; credit card transaction volume exceeded RMB2 trillion; the proportions of retail operating income and fee-based income stood at 33.65% and 63.53%, respectively. The transformation of financial markets business continued to move forward. Among others, the market-based incentives for core traders were put in place. The net operating income from this segment increased by 71.93%, with the "Interbank +" transaction volume reaching RMB1.43 trillion.

Third, regional differentiated development was effectively underway. In line with the national and regional development strategies, the Bank put forward its "differentiated and echelon-based" regional positioning and development strategy, and divided the tier-one branches into three categories, i.e., "strategic pivotal branches, key regional branches and regional branches with good potential". Priority is placed on developing the strategic pivotal branches, favoring them with resources in terms of credit allocation, product pricing, review and approval, technology, and manpower. As at the end of the reporting period, the proportion of the balance of general corporate loans of the strategic pivotal branches went up to 43.3%, a growth of 2.8 percentage points; the annual time spent on credit approval for these branches was 5.6 working days fewer than the average; and 75% of the annual incremental employment quota was allocated to these branches.

Fourth, comprehensive internationalization took a new step forward. The Bank initiated the application for establishment of a wealth management subsidiary and a financial asset investment company and completed the equity acquisition of JSC Altyn Bank. At the same time, the Bank continued to drive forward the preparation for establishment of its London Branch, Hong Kong Branch and Sydney Branch. CIFH, CNCB Investment, CITIC Financial Leasing and Lin'an CITIC Rural Bank all achieved steady growth. In its first year of business operation, CITIC aiBank achieved sound results, recording over RMB35.9 billion total assets, RMB13 billion general deposits, more than 12 million users, nearly RMB80 billion online disbursement of inclusive finance loans and an allowance coverage ratio of more than 300%.

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22 The "8100 Project" refers to the detailed breakdown arrangements that the Bank used to promote the implementation of the new three-year plan. "8" refers to the "eight major projects", namely, the eight major measures of the new three-year plan, including the regional differentiated development project, the "One Body Two Wings" transformation project, the integrated internationalized operation project, the financial technology innovation project, the "Safe CITIC" project, the refined management project, the human resources reform project, and the Party building and corporate culture construction project. "100" refers to the "100 key tasks", i.e., the 100 major breakdown tasks to promote the implementation of the "eight major projects".

Fifth, innovation vitality enjoyed continuous release. The Bank formulated a medium- to long-term innovation plan, established special incentives to reward major innovations, online launched 18 Class I innovation projects, promoted breakthroughs in 7 major projects of 4 major categories, and landed a batch of unique “chain finance” models such as “Cloud Chain”. In particular, the Bank created a number of first-of-its-kind projects such as “National Social Impact Debt” and formed 21 collaborative models as represented by the “Lanzhou Synergistic Matching Model”. In addition, the Bank embedded IT into “tribe-style management”, pushed forward 12 financial technology innovations and completed 19 key tasks of technology empowerment.

Sixth, risk prevention and control improved continuously. The Bank established a unified credit extension system for legal-person customers and introduced the mechanisms of managing access of incremental loan customers by “name list” and classifying existing customers into “four categories” for management purpose. Specifically, the Bank sorted out the existing loan customers into the categories of “support, maintain, reduce and exit”, based on which it adopted corresponding strategies of “enter, transfer, reduce and exit”. In addition, the Bank further strengthened unified risk management that covered full processes, all criteria, all channels and the entire bank. At the same time, the Bank initiated the “413 Compliance Action”, effectively raising compliance awareness of all employees.

Seventh, basic support assumed greater vigor. To accelerate external capital replenishment, the Bank successfully issued RMB50 billion tier-two capital bonds and RMB40 billion A share convertible bonds. Rental expenses were reduced by RMB370 million cumulatively across the bank. The “Double Hundred Double Thousand” talent project was rolled out on all fronts; and the training system for certification of employee qualifications took a full shape, making the Bank the first joint-stock bank to establish a full-sequence and full-line basic training program.

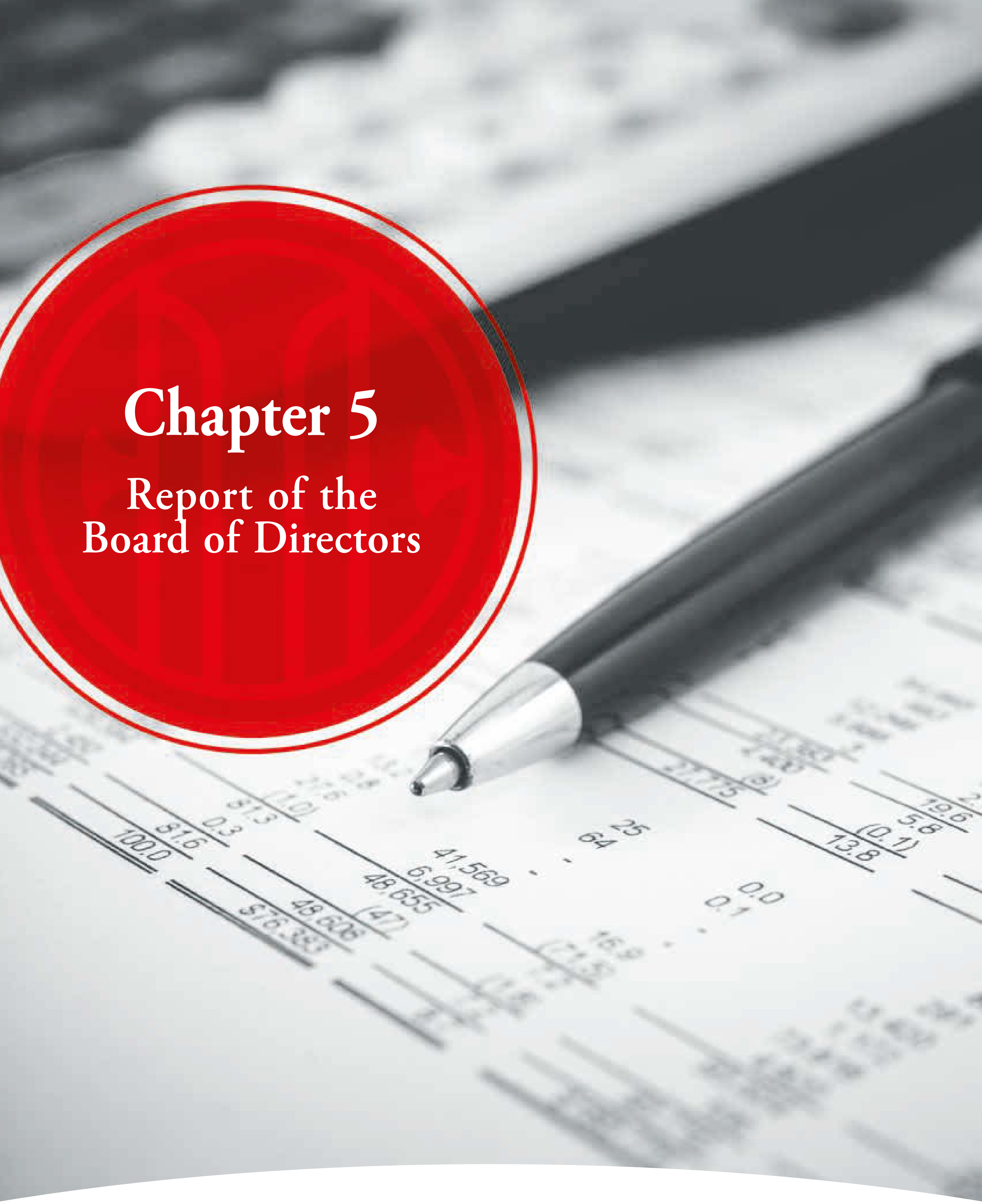
4.8.3 Business Plan

In 2019, the Bank will uphold the goal of stable healthy development, earnestly implement the three-year development plan, return to the basics of customer management, and fully promote the transformation to high-quality development. It will strive to achieve a growth rate between 8% to 10% in its customer deposits and loans to customers. The Bank will also continue to adjust and optimize its business structure, endeavor to achieve steady growth of net operating income, improve input-output efficiency, continuously enhance profitability and attain healthy sustainable development.

The future plans, development strategies and other forward-looking descriptions involved in the above prediction do not constitute substantive commitments of the Bank to its investors. Investors and relevant persons are kindly reminded to maintain adequate risk awareness of such predictions and understand the differences between plans, forecasts and commitments.

4.9 Management of Corporate Social Responsibility

For details of social responsibility and public benefit activities of the Bank in the reporting period, please refer to the 2018 Sustainable Development Report the Bank published on the official websites of the SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) on the disclosure date of this report.



Chapter 5

Report of the Board of Directors

Chapter 5 Report of the Board of Directors

5.1 Principal Business

The Bank is engaged in commercial banking and related financial services.

5.2 Major Customers

For the reporting period, the top five corporate customers of the Bank contributed RMB2.137 billion or 1.3% to the Bank's operating income. None of these top five customers was a related party of the Bank.

5.3 Profit and Dividend Distribution of Ordinary Shares

To give investors reasonable return on investment and help investors develop stable expectation of investment returns, relevant provisions of the Articles of Association of the Bank lay down explicit requirements on dividend policies of ordinary shares such as the basis, principles, intervals, methods and conditions profit distribution, highlight the cash distribution as the major distribution method, provide for the minimum cash distribution proportion of no less than 10% of the net profit attributable to equity holders of the Bank under general circumstances and that the dividend distribution changes shall be valid after being brought in writing, deliberated and passed in the Board of Directors meeting and approved by special resolution of the general meeting. And these provisions also offer shareholders an online voting platform for participation in voting for the proposals on distribution plans. As such, the Bank fully protects legitimate rights and interests of its minority investors with its profit and dividend distribution policies.

The Bank has not distributed profit through transfer of capital reserve to share capital since its IPOs. Cash dividend distribution of ordinary shares of the Bank in the past three years is set out in the table below.

Unit: RMB million

Year for which dividends were distributed	Cash dividends every ten shares (RMB yuan) (pre-tax)	Total amount of cash dividends (pre-tax)	Net profit attributable to ordinary shareholders of the Bank as indicated in consolidated statements	Distribution ratio (%)(Note)
2015	2.120	10,374	41,158	25.21%
2016	2.150	10,521	41,629	25.27%
2017	2.610	12,772	41,236	30.97%

Note: Distribution ratio is the ratio of the total amount of cash dividends for the current period to the net profit attributable to the ordinary shareholders of the Bank on the consolidated financial statements.

After-tax profit as shown on the Bank's audited 2018 onshore and offshore financial statements respectively prepared in accordance with the PRC Accounting Standards and IFRS were both RMB42.057 billion.

The Bank transferred 10% of its after-tax profit as shown on the financial statements prepared in accordance with the PRC Accounting Standards to the statutory surplus reserve, with the accrual thereof recording RMB4.206 billion as at the end of the current period.

In comprehensive consideration of multiple factors including but not limited to the overall interests of all shareholders, the Bank's business development plan, equity investment matters, the need to safeguard the Bank's sustainable development and the regulatory requirements on capital adequacy ratios, and in reference to the dividend payments made by peer banks, the Bank plans to pay total dividends of RMB11.255 billion for its ordinary shares for the year 2018, accounting for 26.06% of the consolidated net profit attributable to ordinary shareholders of the Bank. And these dividends shall be denominated and declared in Renminbi and paid to A shareholders in Renminbi and to H shareholders in Hong Kong dollar. Based on the total share capital of A shares and H shares, the cash dividends will be RMB2.30 (pre-tax) for every 10 shares. The dividends to be paid in Hong Kong dollar shall have their amounts calculated in accordance with the average benchmark exchange rate of Renminbi to Hong Kong dollar as released by the PBOC one week preceding the convening of the general meeting (inclusive of the date of the general meeting). No scheme for transfer of capital reserve to share capital will be applied for the current year. Retained undistributed profit after dividend payment shall be carried forward to the next financial year and continue to be used to replenish the Bank's capital, support implementation of the Bank's development strategy, improve the Bank's risk resilience, and meet regulatory requirements on capital adequacy ratios. The Bank recorded a 11.39% return on weighted average equity attributable to its ordinary shareholders in 2018 and is expected to maintain a certain level of return and contribution in 2019.

This ordinary share profit distribution plan ("the Plan") complies with relevant provisions of the Articles of Association of the Bank and follows clear criteria and proportions of dividend payment. After sufficient discussion and consideration at the Strategic Development Committee of the Board of Directors of the Bank, the Plan was submitted for deliberation at the meetings of the Board of Directors and the Board of Supervisors convened on 26 March 2019 and adopted afterward. It shall be submitted to the 2018 Annual General Meeting to be convened on 24 May 2019 for deliberation. It is expected that the Bank will pay the 2018 annual dividend to its ordinary shareholders within two months as of the adoption of the Plan by the general meeting. The Bank has proposed to pay the 2018 annual dividend to H shareholders on 22 July 2019, and, should there be any change thereof, would publish a separate announcement to disclose the same. The record date and specific method of dividend payment to its A shareholders shall be announced separately by the Bank.

The Bank's independent non-executive directors have performed their due responsibilities in the decision-making process of the Plan and collectively expressed their independent opinion on the Plan as follows: The 2018 ordinary share profit and dividend distribution plan of the Bank is consistent with the reality of the Bank and has taken the overall interests of both the Bank and its shareholders into consideration. We hereby endorse the Plan and agree to have the Plan submitted to the 2018 Annual General Meeting for deliberation.

When the Plan is submitted to the 2018 Annual General Meeting for deliberation, the Bank will, as required by relevant regulatory requirements, offer investors online voting facilities and disclose voting results in accordance with the shareholding percentages of the voting A shareholders. The shareholding percentages are placed in the three ranges of below 1%, 1-5%, and above 5%. The shareholders with less than 1% shareholding will be further classified into the two categories of above and below RMB500,000 market value of shareholdings and their voting results shall be further disclosed accordingly. The preparation and implementation of this Plan fully protects the legitimate rights and interests of minority investors.

5.4 Material Litigations and Arbitrations

The Group was involved in several litigation and arbitration cases in its ordinary and usual course of business. Most of these litigations and arbitrations were initiated by the Group for loan recovery, and there were also litigations and arbitrations resulting from disputes with customers. As at the end of the reporting period, there were 88 outstanding litigation and arbitration cases (regardless of the disputed amounts) involved in the Group's ordinary and usual course of business where the Group acted as defendant/respondent with an aggregate disputed amount of RMB271 million.

The Bank is of the view that the above-mentioned litigations or arbitrations will not have significant adverse impacts on either its financial position or its operating results.

5.5 Appropriation of Funds by the Controlling Shareholder and Other Related Parties

There was no appropriation of the Bank's funds by either the controlling shareholder or other related parties. PricewaterhouseCoopers has issued the Special Report on Fund Appropriation by the Controlling Shareholder of China CITIC Bank Corporation Limited and Other Related Parties with regard to appropriation of the Bank's funds by the controlling shareholder and other related parties in 2018. Please refer to the relevant announcements the Bank disclosed on the official websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) for relevant information.

5.6 Material Related Party Transactions

When engaging in related party transactions with related parties during its ordinary and usual course of business, the Bank followed general commercial principles and executed the transactions with terms available to related parties being no more favorable than those available to non-related parties for similar transactions. For statistical details of the related party transactions, please refer to Note 64 "Related Parties" to the financial statement contained in this report, of which the transactions constituting connected party transactions as per the Hong Kong Listing Rules Note 14A all complied with the requirements of these listing rules.

5.6.1 Related Party Transactions Involving Disposal and Acquisition of Assets

During the reporting period, the Bank was not engaged in any significant related party transactions involving the disposal and acquisition of assets under the Shanghai Stock Exchange Listing Rules.

5.6.2 Credit Extension Continuing Related Party Transactions

With approval from the 2nd Extraordinary General Meeting of 2017 convened on 30 November 2017, and in line with the need for business development, the Bank applied to the SSE for the respective annual caps on credit extension for related party transactions with CITIC Group and its related parties, with Xinhu Zhongbao and its related parties, and with China Tobacco and its related parties from 2018 to 2020. With review and approval from the 7th meeting of the 5th Session of the Board of Directors convened on 25 October 2018, and in line with the need for business development, the Bank applied to the SSE for the annual caps on credit extension for related party transactions with Poly Group and its related parties from 2018 to 2020. Subject to the regulatory requirements applicable to the Bank, the 2018 annual caps on credit extension for related party transactions with the afore-mentioned four parties under the SSE regulatory criteria came to the amounts of RMB150 billion, RMB20 billion, RMB20 billion and RMB18 billion, respectively. In addition, the balances of the Bank's credit extension to these four parties may not exceed 15% of the Bank's net capital of the preceding quarter as per relevant CBIRC requirements. All credit extension transactions between the Bank and the above-mentioned related parties followed general commercial principles and were executed with terms no more favorable than those available to independent third parties for similar transactions.

The Bank attached great importance to the day-to-day monitoring and management of credit extension related party transactions and ensured lawfulness and compliance of such transactions by enhancing relevant measures such as more intensive process-based management, strict risk review and better post-lending management of related credit extension. As at the end of the reporting period, the balance of credit that the Bank and its subsidiaries extended to all related parties under the SSE regulatory criteria amounted to RMB37.970 billion, including RMB31.096 billion to CITIC Group and its related parties, RMB6.4 billion to Xinhu Zhongbao and its related parties, zero to China Tobacco and its related parties, RMB0.164 billion to Poly Group and its related parties, and RMB0.310 billion to related parties where the Bank's related natural persons invested in or worked for. Under the CBIRC regulatory criteria, the balance of credit that the Bank and its subsidiaries extended to all related parties amounted to RMB57.468 billion, including RMB21.602 billion to CITIC Group and its related parties, RMB18.352 billion to Xinhu Zhongbao and its related parties, RMB0.115 billion to China Tobacco and its related parties, RMB16.605 billion to Poly Group and its related parties, and RMB0.794 billion to related parties where the Bank's related natural persons invested in or worked for. Such credit extensions to related companies were of good quality in general, with one transaction being a special mention loan (RMB63 million) and all others being performing loans. As such, these credit extension transactions will not exert material impacts on the normal operation of the Bank in terms of transaction volume, structure and quality.

The Bank stringently followed the SSE and CBIRC requirements on review and disclosure of credit extension to related parties. As at the end of the reporting period, there was no fund exchange or appropriation in violation of the provisions of the Notice on Several Issues Concerning the Standardization of Fund Exchanges between Listed Companies and Their Related Parties and External Guarantees Provided by Listed Companies (as amended in 2017) (CSRC Announcement [2017] No.16) and the Notice on Standardization of External Guarantees Provided by Listed Companies (CSRC Release [2005] No.120). The related loans that the Bank extended to CITIC Group and its related parties, Xinhu Zhongbao and its related parties, China Tobacco and its related parties, Poly Group and its related parties, and the related parties where the Bank's related natural persons invested in or worked for had no adverse impact on the operating results or financial position of the Bank.

5.6.3 Non-Credit Extension Continuing Related Party Transactions

With approval from the 25th meeting of the 4th Session of the Board of Directors convened on 24 August 2017 and the 2nd Extraordinary General Meeting of 2017 convened on 30 November 2017, and in line with the need for business development, the Bank applied to the SSE and the SEHK for the annual caps on the seven main categories of non-credit extension continuing related party transactions with CITIC Group and its related parties for 2018-2020, and has entered into relevant continuing related party transactions agreements on the board meeting day. With review and approval from the 7th meeting of the 5th Session of the Board of Directors convened on 25 October 2018, and in line with the need for business development, the Bank applied to the SSE for the respective annual caps on non-credit extension continuing related party transactions with Xinhu Zhongbao and its related parties, with China Tobacco and its related parties, and with Poly Group and its related parties from 2018 to 2020. The non-credit extension transactions between the Bank and the above-mentioned related parties followed general commercial principles and were executed with terms no more favorable than those available to independent third parties for similar transactions.

The Bank carried out non-credit extension continuing related party transactions with CITIC Group and its related parties, with Xinhu Zhongbao and its related parties, with China Tobacco and its related parties, and with Poly Group and its related parties according to the applicable provisions of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Chapter 10 of the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange. Particulars thereof are described as follows:

5.6.3.1 Third-Party Escrow Services

Third-party escrow services between the Bank and its major shareholders and their related parties shall be delivered on terms no more favorable than those available to independent third parties.

The principal terms of the Third-Party Escrow Service Framework Agreement are set out as follows:

- To provide third-party escrow services in connection with the transaction settlement funds of the customers of different securities companies.
- The services to be provided under the agreement include but not limited to funds transfer, payment of interest and other settlement-related matters.
- The service recipient shall, and shall procure its related parties to, pay service fees to the service provider (if applicable).
- The services to be provided under the agreement shall be made on terms no less favorable to the Bank than those available to/from independent third parties.

The service fees payable to the Bank by its major shareholders and their related parties shall be determined on the basis of relevant market rates and subject to periodic reviews. In 2018, the annual caps for the third-party escrow services between the Bank and CITIC Group and its related parties, between the Bank and Xinhu Zhongbao and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB80 million, RMB50 million, RMB50 million, and RMB50 million, respectively. As at the end of the reporting period, the actual transaction amount between the Bank and CITIC Group and its related parties was RMB12 million; the Bank did not incur any such transaction with any of the other afore-mentioned major shareholders and their related parties. None of transactions on third-party escrow services between the Bank and its major shareholders and their related parties exceeded the corresponding approved annual cap.

5.6.3.2 Asset Custody Services

Asset custody services, account management services and third-party regulatory services provided between the Bank and its major shareholders and their related parties shall be delivered on terms no more favorable than those available to independent third parties.

The principal terms of the Asset Custody Service Framework Agreement are set out as follows:

- To provide asset custody services and account management services to CITIC Group and its associate(s) in connection with financial assets or funds, including but not limited to, assets under management by fund companies (including securities investment funds), assets under management by securities companies, assets under management by trust companies, wealth management products of commercial banks, assets under management by insurance dealers, equity investment funds, enterprise annuities, QDII, QFII, social insurance funds, welfare plans, funds of third-party transactions and account management.

- To conduct third-party supervising services. The service recipient shall pay the service fees.

- The service recipient shall, and shall procure its related parties to, pay service fees to the service provider with respect to the asset custody services.

- The services to be provided under the agreement shall be made on terms no less favorable to the Bank than those available to/from independent third parties.

The service fees payable to each other shall be determined on the basis of relevant market rates and the categories of assets or funds under custody, subject to periodic review. In 2018, the annual caps for the asset custody services between the Bank and CITIC Group and its related parties, between the Bank and Xinhu Zhongbao and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB1.4 billion, RMB0.2 billion, RMB0.2 billion, and RMB0.2 billion, respectively. As at the end of the reporting period, there was no such transaction incurred between the Bank and Xinhu Zhongbao and its related parties, while the actual amounts of such transactions between the Bank and CITIC Group and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB583 million, RMB0.8774 million, RMB0.33 million, respectively, none of which exceeded the corresponding approved annual cap of the Bank.

5.6.3.3 Financial Consulting and Asset Management Services

The financial consulting and asset management services provided between the Bank and its major shareholders and their related parties shall have no fixed prices or rates. The price and rate applicable to a particular service may be calculated on the basis of the scale, rate and duration of the service, and shall be determined through fair and reciprocal negotiations between the parties and on terms no more favorable than those available to independent third parties.

The principal terms of the Financial Consulting Service and Asset Management Service Framework Agreement are set out as follows:

- The following services including, but not limited to, (1) bond underwriting; (2) financing and financial consulting services; (3) financial products agency sales services; (4) asset securitization underwriting; (5) entrusted loans services; (6) underwriting of investment and financing projects; (7) consulting services; and (8) management of factoring receivables, collection of receivables and guarantee for bad debts, etc.

- The service recipient shall, and shall procure its related parties to, pay service fees to the service provider with respect to the services (if applicable).

- The services to be provided under the agreement shall be made on terms no less favorable to the Bank than those available to/from independent third parties.

In 2018, the annual caps for the financial consulting and asset management services between the Bank and CITIC Group and its related parties, between the Bank and Xinhu Zhongbao and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB4.5 billion, RMB0.5 billion, RMB0.5 billion, and RMB0.5 billion, respectively. As at the end of the reporting period, the actual amounts of such transactions between the Bank and the afore-mentioned major shareholders and their related parties were RMB357 million, RMB40 million, RMB0.10 million and RMB3 million, respectively, none of which exceeded the corresponding approved annual cap of the Bank.

5.6.3.4 Capital Transactions

The Bank and its major shareholders and their related parties shall conduct capital transactions in their ordinary and usual course of business according to applicable general market practices and on normal commercial terms.

The principal terms of the Capital Transactions Framework Agreement are set out as follows:

- Transactions covered under the Capital Transactions Framework Agreement include, but not limited to, foreign currency and precious metals transactions, precious metals leasing, currency market transactions, bond transactions and agency bond settlement and financial derivatives transactions.

The prices and rates applicable to such transactions between the two parties shall be the prevailing market prices or the rates generally applicable to independent third parties for similar transactions. Specifically, for foreign exchange and precious metal transactions, precious metal leasing, currency market transactions, and bond transactions and other business, the two parties shall price their transactions according to publicly available market prices; for agency settlement of bonds, the two parties shall decide on the rates thereof according to prevailing industrial regulations; and for financial derivatives, transaction prices shall be fixed in accordance with factors such as the level of market activity of the underlying products, openly available market quotes and the Bank's requirements relating to the management of various risks. In 2018, the annual caps for the Bank's capital transactions with CITIC Group and its related parties were: RMB1.5 billion for gains and losses of transactions, RMB2.5 billion for fair value of derivative financial instruments recorded as assets, and RMB4.5 billion for fair value of derivative financial instruments recorded as liabilities; the annual caps for the Bank's capital transactions with Xinhu Zhongbao and its related parties were: RMB0.1 billion for gains and losses of transactions, RMB1.0 billion for fair value of derivative financial instruments recorded as assets, and RMB1.0 billion for fair value of derivative financial instruments recorded as liabilities; the annual caps for the Bank's capital transactions with China Tobacco and its related parties were: RMB0.1 billion for gains and losses of transactions, RMB1.0 billion for fair value of derivative financial instruments recorded as assets, and RMB1.0 billion for fair value of derivative financial instruments recorded as liabilities; the annual caps for the Bank's capital transactions with Poly Group and its related parties were: RMB0.1 billion for gains and losses of transactions, RMB2.0 billion for fair value of derivative financial instruments recorded as assets, and RMB2.0 billion for fair value of derivative financial instruments recorded as liabilities. As at the end of the reporting period, the actual transaction amounts incurred between the Bank and CITIC Group and its related parties were: RMB109 million for gains and losses, RMB75 million for fair value recorded as assets and RMB38 million for fair value recorded as liabilities; the actual transaction amounts incurred between the Bank and Xinhu Zhongbao and its related parties were: RMB88 million for gains and losses, and zero for fair value of derivative financial instruments recorded both as assets and as liabilities; no such transaction took place between the Bank and China Tobacco and its related parties or between the Bank and Poly Group and its related parties. None of the capital transactions between the Bank and the afore-mentioned major shareholders and their related parties exceeded the corresponding approved annual caps of the Bank.

5.6.3.5 Comprehensive Services

Comprehensive services provided between the Bank and its major shareholders and their related parties include but are not limited to medical insurance and enterprise annuity, procurement of goods and services, outsourcing services, value-added services, advertising services, technological services and property lease.

The principal terms of the Comprehensive Service Framework Agreement are set out as follows:

- Services conducted include, but not limited to, medical insurance and enterprise annuity; merchandise service procurement (including conference hosting services); outsourcing services; value-added services (including credit exchange services for clients of bank cards and electronic online banking services); advertising services; technology services and property leasing.

- Both parties of the agreement shall provide the services prescribed in the agreement.

- The service recipient shall pay the service fees to the service provider with respect to the services they provide.

The Bank and its major shareholders and their related parties shall apply prevailing market prices or applicable rates of independent third-party transactions to the provision of comprehensive services between them and shall determine the price and rate of a particular service through fair and reciprocal negotiations and according to applicable market price and rate. In 2018, the annual caps for the provision of comprehensive services between the Bank and CITIC Group and its related parties, between the Bank and Xinhu Zhongbao and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB3.5 billion, RMB0.1 billion, RMB0.1 billion, and RMB0.3 billion, respectively. As at the end of the reporting period, there was no such transaction incurred between the Bank and Xinhu Zhongbao and its related parties; and the actual amounts of such transactions between the Bank and CITIC Group and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB2.047 billion, RMB5 million and RMB18,200, respectively, none of which exceeded the corresponding approved annual cap.

5.6.3.6 Asset Transfer

Asset transfer transactions between the Bank and its major shareholders and their related parties shall be made on terms no more favorable than those available to independent third parties.

The principal terms of the Asset Transfer Framework Agreement are set out as follows:

- To buy from or sell the interests in loans and other related assets (including, but not limited to, directly or through asset management plan, asset securitization, factoring or other forms to sell corporate and retail loan assets, and inter-bank loan receivables).
- The course of business under the agreement shall be made on terms no less favorable to the Bank than terms available to or from independent third parties.
- The agreement shall specify the management rights of the loans and other related assets.
- Undertake confidentiality in respect of asset transfer transactions.

The transfer prices payable by the transferee shall be determined according to the following principles: (1) for transfer of general assets, as per regulatory requirements, credit assets shall be transferred on the principle of entirety. When transferring a credit asset, the transferor shall use the loan principal as the transaction price, make a parity transfer without discount or premium, and prioritize the consideration of post-transfer obligations to be performed by the transferor and the transferee in addition to the consideration of market supply and demand; (2) for transfer of assets in asset securitization, the Bank shall use the loan principal as the transaction price when transferring a credit asset to a related party. Except for securitization of non-performing assets, the Bank shall make parity transfers in general. In terms of the issuance rate of the asset-backed securities, the prioritized asset-backed securities (with exclusion of the sections held by the originating institutions) are determined by the approach of single spread (Netherland Style) bidding or book building through the bidding system of China Central Depository & Clearing Co., Ltd., and the secondary asset-backed securities (with exclusion of the sections held by the originating institutions) are determined by the number of tenders or by the book building approach; and (3) where there is no statutory government-prescribed transfer price available at present for a particular asset transfer, once such statutory prices are available in the future, the concerned asset transfers shall be priced with reference to the government-prescribed prices. In 2018, the annual caps for the asset transfer transactions between the Bank and CITIC Group and its related parties, between the Bank and Xinhu Zhongbao and its related parties, between the Bank and China Tobacco and its related parties, and between the Bank and Poly Group and its related parties were RMB210 billion, RMB5 billion, RMB5 billion, and RMB5 billion, respectively. As at the end of the reporting period, the Bank recorded RMB21.03 billion actual transaction with CITIC Group and its related parties and did not incur such transactions with any of the afore-mentioned major shareholders and their related parties. None of the asset transfer transactions between the Bank and the afore-mentioned major shareholders and their related parties exceeded the corresponding approved annual cap.

5.6.3.7 Wealth Management and Investment Services

The Bank and its major shareholders and their related parties shall apply general market practices and normal commercial terms in their ordinary and usual course of business. The Bank provides its major shareholders and their related parties with wealth management and investment services including non-principal-protected wealth management and agency services, principal-protected wealth management, and proprietary fund investment, while its major shareholders and their related parties provide the Bank with intermediary services of wealth management, such as trust services and management services.

The principal terms of the Wealth Management and Investment Service Framework Agreement are set out as follows:

- To provide wealth management and investment services, including non-principal-guaranteed wealth management services and agency services, principal-guaranteed wealth management, and investment with the Bank's own funds; and the related party will provide the Bank with wealth management intermediary services, including trust services and management services.
- The related party, pay service fees to the Bank with respect to the wealth management and investment services provided by the Bank. The Bank shall also pay service fees to the related party with respect to the wealth management intermediary services provided.
- The services to be provided under the agreement shall be made on terms no less favorable to the Bank than those available to or from independent third parties.

The transactions between the two parties shall be made through fair negotiations, determined by normal commercial terms and conducted on terms no more favorable than those available to independent third parties, in line with the categories and scopes of wealth management services, and with real-time adjustments made according to changes in market prices. In 2018, the annual caps for the Bank's transactions on wealth management and investment services with CITIC Group and its related parties were: RMB2 billion for fees relating to non-principal-protected wealth management and agency services, RMB10 billion for period-end balance of principal in principal-protected wealth management services for customers, RMB0.4 billion for yields on wealth management for customers, RMB85 billion for period-end balance of investment funds, and RMB5.5 billion for the sum of the Bank's return on investment and payment of service fees to intermediaries; the annual caps for the Bank's transactions on wealth management and investment services with Xinhu Zhongbao and its related parties were: RMB0.5 billion for fees relating to non-principal-protected wealth management and agency services, RMB10 billion for period-end balance of principal in principal-protected wealth management services for customers, RMB1.0 billion for yields on wealth management for customers, RMB5 billion for period-end balance of investment funds, and RMB0.4 billion for the sum of the Bank's return on investment and payment of service fees to intermediaries; the annual caps for the Bank's transactions on wealth management and investment services with China Tobacco and its related parties were: RMB0.1 billion for fees relating to non-principal- protected wealth management and agency services, RMB1.0 billion for period-end balance of principal in principal-protected wealth management services for customers, RMB0.1 billion for yields on wealth management for customers, RMB1.0 billion for period-end balance of investment funds, and RMB0.1 billion for the sum of the Bank's return on investment and payment of service fees to intermediaries; the annual caps for the Bank's transactions on wealth management and investment services with Poly Group and its related parties were: RMB0.3 billion for fees relating to non-principal-protected wealth management and agency services, RMB3.0 billion for period-end balance of principal in principal-protected wealth management services for customers, RMB0.3 billion for yields on wealth management for customers, RMB5.0 billion for period-end balance of investment funds, and RMB0.4 billion for the sum of the Bank's return on investment and payment of service fees to intermediaries. As at the end of the reporting period, the actual amounts incurred between the Bank and CITIC Group and its related parties were the following: RMB850 million for fees relating to non-principal-protected wealth management and agency services, RMB528 million for period-end balance of principal in principal-protected wealth management services for customers, RMB13 million for yields on wealth management for customers, RMB29.215 billion for period-end balance of investment funds, and RMB821 million for the sum of the Bank's return on investment and payment of service fees to intermediaries; the actual amounts incurred between the Bank and Xinhu Zhongbao and its related parties were the following: zero for period-end balance of principal in principal-protected wealth management services for customers, zero for period-end balance of investment funds, zero for the sum of the Bank's return on investment and payment of service fees to intermediaries, and RMB22 million for fees relating to non-principal-protected wealth management and agency services, RMB7 million for yield on wealth management in principal-protected wealth management services for customers; the actual amounts incurred between the Bank and Poly Group and its related parties were the following: zero for period-end balance of principal in principal-protected wealth management services for customers, zero for period-end balance of investment funds, zero for the sum of the Bank's return on investment and payment of service fees to intermediaries, RMB2,500 for fees relating to non-principal-protected wealth management and agency services, and RMB0.3329 million for yields on principal-protected wealth management for customers; and no such transactions took place between the Bank and China Tobacco and its related parties. None of the transactions on wealth management and investment services between the Bank and the afore-mentioned major shareholders and their related parties exceeded the corresponding approved annual cap.

The reasons and benefits to conduct continuing connected transactions with CITIC Group

CITIC Group is an state-owned international conglomerate enterprise group with comprehensive business. It has different financial subsidiaries engaged in banking, securities, trust, insurance, fund, asset management and futures. The types of financial departments in CITIC Group are comprehensive, and the integrated advantage is manifest. CITIC Group and its related parties have built a comprehensive risk management and internal control procedure, thereby its financial product has high level of security and has a higher competitiveness among the industry. The demand by CITIC Group and its related parties for financial services, including investment with their own funds, wealth management services and asset transfer is increasing. By cooperating with CITIC Group and its related parties, the Bank is able to effectively raise the integrated return of the Bank and reduce the Bank's operating risk to a certain extent, to fully utilize the cooperative effect of the integrated financial platform of CITIC Group and generate higher returns for all the Shareholders. The Bank believes that the cooperation with CITIC Group and its related parties in respect of asset transfer, wealth management and investments, and other financial services will contribute to the adjustment of asset liquidity, the optimization of asset structure and the increase of profit channels, so as to further create greater value for the Shareholders as a whole.

5.6.4 One-off Connected Transactions

During the reporting period, the Bank has conducted the following one-off connected transactions under Hong Kong Listing Rules.

5.6.4.1 Purchase of Part of the Properties of CITIC Plaza

In order to meet the business development requirement, Guangzhou Branch intends to purchase part of the properties of CITIC Plaza as business premises with a total gross floor area of 23,003.93 square meters and the total consideration of RMB910,902,000.

Date

28 March 2018

Parties

(1) The purchaser: Guangzhou Branch

(2) The transferors: Century Square Corporation Limited ("Century Square"), Vecom Property Ltd ("Vecom Property")

Consideration

(1) The price of the buildings transferred by Century Square was RMB313,035,900, and the price of the buildings transferred by Vecom Property was RMB597,866,100;

(2) The deed tax and stamp duty borne by the Bank is expected to be RMB27,782,566 and subject to the amount specified in the tax certificate issued by the tax authority;

(3) The transaction fees borne by the Bank was RMB85,000; and

(4) The registration fees of title transfer borne by the Bank is expected to be RMB52,057.86 and subject to the amount specified in the payment certificate issued by the real estate registration center.

Reasons for And Benefits of the Transaction

Since its establishment, Guangzhou Branch has been developing rapidly in various businesses. In the meantime, due to the lack of self-owned property, the problems of lack of office space, decentralization of office floors and high rental cost have become the bottleneck of its business development. For years, Guangzhou Branch has been renting part of the properties of CITIC Plaza as business premises, and CITIC Plaza is fully aware of the business and operating requirements of Guangzhou Branch. After the purchase of part of the properties of CITIC Plaza, it is conducive to the long-term and steady development of Guangzhou Branch, maintaining the excellent external image of CITIC Bank, and fully implementing the "best comprehensive financial service enterprise" strategy of the headquarter.

Hong Kong Listing Rules Implications

Century Square and Vecom Property are wholly-owned subsidiaries of CITIC Corporation Limited, which holds 65.37% of the shares of the Bank. As such, Century Square and Vecom Property are connected persons of the Bank and the Transaction constitutes a connected transaction for the Bank under Chapter 14A of the Hong Kong Listing Rules. Since the highest applicable percentage ratio in respect of the connected transaction exceeds 0.1% but less than 5%, the Transaction is subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but exempt from the independent shareholders' approval requirement.

For details of this Transaction, please refer to the announcement of the Bank dated 28 March 2018.

5.6.4.2 Property Decoration Services

Reference shall be made to the disclosable and connected transaction announcement dated 27 March 2014 and the poll results announcement of the 2013 Annual General Meeting dated 21 May 2014 of the Bank. The content was about that the Bank entered into a purchase intention agreement with CITIC Heye, pursuant to which the Bank will purchase certain property under the Beijing CBD core area Z15 land lot project at East Third Ring Road, Chaoyang District, Beijing, which is owned by the CITIC Group and placed under the name of CITIC Heye. On 28 April 2018, the Bank further entered into a supplementary agreement with CITIC Heye regarding Property Decoration Services are settled with a consideration of RMB420 million. Details are set out below:

Date

28 April 2018

Parties

The Bank, as purchaser

CITIC Heye Investment Co., Ltd. ("CITIC Heye"), as seller.

Consideration

The consideration of the Transaction is RMB420 million. Both parties agree that the unforeseeable rate of the costs of the Transaction is 7.5%, i.e., the updated design and optimization suggestions proposed by the seller for the project will come into effect upon agreement of the purchaser, expenses increased for which shall not exceed 7.5% of the consideration of the Transaction. However, changes in construction quality standards and functional form and replacement of materials and equipment proposed by the purchaser are excluded from the above-mentioned limitations and will be settled by the parties through negotiation separately.

Reasons for And Benefits of the Transaction

The Subject Property is located in the Beijing CBD core area at East Third Ring Road, Chaoyang District, Beijing, which is crowded with headquarter buildings of world top 500 companies and domestic and foreign financial institutions. It is also a top-ranking business area defined by the Beijing municipal government with distinctive location advantages. In addition, the property project is the No. 1 highest building in Beijing (about 528 meters) and a milestone landmark building of Beijing. Thus, the Bank is of the view that this property decoration services transaction will provide guarantee and support for fulfilling the office needs of the Bank and for the expansion of the Bank's businesses in Beijing, which will greatly benefit the Bank's self-image.

Hong Kong Listing Rules Implications

As CITIC Heye is a subsidiary of the Bank's controlling shareholder, CITIC Corporation Limited, CITIC Heye is a connected person to the Bank under the Hong Kong Listing Rules. Therefore, the Transaction constitutes a connected transaction of the Bank under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio of this connected transaction is more than 0.1% but lower than 5%, the Transaction is subject to the reporting and announcement requirements but is exempted from the independent shareholders' approval requirement according to Chapter 14A of the Hong Kong Listing Rules.

For details of this Transaction, please refer to the announcement of the Bank dated 29 April 2018.

5.6.4.3 Disposal of Properties

According to the general arrangement for disposal of the Bank's stock assets, Hangzhou Branch put out its original office building for conditional public tender on China Beijing Equity Exchange with the valuation of RMB661,500,000 as the base price. On 13 December 2018, Hangzhou Branch and Hangzhou CITIC Elderly Services signed the Contract and sold the Target Property. The gross floor area of the Target Property is about 22,700 square meters, and the total transaction consideration is RMB661,500,000.

Date

13 December 2018

Parties

(1) Hangzhou Branch, as seller

(2) Hangzhou CITIC Elderly Services Co., Ltd. ("Hangzhou CITIC Elderly Services"), as purchaser

Consideration and Payment

(1) The consideration of the Transaction is RMB661,500,000, including pledge deposit of RMB198,450,000.

(2) All taxes from the transaction and title transfer of the Target Property shall be imposed pursuant to property transaction regulations of which the Target Property is located in. Transaction taxes specifically stipulated by the state rules to be borne by each of both parties shall be borne by both parties accordingly. Transaction taxes and fees not specifically stipulated by the state rules, and commission fees for title transfer of property registration certificate shall be borne by the purchaser;

(3) Relevant expenses incurred by the Target Property, such as property fees, water, electricity, heating and relevant expenses incurred before the delivery date of the property (the date of signing the letter of confirmation on the delivery of the Target Property by the purchaser) shall be borne by the seller and such expenses incurred after the delivery date of the property shall be borne by the purchaser.

Reasons for And Benefits of the Transaction

The sale of the Target Property is in line with the Bank's strategic development requirement of "asset-light, capital-light". The Transaction is expected to increase approximately RMB244,246,769 of the non-operating income of the Bank, release approximately RMB241,430,000 of the locked-up risk assets and save nearly RMB20,000,000 of the annual cost of holding the building (depreciation and property fee, etc.). Meanwhile, the sale of the Target Property can effectively reduce the laid-up assets of the Bank, improve internal management and operational efficiency.

Hong Kong Listing Rules Implications

Hangzhou CITIC Elderly Services is a wholly-owned subsidiary of CITIC Group, which is the de facto controller of the Bank. As such, Hangzhou CITIC Elderly Services is a connected person to the Bank under the Hong Kong Listing Rules. Therefore, the Transaction constitutes a connected transaction of the Bank under Chapter 14A of the Hong Kong Listing Rules. Since the highest applicable percentage ratio in respect of the Transaction exceeds 0.1% but is less than 5%, the Transaction is subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but is exempted from the independent shareholders' approval requirement.

For details of this Transaction, please refer to the announcement of the Bank dated 13 December 2018.

5.6.4.4 Subscription for A Share Convertible Bonds of Connected Person

The Bank and CITIC Corporation Limited entered into the Agreement on Subscription of the Publicly Issued A Share Convertible Corporate Bonds on 28 February 2019, pursuant to which, CITIC Corporation Limited subscribes for A Share Convertible Bonds issued by the Bank at the consideration of no more than RMB26,388 million in cash.

Date

28 February 2019

Parties

(1) Party A (Issuer): The Bank

(2) Party B (Subscriber): CITIC Corporation Limited

The Issuance

The total amount of the Convertible Bonds issued by Party A will be no more than RMB40 billion. The actual size shall be determined by the Board authorized by the general meeting of the Issuer after receiving the CSRC's approval on the public issuance of the A Share Convertible Bonds within the above scope.

Subscription

Party B plans to subscribe for 263,880,000 Convertible Bonds from Party A. The final subscription number shall be subject to the number of Convertible Bonds placed in the preferential placement determined in accordance with the market conditions before the Issuance by the Board of Party A, and the balance of online subscription Party B obtained after participating in the preferential placement (if any).

Price

The Convertible Bonds of Party A will be issued at par with a nominal value of RMB100 each.

Reasons for And Benefits of the Transaction

To improve the Bank's capital adequacy ratio and strengthen the Bank's comprehensive competitiveness and sustainable development, the bank has previously approved the Issuance of A Shares Convertible Bonds. As a financing instrument with the characteristics of both stocks and bonds, convertible bonds have long term, which makes them well recognized by the investors and meet the needs of the market. Therefore, corporate bonds are a realistic choice for the Bank to supplement its core tier one capital. To protect the interests of the existing shareholders and reduce the dilution effect on the existing shareholders caused by the Issuance, the Issuance provides the existing A Share shareholders with preferential right, which entitles them to preferentially subscribe for the A Share Convertible Bonds in accordance with the proportion of the A Shares possessed by each of them of the Bank.

Hong Kong Listing Rules Implications

As CITIC Corporation Limited holds 65.37% of the shares of the Bank, and CITIC Limited and its subsidiaries (including CITIC Corporation Limited) holds 65.97% of the shares of the Bank, CITIC Corporation Limited is a connected person to the Bank. The Transaction constitutes a non-exempt connected transaction of the Bank under the Hong Kong Listing Rules. This Transaction is subject to the reporting, announcement, and the independent shareholders' approval requirements according to Chapter 14A of the Hong Kong Listing Rules.

For details of this Transaction, please refer to the announcement of the Bank dated 28 February 2019.

5.6.5 Related Party Transactions in Joint External Investment

During the reporting period, the Bank did not have any related party transaction arising from joint external investment with its related parties.

5.6.6 Related Party Debt Transactions and Guarantees

For details of related party debt transactions and guarantees between the Bank and its related parties, please refer to Note 64 to the financial statements contained in this report.

5.6.7 Transaction Balances and Risk Exposures of Related Natural Persons

For details of the transaction balances and risk exposures relating to the transactions between the Bank and its related natural persons, please refer to Note 64 to the financial statements contained in this report.

5.6.8 Confirmation by Independent Non-Executive Directors and the Auditor

Upon review of the various continuing related party transactions under the Hong Kong Listing Rules made in the reporting period, the independent non-executive directors of the Bank confirmed that these transactions

(1) were entered into during the Bank's ordinary and usual course of business;

(2) followed general commercial terms; and

(3) abided by the terms and conditions of the concerned transaction contracts that were fair, reasonable and consistent with the overall interests of the Bank's shareholders.

The auditor obtained the list of continuing connected transactions from the Bank's management. After completing relevant work in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and Hong Kong Institute of Certified Public Accountants (HICPA) Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules", the auditor did not find any of the following issues regarding the disclosed continuing connected party transactions of the Bank:

(1) continuing connected party transactions not approved by the Board of Directors of the Bank;

(2) pricing of connected party transactions involving the provision of goods and services not compliant with the Group's pricing policy in all material aspects;

(3) execution of connected party transactions not compliant with the terms and conditions of the concerned connected transaction contracts in all material aspects; and

(4) aggregate value of various continuing connected party transactions exceeding their respective annual caps disclosed in the announcements dated 24 August 2017 and 30 November 2017.

The Board has confirmed the receipt of confirmation from the auditor on matters required by Rule 14A.56 under the Listing Rules.

5.7 Material Contracts and Their Performance

5.7.1 Custody, Contracting or Lease of Material Assets

During the reporting period, the Bank did not have any material custody, contracting or leasing of any assets of other companies that took place during the reporting period or that took place in previous periods but went on to the reporting period; neither did other companies hold custody of, contract or lease any material assets of the Bank.

5.7.2 Material Guarantees

The guarantee business is one of the Bank's regular off-balance sheet items. During the reporting period, the Bank did not have any other material guarantee that needs to be disclosed except for the financial guarantee business that is within its approved business scope.

Special Explanations and Independent Opinions of Independent Non-Executive Directors Concerning the Guarantees Provided by the Bank to External Parties

We, as independent non-executive directors of China CITIC Bank, have reviewed the guarantees provided by China CITIC Bank to external parties in an impartial, fair and objective manner, and hereby express the following special explanations and opinions:

We have verified that the guarantees hitherto provided by the Group to external parties were mainly letters of guarantee (LG), which is one of the regular banking businesses within the approved business scope of the Group. As at the end of the reporting period, the value balance of the letters of guarantee issued by the Group was equivalent to RMB158.813 billion.

The Group always attaches great importance to risk management of its L/G business. It has formulated creditability standards of the guaranteed obligor, as well as the operation procedures and the review and approval procedures for the guarantee business based on the risk profiles of the L/G business. During the reporting period, the L/G business of the Group went well, free of any illegal guarantee. We are of the view that the Group has effectively controlled the risks relating to its guarantee business.

Independent Non-Executive Directors of China CITIC Bank Corporation Limited
He Cao, Chen Lihua, Qian Jun, Yan Lap Kei Isaac

5.7.3 Entrusted Wealth Management

During the reporting period, the Bank did not have any entrusted wealth management transactions beyond its normal scope of business.

5.7.4 Other Material Contracts

During the reporting period, the Bank did not sign any other material contracts beyond its normal scope of business.

5.8 Undertakings by the Company and Its Relevant Stakeholders

On 16 April 2012, CITIC Corporation Limited undertook that, within five years as of the delivery of its acquisition of CITIC Bank equity, it will not transfer such acquired stake in the Bank (except for circumstances where CITIC Corporation Limited transfers its equity in the Bank to CITIC Limited's related parties in accordance with applicable laws and regulations, or as approved by the regulatory authorities, or where the shares are assigned as stated-owned assets for free pursuant to the state-owned assets supervision and administration procedures); if CITIC Corporation Limited transfers its shares in the Bank upon expiry of the lock-up period, it shall obtain prior consent from the regulatory authority in terms of the transfer and the qualification of the transferee as a shareholder of the Bank. On 25 February 2013, CITIC Corporation Limited's acquisition of the Bank's shares was delivered. The above-mentioned undertakings of CITIC Corporation Limited came into effect on 25 February 2013. On 16 March 2018, the Bank was notified by CITIC Limited that the lock-up period of the above-mentioned undertakings made by CITIC Corporation Limited had expired.

According to relevant CSRC regulations, the Bank has proposed remedial measures regarding the dilution of immediate returns that may arise from the non-public offering of preference shares and the public issuance of A-share convertible corporate bonds and their listings. These measures include: strengthen capital planning and management to ensure capital adequacy and stability; reinforce asset restructuring to improve capital allocation efficiency; enhance operational efficiency and reduce operating costs; improve the internal capital adequacy assessment process for better capital management; strengthen capital stress test and improve capital emergency response plans. At the same time, the directors and senior management members of the Bank also gave undertakings to effectively execute the remedial measures.

During the reporting period, the Bank was not aware of any violation of the above-mentioned undertakings. Save and except for these undertakings, the Bank was not aware of any other undertakings that were performed during the reporting period or not yet performed as at the end of the reporting period by its shareholders, de facto controllers and acquirers, the Bank itself and its directors, supervisors, senior management members or other parties that had given undertakings.

5.9 Appointment and Dismissal of Auditors

As per the resolution adopted by the 2017 Annual General Meeting, the Bank continued to engage PricewaterhouseCoopers Zhong Tian LLP as its domestic auditor and PricewaterhouseCoopers as its overseas auditor for the year 2018. The Bank has engaged these two accounting firms as its auditors since the 2015 annual audit. The two accounting firms have both provided audit services to the Bank for 4 consecutive years. Zhu Yu and Li Yan were the signing CPAs for the audit report regarding the Bank's 2018 financial statements prepared in accordance with the PRC Accounting Standards, respectively recording 2 and 1 consecutive years' audit service for the Bank. Chen Guangde was the signing CPA for the audit report regarding the Bank's 2018 financial statements prepared in accordance with the IFRS, recording 2 consecutive years' audit service for the Bank.

The Group paid about RMB20.29 million audit fees (including fees for auditing the financial reports of its subsidiaries) in total to PricewaterhouseCoopers Zhong Tian LLP who audited its 2018 financial report prepared in accordance with the PRC Accounting Standards and its internal control report as at 31 December 2018 and to PricewaterhouseCoopers who audited its 2018 financial report prepared in accordance with the IFRS. This amount included RMB1 million fee for auditing the internal control report. The statements of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers regarding their responsibilities pertaining to the financial reports are set out in the audit reports contained in the A-share and H-share annual reports, respectively.

Except for the above-mentioned audit fees, the Group paid approximately RMB21.35 million to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for their non-audit services (including professional services rendered for asset securitization, tax consulting and IT services, etc.).

5.10 Amendment to the Articles of Association

In August 2017, in line with relevant laws and regulations, regulatory requirements and the general requirements on incorporating Party building work into the articles of association, the Bank added the provisions on Party building in state-owned enterprises to its Articles of Association in alignment with its actual situations, and at the same time amended the provisions on the balance of general reserve and the internal audit system. The relevant proposal regarding these amendments was reviewed and adopted at the 2nd Extraordinary General Meeting of 2017 held on 30 November 2017. The amended Articles of Association came into effect upon approval by the CBIRC on 4 April 2018.

In May 2018, in accordance with the CBIRC's Interim Measures for the Equity Management of Commercial Banks and in alignment with its actual situations, the Bank added to its Articles of Association relevant contents, including the definition of a substantial shareholder, the shareholder obligations, accumulative voting mechanism and the internal audit work mechanism, and amended existing provisions regarding the definition of related party transactions, the expression relating to the chairperson of the board of supervisors and the standard setting process for external supervisor allowances. The proposal concerning these amendments was reviewed and adopted at the 2nd Extraordinary General Meeting of 2018 convened on 8 August 2018. The amended Articles of Association will come into effect upon approval by the CBIRC.

In December 2018, the Bank planned to make the non-public offering of no more than 400 million preference shares in China, and after the completion of the issuance, amend the provisions of its Articles of Association relating to the issuance of the preference shares based on the results of this issuance, including the completion date of the issuance and the Bank's total number of preference shares. The proposal regarding these amendments to the Articles of Association was reviewed and adopted at the 1st Extraordinary General Meeting of 2019 convened on 30 January 2019. The amended Articles of Association will come into effect upon approval by the CBIRC.

Please refer to the relevant announcements published by the Bank on the websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) on 13 April 2018, 9 August 2018 and 31 January 2019 respectively for relevant details about the amendments to the Articles of Association. Investors may check against the full text of the prevailing Articles of Association of the Bank on the above websites.

5.11 Equity Incentive Scheme

The Bank did not have any equity incentive scheme in effect as at the end of the reporting period.

5.12 Use of Funds Raised and Material Investments with Non-Raised Funds

All proceeds raised by the Bank were used in accordance with the purposes disclosed in relevant documents including the prospectuses for the IPOs and the rights issue, i.e., all the proceeds were used to replenish the capital of the Bank and improve the capital adequacy ratios and risk resilience of the Bank.

5.13 Penalties and Remedial Actions of the Company and Its Relevant Stakeholders

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management members, controlling shareholder, de facto controller or acquirers had any record of being subject to investigation by competent authorities or coercive measures by judicial bodies or disciplinary bodies, transfer to judicial bodies or accountability of criminal liabilities, case investigation or administrative penalties by CSRC, ban of entry into securities markets, being identified as inappropriate candidates, material administrative punishments by environmental protection, work safety, taxation or other administrative authorities, or public censure by any stock exchange; nor was the Bank subject to regulatory and administrative measures or requirements for remedial actions within prescribed time limits by the CSRC or its dispatched agencies.

During the reporting period, the Bank conducted its business activities in accordance with laws and complied with the provisions of relevant laws, regulations and its Articles of Association in its decision-making procedures. Its directors, supervisors and senior management members all performed their due diligence. The Bank was not aware of any conduct on the part of the directors, supervisors and senior management members in their normal course of duty performance that was in violation of relevant laws, regulations and its Articles of Association or detrimental to the interests of the Bank.

5.14 Integrity of the Company and Its Relevant Stakeholders

During the reporting period, neither the Bank nor its controlling shareholder or its de facto controller was involved in failure to execute valid court verdicts or failure to repay matured debts of considerable amounts.

5.15 Reserves

For details on changes in the reserves of the Bank as at the end of the reporting period, please refer to Note 50-53 to the financial statements contained in the report.

5.16 Properties

For details of the changes in the Bank's properties as at the end of the reporting period, please refer to Note 33 to the financial statements contained in this report.

5.17 Post Balance Sheet Events

For details of the Bank post balance sheet events as at the end of the reporting period, please refer to Note 70 to the financial statements contained in this report.

5.18 Management Contracts

During the reporting period, the Bank did not enter into or maintain any contracts for the management and administration of its overall business or any of its important businesses.

5.19 Distributable Reserves

For details on distributable reserves of the Bank, please refer to "Financial Statements — Consolidated Statement on Changes in Shareholders' Interests" of the report.

5.20 Donations

During the reporting period, the Group paid back to the society with enthusiasm in strict accordance with the PRC Charity Law and other applicable laws and regulations, tilting its donations to areas in the greatest need of help. As at the end of the reporting period, the Group had made donations in Renminbi and other currencies in total equivalent to RMB26.2674 million. These donations were mainly used for poverty alleviation, education assistance, disaster relief and financial aid to the vulnerable groups. As at the end of the reporting period, the Group recorded employee donation of RMB1.3607 million, total tax payment[23] of RMB27.301 billion, representing an increase of 12.67%; and a social contribution value per share of RMB4.68[24], a growth of 7.07%.

5.21 Fixed Assets

For details on changes in the Bank's fixed assets as at the end of the reporting period, please refer to Note 33 to the financial statements contained in the report.

5.22 Retirement and Benefits

The Bank paid contributions to the basic old-age pension schemes for its employees pursuant to relevant national laws, regulations and policies. The amounts of basic pension contributions were determined by employee salaries and locally defined contribution rates. In addition, the Bank established enterprise annuity plans for its employees with contribution rate set at 5% of employee salary income. The enterprise annuity plans were uniformly managed by CITIC Group.

For details on retirement benefits that the Bank provided for its employees, please refer to Note 42 to the financial statements contained in the report.

5.23 Share Capital and Public Float

For details on changes in the Bank's share capital during the reporting period, please refer to Note 48 to the financial statements contained in the report. Pursuant to publicly available information, the Board of Directors of the Bank was of the view that the Bank had sufficient public float as at the disclosure date of the report.

23 The Bank pays taxes according to laws, and there is no taxation dispute or penalty occured.

24 Social contribution value per share = (annual taxes paid + wages paid to employees + loan interest paid to creditors + total external donations + other social costs arising from environmental pollution and other factors) ÷ total share capital + basic earnings per share.

5.24 Purchase, Sale or Redemption of Shares

During the reporting period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

5.25 Pre-emptive Rights

Neither the PRC laws, administrative regulations and departmental rules, nor the Articles of Association of the Bank contains any mandatory provisions on pre-emptive rights for purchase of shares of listed companies. According to its Articles of Association, the Bank may increase its registered capital by way of public offering or private offering of ordinary shares, right allocation to the existing ordinary shareholders, new shares issuance to the existing shareholders, transfer of capital reserve to share capital, conversion of preference shares to ordinary shares or other means permitted by laws and administrative regulations or as approved by relevant authorities.

5.26 Issuance of Shares

For relevant information about the Bank's issuance of shares during the reporting period, please refer to Chapter 6 "Changes in Ordinary Shares and Information on Ordinary Shareholders" and Chapter 7 "Preference Shares" of the report.

5.27 Issuance of Debentures

Please refer to Chapter 6 "Changes in Ordinary Shares and Information on Ordinary Shareholders" for information about the Bank's issuance of debentures.

5.28 Equity Linked Agreements

Save for what is disclosed in Chapter 7 "Preference Shares" of the report, the Bank neither entered into nor continued any equity linked agreements during the reporting period.

5.29 Right of Directors and Supervisors to Acquire Shares or Debentures

During the reporting period, none of the Directors and Supervisors or their respective associates were granted by the Bank or its subsidiaries the right to acquire shares or debentures of the Bank or any other corporate groups; neither did any of the Directors or Supervisors exercise any of such rights.

5.30 Equity Interest of Substantial Shareholders

Please refer to Chapter 6 "Changes in Ordinary Shares and Information on Ordinary Shareholders — Interests and Short Positions Held by Substantial Ordinary Shareholders and Other Persons" of the report for detailed information.

5.31 Tax Matters

A Shareholders

For individual investor shareholders, the Notice on Issues Relating to the Implementation of the Differentiated Individual Income Tax Policy on Dividends Obtained from Listed Companies (Cai Shui [2012] No.85), and the Notice on Issues Relating to the Differentiated Individual Income Tax Policy on Dividends Obtained from Listed Companies (Cai Shui [2015] No.101), both issued jointly by the Ministry of Finance, the State Administration of Taxation and CSRC provide that, for shares of listed companies that an individual investor obtains from public offering and/or the transfer market, if the duration of shareholding is less than 1 month (inclusive), the full amount of his or her dividend income shall be calculated as taxable income; if the duration of shareholding is between 1 month and 1 year (inclusive), 50% of the dividend income shall be calculated as taxable income for the time being; and if the duration of shareholding lasts more than one year, the dividend income shall be exempted of individual income tax for the time being. All the above-mentioned dividend income shall be taxed at a uniformly applicable tax rate of 20%.

For securities investment funds that are shareholders of listed companies, the computation and payment of dividend income tax shall be made in accordance with the aforementioned Notice on Issues Relating to the Differentiated Individual Income Tax Policy on Dividends Obtained from Listed Companies (Cai Shui [2015] No.101) and Notice on Issues Relating to the Implementation of the Differentiated Individual Income Tax Policy on Dividends Obtained from Listed Companies (Cai Shui [2012] No.85).

Resident enterprise shareholders (including institutional investors) shall pay income tax on their cash dividends on their own accord pursuant to relevant taxation requirements of the government.

For Qualified Foreign Institutional Investors (QFII), listed companies are required to withhold and pay enterprise income tax at the rate of 10% pursuant to the requirements of the Notice of the State Administration of Taxation Concerning the Relevant Issues on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonuses and Interests by PRC Resident Enterprises to QFIIs (Guo Shui Han [2009] No.47). Where the dividend paid to a QFII is entitled to relevant treatments under a tax agreement (arrangement), the QFII may apply to the competent tax authority for such treatment. The latter shall implement the treatment as stipulated in the tax agreement after verifying the validity of the application. Where a tax refund is involved, the QFII shall promptly submit a tax refund application to the competent tax authority on its own accord after receiving the dividend.

H Shareholders

For overseas residents that are individual shareholders of listed companies, the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No.045 (Guo Shui Han [2011] No.348) provides that, dividends received by such overseas residents for their personal holding of shares issued by domestic non-foreign-invested enterprises in Hong Kong shall be subject to the payment of individual income tax under the "interest, dividend and bonus income" item, and that such individual income tax shall be withheld and paid by the withholding agents according to relevant laws at a tax rate of 10%. Where overseas residents that are individual holders of shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between their countries of residence and China or the tax arrangements made between Mainland China and Hong Kong (Macau) SAR, the tax rate for dividends under the relevant tax agreements and tax arrangements is 10% in general. For the purpose of simplifying tax administration, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, upon payment of dividends, generally withhold individual income tax at the rate of 10%, without the need to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for residents of countries that have signed lower than 10% tax rate agreements, the withholding agents may file on their behalf applications for the relevant agreed preferential tax treatments, under which circumstances the over-withheld tax amounts will be refunded upon approval by the tax authorities; (2) for residents of countries that have signed higher than 10% but lower than 20% tax rate agreements, the withholding agents shall withhold individual income tax at the agreed tax rate effective at the time of dividend payment, without the need to file an application; and (3) for residents of countries without tax agreements or under other situations, the withholding agents shall withhold individual income tax at 20% upon payment of dividends.

For non-resident enterprises that are shareholders of listed companies, the Notice of the State Administration of Taxation on the Issues Concerning Withholding Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H Shareholders that Are Nonresident Overseas Enterprises (Guo Shui Han [2008] No.897) provides that, a PRC resident enterprise, when paying dividends for 2008 and subsequent years to H shareholders that are non-resident overseas enterprises, enterprise income tax at a uniform rate of 10% shall be withheld and paid.

Tax matters in relation to the Shanghai-Hong Kong Stock Connect shall be handled according to the provisions of the Notice of the Ministry of Finance, the State Administration of Taxation and the CSRC on Relevant Taxation Policies in Connection with the Pilot Shanghai-Hong Kong Stock Connect Mechanism (Cai Shui [2014] No. 81).

Preference shareholders

Individual income tax payment in relation to dividends obtained by individual preference shareholders shall be performed according to related national taxation regulations.

Resident enterprises (including institutional investors) shall perform their tax payment obligations on their own accord according to related national taxation regulations.

Shareholders of the Bank shall be taxed and/or access tax credits, reliefs and exemptions in accordance with the aforementioned regulations.

5.32 Environment-Related Performance and Policies

The Bank strictly abided by the requirements of applicable laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China. The 2018-2020 Development Plan of CITIC Bank makes it clear that during the plan period the Bank will boost support to the green economy and enhance total-process management of environmental and social risks.

During the reporting period, the Bank formulated the 2018 Credit Policy of CITIC Bank, defining green financing as its credit policy. In practice, the Bank adhered to the development concept of innovation, coordination, green, open and sharing. Among others, it strictly implemented relevant regulatory requirements, built a green financial management system, increased its support to the green economy, the low-carbon economy and the circular economy, prevented environmental and social risks, and improved its own environmental and social performance, so as to optimize its credit structure, elevate its service level and promote the transformation of its development pattern. The 2018 Credit Policy of CITIC Bank defined the priority support areas of green credit, set the development targets of green finance, and integrated green credit business into performance evaluation.

During the reporting period, the Bank stepped up its efforts to reduce loans to and exit from the "high energy consumption, heavy pollution and overcapacity" industries and classified the different enterprises in these industries for implementation of different policies. Continuing support was rendered to premium leading enterprises that were characterized by advanced technology, high efficiency, good potentials and ready market. With regard to other enterprises, the Bank gradually reduced its support or made an exit. For those enterprises where it was hard for the Bank to exit or reduce its support in a short period of time, the Bank maintained its credit grant but would reduce support and make an exit when appropriate, provided that its rights and interests were properly preserved.

During the reporting period, the Bank formulated the Administrative Measures of CITIC Bank for the Classification of Environmental and Social Risks. According to the levels of environmental and social risks, the Bank classified its corporate loan customers or projects into A, B and C categories. For Category A or B customers or projects, the Bank carried out dynamic assessment of the movement of environmental and social risks in process such as loan application, review and approval of loan applications and post-lending management. Such assessment covered the management of customer environmental and social risks, liquidity situations and external communication. The assessment results were used as an important basis for customer access, management and exit. In addition, the Bank integrated management of customer environmental and social risks into its business processes such as pre-lending investigation, review and approval of loan applications, contract management, review of loan use and post-lending management.

5.33 Events Relating to Bankruptcy and/or Re-engineering

During the reporting period, the Bank did not incur any event relating to bankruptcy and/or re-engineering.

5.34 Major Risks

For details on major risks of the Bank, please refer to Chapter 4 "Management Discussion and Analysis" of the report.

5.35 Changes to Accounting Policies and Accounting Estimates or Correction of Significant Accounting Errors

In 2017, the Ministry of Finance promulgated the revised Accounting Standard for Business Enterprises No.14 — Revenues. The Group applied this standard when preparing its 2018 annual financial statements, without exerting material impacts on its financial statements.

In March 2017, the Ministry of Finance revised the Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, No. 23 — Transfer of Financial Assets, No. 24 — Hedging, and No. 37 — Presentation of Financial Instruments (collectively referred to as the "new standards on financial instruments"). The first implementation date of the new standards on financial instruments was 1 January 2018. According to the transition requirements of these new standards, the information of the comparison period shall not be restated, and financial assets and financial liabilities shall be adjusted and included in current-period retained earnings and other comprehensive income at their book value on the first implementation date. Based on the above requirements, the Group only made relevant disclosure of current-period information. The notes about the comparison period remain consistent with the information disclosed in previous years.

In December 2018, the Ministry of Finance promulgated the Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises (Cai Kuai [2018] No.36). The Group prepared its financial statements according to the new formats for financial enterprises starting from the financial year beginning on 1 January 2018, without reinstating the information of the comparison period. Interest on financial instruments accrued according to the effective interest rate method should be included in the book balance of the corresponding financial instrument, and reflected in relevant items. The "interest receivables" and "interest payables" items should only reflect the interest receivable or payable on matured financial instruments that remains outstanding at the balance sheet date, and are posted under "other assets" or "other liabilities". Except for the above modifications, the adoption of the new format did not have significant impact on the Group's financial statements.

5.36 Performance of Social Responsibility for Poverty Alleviation

5.36.1 Initiatives on Financial Services for Precision Poverty Alleviation

During the reporting period, the Bank implemented policy requirements such as the Guidance of the Central Committee of the Communist Party of China and the State Council on Winning the Three-Year Fight Against Poverty, and followed the work arrangements of the PBOC, the CBIRC and other regulators. It regarded financial services for precision poverty alleviation as an important political and social responsibility and a historic mission and made innovations to its products and service models. As such, the Bank continued to improve the accuracy and effectiveness of its across-the-board efforts relating to financial services for precision poverty alleviation, kept consolidating the foundation for such precision poverty alleviation, and gradually harvested the fruits of its poverty alleviation efforts.

The foundation of precision poverty alleviation with financial services enjoyed continuous consolidation. The Bank continued to improve the management framework of financial services for precision poverty alleviation. In particular, the Bank set up the financial services for poverty alleviation leading group headed by its top leadership, and a working group consisting of front-, middle- and back-office departments. The branches established the three-tier management structure on the basis of the Head Office management framework, featuring personal engagement by the management members, joint promotion by business, risk control, human resources, and accounting & finance departments, and priority implementation by business units. Under the guidance of the Work Plan of CITIC Bank for Poverty Alleviation with Financial Services during the 13th Five-Year Plan Period, the Bank put forward specific goals and initiatives for product innovation, credit resource allocation, credit approval support and financial knowledge dissemination in connection with financial services for poverty alleviation. Incentives and guidance were enhanced for poverty alleviation with financial services, and the effectiveness of poverty alleviation was included in performance evaluation at the branches. In addition, the Bank established a mechanism for reporting statistical data relating to financial services for precision poverty alleviation, which helped strengthen data quality management, improve the data collection process, and ensure accurate, timely and complete submission of poverty alleviation data.

As at the end of the reporting period, the Bank's balance of loans for precision poverty alleviation with financial services stood at RMB6.893 billion, an increase of RMB2.668 billion or 63% over the previous year. In terms of borrowers, personal loans for precision poverty alleviation recorded RMB3.039 billion, up 9% from the previous year; and institutional loans for precision poverty alleviation stood at RMB3.854 billion, up 167% from the previous year.

5.36.2 Other Precision Poverty Alleviation Initiatives

The Bank input RMB9.5 million to continue its fixed-point poverty alleviation work in the three villages in Xietongmen County of Tibet Autonomous Region and Zhangjiashan village in Dangchang County of Gansu Province. In addition, the Bank dispatched its managerial personnel to fixed-point poverty alleviation areas to help the local poverty population shake off poverty and add vitality to the local economy. As at the end of the reporting period, the Bank dispatched a total of 56 managerial personnel and staff members to the villages for poverty alleviation, including 21 serving as first secretaries of their villages and 3 working at above-the-county-head level. In 2018, the Bank donated RMB19.2906 million for poverty alleviation purpose, up 27.10% over last year, focusing on four major directions: agricultural development for poverty alleviation, infrastructure construction for poverty alleviation, education for poverty alleviation and pro bono efforts for poverty alleviation, benefiting more than 100,000 poor people.

During the reporting period, the Bank donated RMB2.5 million in its partnership with the Ai You Foundation in the "Ai You Young Heart Project", in order to jointly help save poor children with congenital heart diseases in poverty-stricken areas. Among them, children with simple congenital heart diseases, including ventricular septal defect, atrial septal defect, patent ductus arteriosus and pulmonary arterial stenosis, accounted for about 59% of the total, while children with compound and complex congenital heart diseases, including complex diseases with Tetralogy of Fallot and the compound severe pulmonary arterial hypertension, accounted for about 41%. As at the end of the reporting period, the project provided assistance to 212 such children (58% female and 42% male), most of whom were children of middle or small age.

5.36.3 Work Plan on Financial Services for Precision Poverty Alleviation

In 2019, the Bank will continue to actively implement the Central Government's essential concept and regulatory policy requirements on poverty alleviation with financial services, and carry out financial services for poverty alleviation under the guidance of relevant policies. In line with its business characteristics and risk preference, the Bank will research and develop poverty alleviation products and improve the accuracy and effectiveness of its efforts for poverty alleviation with financial services.

The Bank will render greater support to poverty alleviation. It will help develop infrastructures such as transportation, water conservancy, electricity, energy and ecological environment construction as well as basic public services including culture, medical care, health and ICT in poverty-stricken areas by precisely targeting the financing needs of key projects and key areas of poverty alleviation. The Bank will also support poor areas to relocate for poverty alleviation purpose in a standardized manner and carry out projects to improve people's livelihood, such as new urbanization, affordable housing and municipal projects. Based on the resource endowments and industrial characteristics of poverty-stricken areas, the Bank will support the development of unique local industries that are capable of employing members of registered impoverished households and increasing income of the poor population, by precisely targeting the financing needs of such local industries, and at the same time support production/business activities of the registered impoverished households at the upper and lower streams of the leading enterprises of such industries to upgrade the endogenous dynamics of such households for development. In addition, the Bank will provide registered impoverished households with lending support and payment services relating to their production, business start-up and education by precisely targeting the financial needs of such households in employment and education.

The Bank will enhance the building of a system for poverty alleviation with financial services. In particular, it will innovate poverty alleviation models, and, without prejudice to risk control, explore the "two-rights" mortgage loan business based on the rural contracted land management right and the rural housing property right. In addition, the Bank will strengthen the banking-securities and banking-insurance partnerships to improve the risk compensation and sharing mechanisms for poverty alleviation with financial services. Further, the Bank will strengthen credit support and prioritize the approval of poverty alleviation loans or projects when other conditions are equal. Meanwhile, the Bank will improve its performance evaluation system. Branches will be assessed for their institutional construction, organizational promotion, business development and risk control relating to financial services for precision poverty alleviation, with points appropriately added or subtracted in comprehensive performance evaluation. Furthermore, the Bank will improve its data statistics and submission, strengthen data quality management, improve the data collection process and ensure accurate, timely and complete submission of poverty alleviation data.

The Bank will organize financial education and publicity activities. Ongoing publicity campaigns on financial consumer rights protection will be launched both at physical outlets and via electronic channels. Employees from branches and sub-branches will be actively organized to access communities, businesses and shopping districts for dissemination of financial knowledge. Representative case studies will be publicized more extensively. All these will help people in poverty-stricken areas improve their financial knowledge and develop their awareness of financial risk prevention. The Bank will also continue to follow up on the latest developments in financial services for precision poverty alleviation and fully mobilize its branches to tap into the grassroots level for representative case studies, advanced models and outstanding deeds in precision poverty alleviation with financial services and promote them via both internal and external publicity channels.

5.37 Business Reexamination

For details of the Group's business profile, major risks and uncertainties in 2018 and outlook for 2019, please refer to Chapter 4 "Management Discussion and Analysis" of this report. In addition, for the Group's environment-related performance and policies, compliance with relevant laws and regulations that had significant impact on the Group, and the Group's relations with its employees, suppliers and customers in 2018, please refer to Chapter 4 "Management Discussion and Analysis", Chapter 5 "Report of the Board of Directors", and Chapter 8 "Directors, Supervisors, Senior Management Members, Staff and Affiliates" of this report.

5.38 The Review Committee

The Audit and Related Party Transactions Control Committee under the Board of Directors of the Bank has reviewed the 2018 annual results of the Bank and the Group and their audited 2018 annual financial statements prepared in accordance with the International Financial Reporting Standards.

5.39 Relations with Employees, Suppliers and Customers

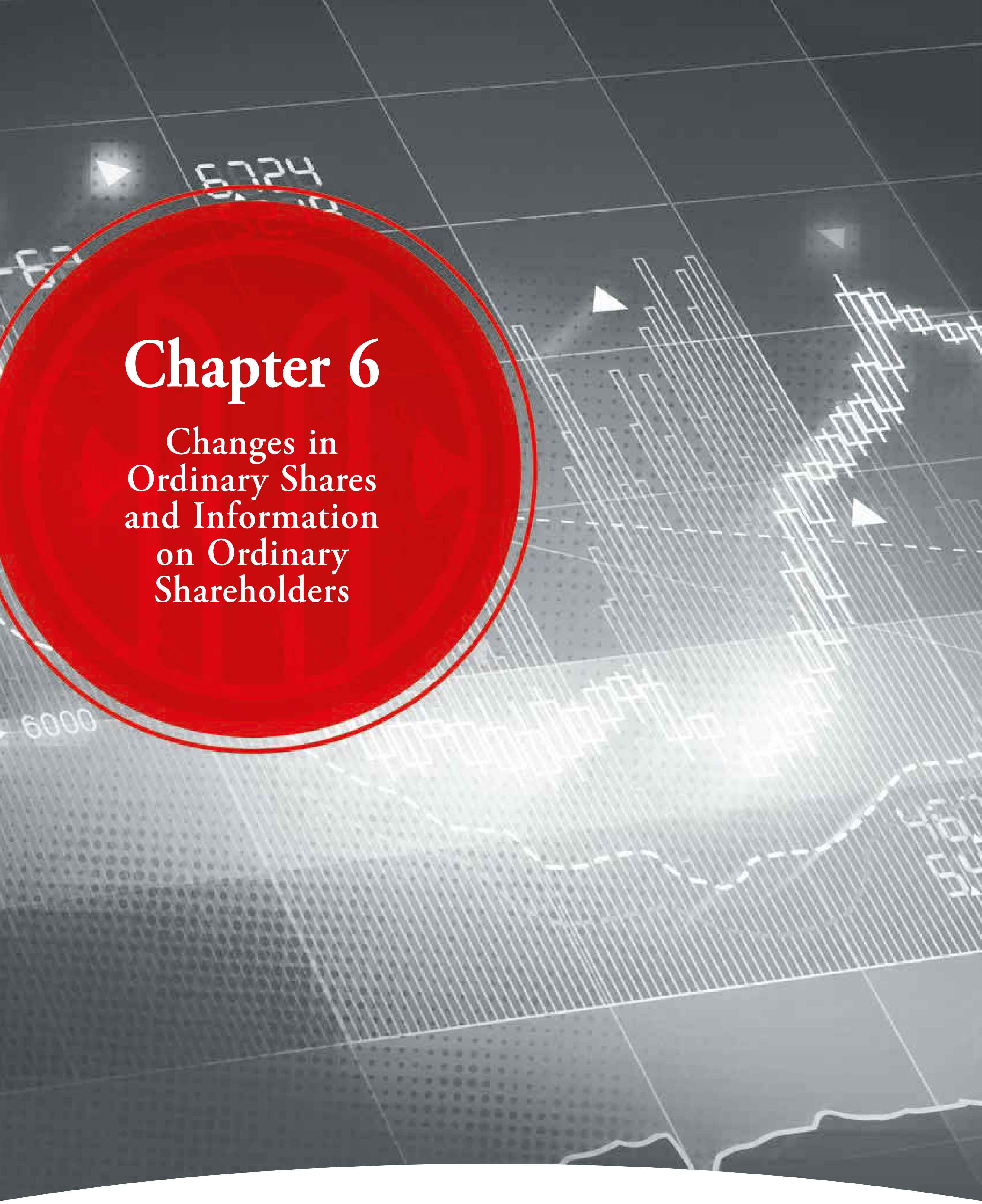
Due to business nature, the Bank does not have any major supplier. During reporting period, the Bank had no material and significant dispute with employees and customers.

5.40 Other Significant Events

The Bank disclosed all significant events occurred during the reporting period that shall be disclosed as per Article 67 of the PRC Securities Law and Article 30 of the Administrative Measures for Information Disclosure of Listed Companies in the form of interim announcements on the websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com). Please refer to "Information Disclosure Index" below for specific disclosure dates.

Chapter 6

Changes in Ordinary Shares and Information on Ordinary Shareholders



Chapter 6 Changes in Ordinary Shares and Information on Ordinary Shareholders

6.1 Changes in Ordinary Shares

6.1.1 Table on Changes in Shareholdings

Unit: share

	31 December 2017		Changes (+, -)					31 December 2018	
	Number of shares held	Percentage (%)	New issue	Bonus issue	Capital reserve converted to shares	Others	Subtotal	Number of shares held	Percentage (%)
Shares subject to restrictions on sale:	**2,147,469,539**	**4.39**						**2,147,469,539**	**4.39**
1. Shares held by the state									
2. Shares held by state-owned legal persons	2,147,469,539	4.39						2,147,469,539	4.39
3. Shares held by other domestic investors									
Including: Shares held by domestic non-state-owned legal persons									
Shares held by domestic natural persons									
4. Foreign-held shares									
Including: Shares held by overseas legal persons									
Shares held by overseas natural persons									
Shares not subject to restrictions on sale:	**46,787,327,034**	**95.61**						**46,787,327,034**	**95.61**
1. Renminbi denominated ordinary shares	31,905,164,057	65.20						31,905,164,057	65.20
2. Domestically-listed foreign shares									
3. Overseas-listed foreign shares	14,882,162,977	30.41						14,882,162,977	30.41
4. Others									
Total shares	**48,934,796,573**	**100.00**						**48,934,796,573**	**100.00**

6.1.2 Shares Subject to Restrictions on Sale

Publicly tradeable time of shares subject to restrictions on sale

Unit: share

Time	Incremental publicly tradeable shares upon expiry of lock-up period	Number of shares subject to restrictions on sale	Number of shares not subject to restrictions on sale
20 January 2021	2,147,469,539	2,147,469,539	46,787,327,034

Shareholdings of the top 10 shareholders- subject to restrictions on sale and the conditions of restrictions on sale

Unit: share

Name of shareholder subject to restrictions on sale	Number of shares subject to restrictions on sale held	Publicly tradeable time	Incremental publicly tradeable shares	Conditions of restrictions on sale
China Tobacco	2,147,469,539	20 January 2021	—	On 20 January 2016, the Bank completed the registration and custody formalities relating to its private offering of 2,147,469,539 A shares to China Tobacco. China Tobacco undertook to the former CBRC that it would not transfer its subscribed equity in CITIC Bank within 5 years as of the date of completion of the delivery (Refer to the Report of China CITIC Bank Corporation Limited on Its Private Offering of A Shares published on the official websites of SSE (www.sse.com.cn) and the HKEXnews (www.hkexnews.hk) for details thereof.)

6.2 Issuance and Listing of Securities

6.2.1 Equity Financing

During the reporting period, the Bank did not issue any new shares.

6.2.2 Issuance of Bonds

With the approval of the CBIRC and the PBOC, the Bank successfully completed the issuance of RMB30 billion and RMB20 billion tier-two capital bonds at the national interbank bond market on 13 September and 22 October 2018, respectively. Both were 10-year fixed-rate bonds with conditional issuer redemption rights being exercisable at the end of the 5th year and respective annual coupon rates set at 4.96% and 4.80%. Total proceeds from the issues were fully transferred to the Bank's account to replenish its tier-two capital.

Please refer to the relevant announcements published on the official websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) for details thereof.

6.2.3 Issuance of Convertible Bonds

The plan on the public issuance of convertible bonds and its associated proposals were adopted via voting by poll at the Bank's 1st Extraordinary General Meeting of 2017, 1st A Shareholders Class Meeting of 2017, and 1st H Shareholders Class Meeting of 2017 convened on 7 February 2017. The Bank proposed to make a public issuance of up to RMB40 billion A-share convertible corporate bonds.

The former CBRC issued the Reply of the China Banking Regulatory Commission on Approving the Relevant Matters relating to CITIC Bank's Public Issuance of A-Share Convertible Corporate Bonds (CBRC Reply [2017] No.193) in July 2017, giving the Bank the consent to issue up to RMB40 billion A-share convertible corporate bonds. In December 2018, the Public Offering Review Committee of the CSRC reviewed and approved the Bank's application on issuance of up to RMB40 billion A-share convertible corporate bonds. In December 2018, the CSRC produced the Reply of the CSRC on Approving CITIC Bank's Public Issuance of Convertible Corporate Bonds (CSRC Permit [2018] No. 2168), permitting the public issuance of convertible corporate bonds up to RMB40 billion. On 4 March 2019, the Bank completed the issuance of 40 million board lots of A-share convertible bonds, with each issued at the face value of RMB100 at par, raising total proceeds of RMB40 billion, which came to net proceeds of RMB39.9156402 billion after deduction of the issuance costs. These A-share convertible bonds, referred to as "CITIC Convertible Bonds" with the stock code of 113021, were listed on the Shanghai Stock Exchange for trading on 19 March 2019.

Please refer to the relevant announcements published on the official websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) for details thereof.

6.2.4 Internal Employee Shares

There were no internal employee shares issued by the Bank.

6.3 Information on Ordinary Shareholders

6.3.1 Total Number of Shareholders

As at the end of the reporting period, the Bank had 178,541 accounts of ordinary shareholders in total, including 148,559 accounts of A shareholders and 29,982 accounts of registered H shareholders, and no preference shareholders with restored voting right.

As at the close of the month preceding the disclosure date of this report (i.e., 28 February 2019), the Bank recorded 175,208 accounts of ordinary shareholders in total, including 145,106 accounts of A shareholders and 30,102 accounts of registered H shareholders, and no preference shareholders with restored voting right.

6.3.2 Information on the Top 10 Shareholders (as at the end of the reporting period)

Unit: Share

No.	Name of shareholder	Nature of shareholder	Class of shares	Total number of shares held	Shareholding percentage (%)	Number of shares subject to restrictions on sale	Increase or decrease in shareholding during the reporting period	Shares pledged or frozen
1	CITIC Corporation Limited	State-owned legal person	A share, H share	31,988,728,773	65.37	0	0	0
2	Hong Kong Securities Clearing Company Nominees Limited	Overseas legal person	H share	12,126,027,439	24.78	0	6,673,277	Unknown
3	China Tobacco Corporation	State-owned legal person	A share	2,147,469,539	4.39	2,147,469,539	0	0
4	China Securities Finance Corporation Limited	State-owned legal person	A share	1,114,065,677	2.28	0	81,395,860	0
5	Central Huijin Asset Management Limited	State-owned legal person	A share	272,838,300	0.56	0	0	0
6	China Construction Bank Corporation	State-owned legal person	H share	168,599,268	0.34	0	0	Unknown
7	Hong Kong Securities Clearing Company Limited	Overseas legal person	A share	104,414,711	0.21	0	58,204,451	0
8	National Social Security Fund 412 Portfolio	Government	A share	35,769,900	0.07	0	35,769,900	0
9	Mao Tian Capital Limited	State-owned legal person	A share	31,034,400	0.06	0	0	0
10	China Poly Group Corporation Limited	State-owned legal person	A share	27,216,400	0.06	0	0	0

Note: (1) Except for CITIC Corporation Limited, the shareholdings of A-share holders and H-share holders in the table above were calculated based on the Bank's share registers respectively maintained with China Securities Depository and Clearing Corporation Limited Shanghai Branch and Computershare Hong Kong Investor Services Limited.

(2) Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. The total number of shares held by Hong Kong Securities Clearing Company Nominees Limited is the aggregate number of H shares it held in its capacity as nominee on behalf of all institutional and individual investors registered with the company as at the end of the reporting period. Hong Kong Securities Clearing Company Limited is an institution that is designated by others to hold shares, including the Shanghai Stock Connect shares held by Hong Kong and overseas investors, on behalf of others in its capacity as nominee shareholder.

(3) CITIC Corporation Limited is a wholly-owned subsidiary of CITIC Limited. CITIC Corporation Limited confirmed that as at the end of the reporting period, CITIC Limited and its subsidiaries (including CITIC Corporation Limited) together owned 32,284,227,773 shares of the Bank, accounting for 65.97% of the Bank's total shares, including 28,938,928,294 A shares and 3,345,299,479 H shares. CITIC Corporation Limited directly owned 31,988,728,773 shares of the Bank, accounting for 65.37% of the Bank's total shares, including 28,938,928,294 A shares and 3,049,800,479 H shares.

(4) Summit Idea Limited confirmed that, as at the end of the reporting period, it held via Hong Kong Securities Clearing Company Nominees Limited 2,292,579,000 H shares of the Bank, accounting for 4.685% of the Bank's total shares. Summit Idea Limited is a wholly-owned affiliate of Xinhu Zhongbao. In addition to the afore-mentioned stake, Xinhu Zhongbao also directly owned 153,686,000 H shares of the Bank via Hong Kong Xinhu Investment Co., Ltd., a wholly-owned subsidiary of Xinhu Zhongbao, taking up 0.314% of the Bank's total shares.

(5) Note on connected relations or concerted actions of the above ordinary shareholders: Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. According to the Report for the Third Quarter of 2018 of China Construction Bank Corporation, as at 30 September 2018, Central Huijin Investment Limited and its wholly-owned subsidiary Central Huijin Asset Management Limited together owned 57.31% equity of China Construction Bank Corporation. Except for these, the Bank was not aware of any connected relation or concerted action between the above-mentioned shareholders.

6.3.3 Information on the Top 10 Shareholders Not Subject to Restrictions on Sale (as at the end of the reporting period)

Unit: Share

No.	Name of shareholder	Number of shares not subject to restrictions on sale held	Class and number of shares held	
			Class	Number
1	CITIC Corporation Limited	31,988,728,773	A Share	28,938,928,294
			H Share	3,049,800,479
2	Hong Kong Securities Clearing Company Nominees Limited	12,126,027,439	H Share	12,126,027,439
3	China Securities Finance Corporation Limited	1,114,065,677	A Share	1,114,065,677
4	Central Huijin Asset Management Limited	272,838,300	A Share	272,838,300
5	China Construction Bank Corporation	168,599,268	H Share	168,599,268
6	Hong Kong Securities Clearing Company Limited	104,414,711	A Share	104,414,711
7	National Social Security Fund 412 Portfolio	35,769,900	A Share	35,769,900
8	Mao Tian Capital Limited	31,034,400	A Share	31,034,400
9	China Poly Group Corporation Limited	27,216,400	A Share	27,216,400
10	National Social Security Fund 602 Portfolio	23,953,200	A Share	23,953,200

6.4 Interests and Short Positions Held by Substantial Ordinary Shareholders and Other Persons

The table below sets out the interests and short positions in the ordinary shares and underlying shares of the Bank held by substantial shareholders and other persons as recorded in the register that the Bank maintained pursuant to Section 336 of the Securities and Futures Ordinance as at the end of the reporting period.

Name	Number of shares held	Shareholding percentage of the issued share capital of the same class (%)	Class of shares
BBVA	24,329,608,919(L)	71.45(L)	A share
CITIC Group Corporation Limited	3,276,373,479(L)	22.02(L)	H share
	28,938,928,294(L)	84.98(L)	A share
CITIC Corporation Limited	7,018,100,475(L)	47.16(L)	H share
	710(S)	0.00(S)	H share
	28,938,928,294(L)	84.98(L)	A share
CITIC Limited	3,276,373,479(L)	22.02(L)	H share
	28,938,928,294(L)	84.98(L)	A share
CITIC Shengxing Co., Ltd.	7,018,099,055(L)	47.16(L)	H share
	28,938,928,294(L)	84.98(L)	A share
Summit Idea Limited	2,292,579,000(L)	15.40(L)	H share
Total Partner Global Limited	2,292,579,000(L)	15.40(L)	H share
	2,292,579,000(S)	15.40(S)	
Li Ping	2,398,165,000(L)	16.11(L)	H share
Hong Kong Xinhu Investment Co., Ltd.	2,398,165,000(L)	16.11(L)	H share
Zhejiang Heng Xing Li Holdings Group Limited	2,398,165,000(L)	16.11(L)	H share
Zhejiang Xinhu Group Corporation Limited	2,398,165,000(L)	16.11(L)	H share
UBS SDIC Fund Management Co., Ltd.	2,292,579,000(L)	15.40(L)	H share
Huang Wei	2,398,165,000(L)	16.11(L)	H share
Xinhu Zhongbao Co., Ltd.	2,398,165,000(L)	16.11(L)	H share
Ningbo Jiayuan Industrial Development Limited	2,398,165,000(L)	16.11(L)	H share
Black Rock,Inc.	781,392,162(L)	5.25(L)	H share
	303,000(S)	0.00(S)	

Note: (L) — long position, (S) — short position

Except for the information disclosed above, as at the end of the reporting period, there were no other interests or short positions of any other person or company in the shares or underlying shares of the Bank recorded in the register that the Bank maintained pursuant to Section 336 of the Securities and Futures Ordinance requiring disclosure in accordance with Sections II and III of Part XV of the Securities and Futures Ordinance.

6.5 Controlling Shareholder and De Facto Controller of the Bank

As at the end of the reporting period, CITIC Corporation Limited was the controlling shareholder of the Bank; CITIC Limited was the single direct controlling shareholder of CITIC Corporation Limited; CITIC Group was the controlling shareholder of CITIC Limited, and the de facto controller of the Bank.

CITIC Group was founded in 1979 by Mr. Rong Yiren with the support of Mr. Deng Xiaoping. Since its inception, CITIC Group has been a pilot unit for national economic reform and an important window for China's opening to the outside world. With fruitful explorations and innovation in many areas, CITIC Group has built itself a robust image and reputation both domestic and abroad. At present, CITIC Group has developed into a large state-owned multinational conglomerate with both financial and non-financial businesses. Its financial business covers a full range of services including banking, securities, trust, insurance, fund and asset management; and its non-financial business includes real estate, engineering contracting, energy and resources, infrastructure construction, machinery manufacturing and information technology, with clear overall strength and great momentum of growth.

In December 2011, with approval from the State Council, and in alignment with its wholly-owned subsidiary Beijing CITIC Enterprise Management Co., Ltd., CITIC Group contributed the majority of its existing net operating assets to establish CITIC Corporation Limited (named "CITIC Limited" when first established). In particular, CITIC Group held 99.9% equity interest in CITIC Limited, and Beijing CITIC Enterprise Management Co., Ltd. held 0.1%. CITIC Group as a whole was restructured into a wholly state-owned company. To complete the afore-mentioned capital contribution, CITIC Group transferred its entire equity in the Bank to CITIC Corporation Limited as capital contribution. As a result, CITIC Corporation Limited held 28,938,929,004 shares in the Bank both directly and indirectly, accounting for 61.85% of the Bank's total share capital. The above-mentioned share transfer was approved by the State Council, the MOF, the CBRC (now CBRIC), the CSRC and the Hong Kong Monetary Authority. In February 2013, the relevant formalities for the share transfer were officially completed with approvals from the SSE and China Securities Depositary and Clearing Corporation Limited Shanghai Branch. On 20 December 2018, the Ministry of Finance (MOF) and the Ministry of Human Resources and Social Security (MOHRSS) issued a notice to implement the relevant arrangements of the Notice of the State Council on Printing and Distributing the Implementation Plan on the Transfer of Some State-owned Capital to Replenish the Social Security Fund, transferring MOF's 10% equity in CITIC Group to the National Council for Social Security Fund in a lump sum.

In October 2013, BBVA transferred to CITIC Limited 2,386,153,679 H shares it held in the Bank, accounting for approximately 5.10% of the total share capital of the Bank, after which CITIC Limited increased its shareholding in the Bank to 66.95%.

In August 2014, CITIC Group injected its main business assets entirely into its Hong Kong listed subsidiary CITIC Pacific and renamed it CITIC Limited. The former CITIC Limited was renamed CITIC Corporation Limited. CITIC Limited held 100% equity interest in CITIC Corporation Limited.

In September 2014, CITIC Corporation Limited purchased an additional 81,910,800 H shares of the Bank via agreement transfer, after which, CITIC Corporation Limited held a total of 31,406,992,773 A shares and H shares of the Bank, accounting for approximately 67.13% of the Bank's total share capital.

In January 2016, the Bank completed its private offering of 2,147,469,539 A shares to China Tobacco, upon which time the Bank's total share capital increased to 48,934,796,573 shares and the proportion of shares owned by CITIC Corporation Limited went down to 64.18%.

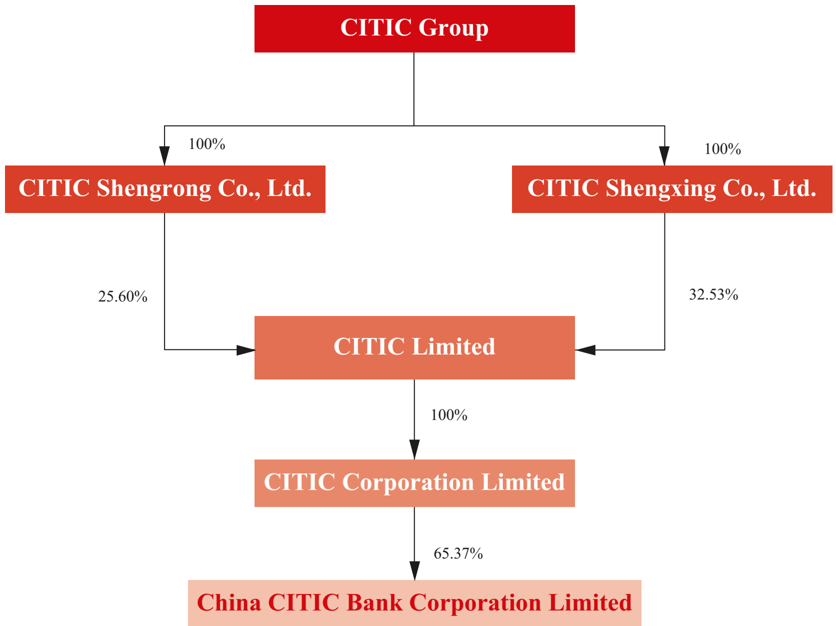
In January 2016, CITIC Limited notified the Bank that it planned to increase its shareholding in the Bank by 21 January 2017 when appropriate, provided that the accumulative percentage of such incremental equity holding did not exceed 5% of the Bank's total issued share capital. As at 21 January 2017, the implementation of the additional shareholding plan was completed. CITIC Limited and its subsidiaries (including CITIC Corporation Limited) hold 32,284,227,773 shares of the Bank in aggregate, of which it holds 28,938,928,294 A shares and 3,345,299,479 H shares, representing 65.97% of the total issued shares of the Bank.

As at the end of the reporting period, CITIC Group's legal representative was Mr. Chang Zhenming. Its business scope covered: information services under value-added telecommunication services of Category II (only restricted to internet information services) which exclude press, publication, education, medical and health care, pharmaceuticals, and medical devices but include electronic advertising services, and will expire on 9 January 2019; external allocation of required workers to overseas projects compatible with its strength, scale and business performance; investment in and management of domestic and overseas financial enterprises and related industries including banking, securities, insurance, trust, asset management, futures, leases, funds and credit cards; investment businesses in energy, transportation infrastructure, mining, forestry resources development and raw materials industry, machinery manufacturing, real estate development, information infrastructure, basic telecommunications and value-added telecom services, environmental protection, pharmaceuticals, biological engineering and new materials, aviation, transportation, warehousing, hotels, tourism, domestic and international trade, commerce, education, publication, media, culture and sports, domestic and overseas project design, construction, contracting and sub-contracting, and industrial investment; project tendering, exploration, design, construction, supervision, contracting and sub-contracting and consulting services; asset management; capital operation; and import and export. (The entity shall discretionally choose its business projects and conduct its business activities according to the law; conduct its business activities as per approval of competent authorities regarding business items that may only be conducted with such approval according to the law; and may not engage in business activities of the projects that are prohibited or restricted by the municipal industrial policy).

As at the end of the reporting period, CITIC Corporation Limited had a registered capital of RMB139 billion; and Mr. Chang Zhenming was its legal representative. Its business scope covered: 1. Investment in and management of the financial sector, including investment in and management of domestic and overseas financial enterprises and related industries such as banking, securities, insurance, trust, asset management, futures, leases, funds and credit cards; 2. Investment in and management of the non-financial sector, including (1) energy, transportation and other infrastructure; (2) mining, forestry and other resource development and the raw materials industry; (3) machine manufacturing; (4) real estate development; (5) the information industry: information infrastructure, basic telecommunications and value-added telecom services; (6) commercial and trade services and other industries; environment protection; pharmaceuticals, biological engineering and new materials; aviation, transportation, warehousing, hotels and tourism; domestic and international trade, import and export, commerce; education, publication, media, culture and sports; consulting services; 3. Grant of shareholder loans to its domestic and overseas subsidiaries; capital operation; asset management; domestic and overseas project design, construction, contracting and sub-contracting, and labor export; and other business items approved by competent authorities. (The entity changed from a domestic enterprise into a foreign-invested enterprise on 22 July 2014, and therefore needs to conduct its business activities as per approval of competent authorities regarding business items that may only be conducted with such approval according to the law.)

As at the end of the reporting period, CITIC Limited and its subsidiaries (including CITIC Corporation Limited) held 32,284,227,773 shares of the Bank in aggregate, representing 65.97% of the total issued shares of the Bank, including 28,938,928,294 A shares and 3,345,299,479 H shares. CITIC Corporation Limited directly owned 31,988,728,773 shares in the Bank, accounting for 65.37% of the total share capital of the Bank, including 28,938,928,294 A shares and 3,049,800,479 H shares.

As at the end of the reporting period, the ownership structure between the Bank, its controlling shareholder and its de facto controller was as follows[25]:



25 CITIC Shengrong Co., Ltd. and CITIC Shengxing Co., Ltd. are both wholly-owned affiliates of CITIC Group. CITIC Corporation Limited directly owned 65.37% of the total share capital of the Bank, in addition to which, CITIC Limited also held part of the Bank's equity via its subsidiaries and CITIC Corporation Limited's subsidiaries.

Equity interests in other major domestic and overseas listed companies held or controlled by CITIC Limited and CITIC Corporation Limited (as at the end of the reporting period)

Name of shareholder	Name of listed company	Place of listing	Stock code	Shareholding percentage (%)
CITIC Corporation Limited 16.50%	CITIC Securities Co., Ltd.	Shanghai Hong Kong	600030.SH 6030.HK	16.50%
CITIC Corporation Limited 60.49% CITIC Investment Holdings Limited 4.52% CITIC Automobile Limited 2.26%	CITIC Heavy Industries Co., Ltd.	Shanghai	601608.SH	67.27%
CITIC Offshore Helicopter Limited 38.63%	CITIC Offshore Helicopter Corporation Limited	Shenzhen	000099.SZ	38.63%
CITIC Corporation Limited 83.60% CITIC Investment Holdings Limited 4.40%	Citic Press Corporation	National Equities Exchange and Quotations	834291.OC	88.00%
Keentech Group Ltd 49.57% CITIC Australia 9.55% Extra Yield International Ltd. 0.38%	CITIC Resources Holdings Limited	Hong Kong	1205.HK	59.50%
Bowenvale Ltd 74.43%	Asia Satellite Telecommunications Holdings Limited	Hong Kong	1135.HK	74.43%
Highkeen Resources Limited 34.39% Apexhill Investments Limited 9.07%	CITIC Dameng Mining Industries Ltd	Hong Kong	1091.HK	43.46%
Richtone Enterprises Inc. 3.76% Ease Action Investments Corp. 34.61% Silver Log Holdings Ltd 17.04% Cuixin Holdings Corporation Limited 3.95%	CITIC Telecom International	Hong Kong	1883.HK	59.36%
Numerous subsidiaries of CITIC Pacific jointly 56.35%	Dah Chong Hong Holdings Limited	Hong Kong	1828.HK	56.35%
CITIC Pacific (China) Investment Limited 28.18% Hubei Xinye Steel Co., Ltd. 29.95%	Daye Special Steel Co., Ltd.	Shenzhen	000708.SZ	58.13%
CKM (Cayman) Company Limited 53.89%	CITIC Envirotech Ltd	Singapore	CEE.SG	53.89%
CITIC Industrial Investment Group Co., Ltd. 9.13% CITIC Construction Limited 6.41% CITIC Agriculture Limited 1.82% Shenzhen Xin Nong Investment Center (Limited Partnership) 3.20%	Longping High-tech Co., Ltd.	Shenzhen	000998.SZ	20.56%
Man Gui Investment Co., Ltd. 10%	China Overseas Land & Investment Limited	Hong Kong	688.HK	10.00%
Easy Flow Investments Limited 25.91%	Frontier Services Group Limited	Hong Kong	500.HK	25.91%

Note: The shareholding percentages listed in the table were those of the direct shareholders.

Equity interests in other major domestic and overseas listed companies held or controlled by CITIC Group (as at the end of the reporting period)

Name of shareholder	Name of listed company	Place of listing	Stock code	Shareholding percentage (%)
CITIC Shengxing Co., Ltd. 32.53% CITIC Shengrong Co., Ltd. 25.60%	CITIC Limited	Hong Kong	267.HK	58.13%

Note: The shareholding percentages listed in the table were those of the direct shareholders.

6.6 Information on Other Substantial Shareholders

As per the relevant provisions of the Provisional Measures for the Management of Equity in Commercial Banks promulgated by CBRC (now CBIRC), in addition to CITIC Corporation Limited, the major shareholders of the Bank also include Summit Idea Limited, China Tobacco and Poly Group.

Summit Idea Limited is a company incorporated in Hong Kong. As at the end of the reporting period, it held via Hong Kong Securities Clearing Company Nominee Limited 2,292,579,000 H shares of the Bank, accounting for 4.685% of the Bank's total shares, with 1,123,363,710 H shares of the Bank pledged as collateral as at the end of the reporting period. Summit Idea Limited is a wholly-owned affiliate of Xinhu Zhongbao. In addition to the afore-mentioned stake, Xinhu Zhongbao also directly owned 153,686,000 H shares of the Bank via its wholly-owned subsidiary Hong Kong Xinhu Investment Co., Ltd, taking up 0.314% of the Bank's total shares. Xinhu Zhongbao (SH.600208) was listed on the Shanghai Stock Exchange in 1999. Its principal business is real estate and finance. As at the end of September 2018, the company recorded registered capital of RMB8.599 billion, total assets of RMB137.751 billion and net assets of RMB32.972 billion. The company is an industry leader in terms of the size, strength and quality of its real estate business. At the time of the report, Xinhu Zhongbao has developed more than 50 real estate projects in over 30 cities across the country with aggregate development area reaching over 30 million square meters. In terms of financial business, Xinhu Zhongbao has formed a financial investment pattern that covers securities, banking, insurance and futures, etc. At the same time, out of its commitment to build an integrated financial service ecosphere, it has made forward-looking investment and deployment in internet-based finance companies with leading market shares such as u51.com and Wind.

China Tobacco is a mega state-owned enterprise established with approval from the State Council. As at the end of the reporting period, China Tobacco held 2,147,469,539 A shares of the Bank, accounting for 4.39% of the Bank's total shares, with no pledge of the Bank's equity as collateral. China Tobacco is an enterprise owned by the whole people with registered capital of RMB57 billion. Its legal representative is Zhang Jianmin. The main business scope of China Tobacco includes the production, operation and import and export of tobacco monopoly products, as well as management and operation of state-owned assets.

Poly Group is a large-scale central state-owned enterprise administered by the State-owned Assets Supervision and Administration Commission of the State Council. As at the end of the reporting period, Poly Group held 27,216,400 A shares of the Bank, accounting for 0.056% of the Bank's total shares, with no pledge of the Bank's equity as collateral. Poly Group was incorporated in 1992 with approval of the State Council and the Central Military Commission. Its registered place is 28th Floor, No. 1 Chaoyangmen Beidajie, Dongcheng District, Beijing and its legal representative is Zhang Zhengao. With registered capital of RMB2 billion, Poly Group is mainly engaged in the following core businesses: trade in military and civilian goods trade, real estate development, light industry research and development and related engineering services, arts and crafts business and services (both raw materials and products), culture and arts business, and production and sale of explosives for civilian uses and related services. Poly Group has established a development pattern focusing on international trade, real estate development, culture and arts business, production and sale of explosives for civilian uses, development and application of light industry materials and products, and development and utilization of raw materials for arts and crafts. Its business spreads over 100 countries around the world and more than 100 cities in China.

6.7 Other Legal-Person Shareholders Holding 10% or More of the Bank's Shares

As at the end of the reporting period, there were no other legal-person shareholders that held 10% or more of the Bank's shares except CITIC Corporation Limited.

Chapter 7

Preference Shares

Chapter 7 Preference Shares

7.1 Issuance and Listing of Preference Shares in the Recent Three Years

After obtaining the Reply of China Banking Regulatory Commission on Approving China CITIC Bank's Private Offering of Preference Shares and Amendment to the Articles of Association (CBRC Reply [2015] No.540) on 1 September 2015 and the Reply of China Securities Regulatory Commission on Approving China CITIC Bank's Private Offering of Preference Shares (CSRC License [2016] No.1971) on 14 October 2016, the Bank made the private offering of 350 million onshore preference shares at RMB100.00 par value per share on 21 October 2016. The shares were issued at par at 3.80% initial coupon rate and with no maturity period. These 350 million preference shares, referred to as "CITIC Excellent 1" with the stock code of 360025, were listed on Shanghai Stock Exchange's Comprehensive Business Platform on 21 November 2016.

The above issue of preference shares raised total proceeds of RMB35,000,000,000, which came to net proceeds of RMB34,954,688,113 after deduction of the issuance costs, taxes and other expenses, and were fully used to replenish other tier-one capital of the Bank. There was no unused balance of the proceeds.

On 13 December 2018, the 8th meeting of the 5th Session of the Board of Directors of the Bank deliberated and adopted the Proposal on Non-Public Offering of Preference Shares and other relevant proposals, endorsing the Bank's additional offering of up to 400 million preference shares (inclusive) at RMB100.00 par value per share. The Proposal on Non-Public Offering of Preference Shares was considered and adopted by the 1st Extraordinary General Meeting of 2019, the 1st A Shareholders Class Meeting of 2019 and the 1st H Shareholders Class Meeting of 2019 convened on 30 January 2019. The Bank plans to make a non-public offering of no more than RMB40 billion (inclusive) preference shares in China.

Please refer to the relevant announcements published on the websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) for detailed information thereof.

7.2 Number of Preference Shareholders and Their Shareholdings

As at the end of the reporting period and the close of the month preceding the disclosure date of this report (i.e., 28 February 2019), the Bank recorded 31 accounts of preference shareholders. Information on the top 10 preference shareholders is set out in the table below.

Unit: shares

No.	Name of shareholder (full name)	Nature of shareholder	Changes in shareholding in the reporting period (+, -)	Number of shares held at the end of the period	Shareholding percentage (%)	Class of shares held	Number of shares subject to restrictions on sale	Shares pledged or frozen: Status	Shares pledged or frozen: Quantity
1	China Mobile Communications Group Corporation limited	State – owned legal person	–	43,860,000	12.53	Onshore preference shares	–	–	–
2	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shanghai	Other	–	38,430,000	10.98	Onshore preference shares	–	–	–
3	China Life Insurance Company Limited — Traditional — Ordinary Insurance Products — 005L — CT001 Shanghai	Other	–	38,400,000	10.97	Onshore preference shares	–	–	–
4	China Ping An Life Insurance Co., Ltd. — Universal — Individual Universal Insurance	Other	–	30,700,000	8.77	Onshore preference shares	–	–	–
5	China Ping An Life Insurance Company Limited — Dividend — Dividends for Individual Insurance	Other	–	30,700,000	8.77	Onshore preference shares	–	–	–
6	BOCOM International Trust Co., Ltd. — Jin Sheng Tian Li No. 1 Single Fund Trust	Other	–	30,700,000	8.77	Onshore preference shares	–	–	–

No.	Name of shareholder (full name)	Nature of shareholder	Changes in shareholding in the reporting period (+, -)	Number of shares held at the end of the period	Shareholding percentage (%)	Class of shares held	Number of shares subject to restrictions on sale	Shares pledged or frozen	
								Status	Quantity
7	Puyin Ansheng Fund Company — SPDB — Shanghai Pudong Development Bank Shanghai Branch	Other	—	21,930,000	6.27	Onshore preference shares	—	—	—
8	Xing Quan Rui Zhong Total Assets — Ping An Bank — Ping An Bank Co., Ltd	Other	—	15,350,000	4.39	Onshore preference shares	—	—	—
9	Chuang Jin He Xin Fund — China Merchants Bank — China Merchants Bank Co., Ltd.	Other	—	10,960,000	3.13	Onshore preference shares	—	—	—
10	Bank of Communications Schroder Fund — Minsheng Bank — China Minsheng Bank Co., Ltd	Other	—	8,770,000	2.51	Onshore preference shares	—	—	—
	China Resources Shenzhen Investment Trust Co., Ltd. — No. 1 Single Investment Trust Fund	Other	—	8,770,000	2.51	Onshore preference shares	—	—	—

Note: (1) The shareholdings of the preference shareholders were calculated based on the information contained in the preference-share register of the Bank.

(2) Note on related relations or concerted actions of the above preference shareholders: Based on publicly available information, the Bank came to the preliminary conclusion that there was related relation between China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai and China Life Insurance Company Limited – Traditional – Ordinary Insurance Products – 005L – CT001 Shanghai and between China Ping An Life Insurance Co., Ltd. – Universal – Individual Universal Insurance and China Ping An Life Insurance Company Limited – Dividend – Dividends for Individual Insurance. Except for these, the Bank was not aware of any related relation or related action between the above-mentioned preference shareholders or between the above-mentioned preference shareholders and the top 10 ordinary shareholders.

(3) "Shareholding percentage" means the share of preference shares held by preference shareholders accounting for in the total of preference shares.

7.3 Dividend Distribution for Preference Shares

7.3.1 Policy on profit distribution of preference shares

The Bank's preference shares shall apply a nominal dividend yield subject to phase-specific adjustment, i.e., every five years as of the payment date of the subscribed shares constitutes an interest-bearing period and each period applies the same nominal dividend yield. The nominal dividend yield for the first interest-bearing period was set at 3.80% by way of book finding.

Cash dividends shall be paid for the above-mentioned preference shares on an annual basis, with the interest-bearing principal calculated as the total par value of the issued ongoing preference shares and the interest start date being the payment date of the subscribed shares (i.e., 26 October 2016). Dividends on the above preference shares shall not be cumulative, i.e., the shortage from a full-amount dividend payout in the current year will not be accumulated to the next interest-bearing year. Except for access to the dividends agreed upon in accordance with the issuance plan, the above-mentioned preference shareholders shall not participate in the distribution of surplus profits together with the ordinary shareholders.

7.3.2 Payment of dividends on preference shares during the reporting period

The Bank adopted the 2018 Plan on Payment of Dividends on Preference Shares at the Board meeting convened on 27 August 2018, approving that the preference share dividends accrued between 26 October 2017 and 25 October 2018 would be paid on 26 October 2018. On 26 October 2018 the Bank paid dividends on the preference shares to all the shareholders of "CITIC Excellent 1" (preference share code: 360025) registered with China Securities Depository and Clearing Corporation Limited Shanghai Branch at the close of trading on the SSE on 25 October 2018. The Bank paid out a preference dividend of RMB3.80 per share (tax inclusive), which was calculated at a nominal dividend rate of 3.80%, with total dividend payment for the 350 million preference shares amounting to RMB1.330 billion (tax inclusive).

7.3.3 Amounts and ratios of dividend distribution for preference shares in the recent three years

Unit: RMB million

Item	2018	2017	2016
Distribution amount	**1,330**	1,330	—
Distribution ratio	**100%**	100%	—

Note: (1) Distribution ratio is the ratio of the total amount of dividends paid out to the dividends payable for the current year.
(2) The interest start date shall be the payment date of the subscribed shares, i.e., 26 October 2016.

7.4 Redemption or Conversion of Preference Shares

No preference share of the Bank was redeemed or converted during the reporting period.

7.5 Restoration of Voting Right of Preference Shares

During the reporting period, the Bank did not have matters that restored the voting right of preference shares.

7.6 Accounting Policies for Preference Shares and the Underlying Reasons

According to the relevant accounting standards promulgated by the Ministry of Finance (MOF), namely, Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 — Presentation of Financial Instruments, and Distinguishing between Financial Liabilities and Equity Instruments and the Relevant Accounting Treatments, and pursuant to the principal terms of the preference share issuance, the above-mentioned preference shares are eligible to be classified as equity instrument. Hence, the Bank accounted for the preference shares as an equity instrument.

Chapter 8

Directors, Supervisors, Senior Management Members, Staff and Affiliates

Chapter 8 Directors, Supervisors, Senior Management Members, Staff and Affiliates

8.1 Basic Information on Directors, Supervisors and Senior Management Members of the Bank

8.1.1 Board of Directors

Name	Position	Gender	Date of birth	Term of office	Year-beginning shareholding	Year-end shareholding	Pre-tax payable remuneration earned from the Bank during the reporting period (RMB10 thousand)	Whether receiving remuneration from the Bank's related party (parties)
Li Qingping	Chairperson, Executive Director	Female	Oct.1962	Mar. 2014 — May 2021	0	0	—	Yes
Cao Guoqiang	Non-executive Director	Male	Dec. 1964	Sep. 2018 — May 2021	0	0	—	Yes
Fang Heying	Executive Director, Vice President & Chief Financial Officer	Male	Jun.1966	Sep. 2018 — May 2021	0	0	156.79	No
Huang Fang	Non-executive Director	Female	May 1973	Nov. 2016 — May 2021	0	0	—	Yes
Wan Liming	Non-executive Director	Male	May 1966	Jun. 2016 — May 2021	0	0	—	Yes
He Cao	Independent Non-Executive Director	Male	Sep. 1955	Jun. 2016 — May 2021	0	0	30.00	No
Chen Lihua	Independent Non-Executive Director	Female	Sep. 1962	Jun. 2016 — May 2021	0	0	30.00	No
Qian Jun	Independent Non-Executive Director	Male	Jul.1970	Dec. 2016 — May 2021	0	0	30.00	No
Yan Lap Kei Isaac	Independent Non-Executive Director	Male	Oct.1960	Sep. 2018 — May 2021	0	0	8.21	No

Notes: (1) The starting time of the terms of office of the re-elected/re-engaged directors, supervisors and senior management members is the time of their respective initial appointment/engagement. The same applies below.

(2) The final remunerations for the year 2018 for those executive directors who received remunerations from the Bank are still undergoing confirmation, of which the remaining amounts shall be disclosed upon completion of the confirmation process.

(3) A Non-executive Director (not including Independent Non-executive Director) receives no allowance from the Bank.

(4) The Board of Directors meeting on 26 February 2019 reviewed and adopted related proposals on engaging Mr. Fang Heying to be President of the Bank, giving the consent that Mr. Fang Heying would serve as President of the Bank as of the date when CBIRC approves his qualification for office, prior to which Mr. Fang Heying would perform the duties of the President of the Bank.

8.1.2 Board of Supervisors

Name	Title	Gender	Date of birth	Term of office	Year-beginning shareholding	Year-end shareholding	Pre-tax payable remuneration earned from the Bank during the reporting period (RMB10 thousand)	Whether receiving remuneration from the Bank's related party (parties)
Liu Cheng	Chairman of the Board of Supervisors, Employee Representative Supervisor	Male	Dec. 1967	Apr. 2018 — May 2021	0	0	106.40	No
Deng Changqing	Shareholder Representative Supervisor	Male	Apr. 1973	May 2018 — May 2021	0	0	—	Yes
Wang Xiuhong	External Supervisor	Female	Oct. 1946	Jan. 2014 — Jan. 2020	0	0	30.00	No
Jia Xiangsen	External Supervisor	Male	Apr. 1955	May 2015 — May 2021	0	0	30.00	No
Zheng Wei	External Supervisor	Male	Mar. 1974	May 2015 — May 2021	0	0	30.00	No
Cheng Pusheng	Employee Representative Supervisor	Male	Feb. 1968	May 2015 — May 2021	0	0	307.51	No
Chen Panwu	Employee Representative Supervisor	Male	Jan. 1964	Sep. 2017 — May 2021	0	0	312.99	No
Zeng Yufang	Employee Representative Supervisor	Female	Dec. 1970	Sep. 2017 — May 2021	0	0	323.33	No

Note: A supervisor who is also an employee of the Bank receives no allowance as supervisor but receives remuneration according to his or her position as an employee. The performance bonuses for the medium-rank and senior management members of the Bank are subject to deferred payment. Such deferred payment for the year 2018 involving the employee representative supervisors was in the total amount of RMB2.4336 million and remained pending at the time of the report.

8.1.3 Senior Management Members

Name	Title	Gender	Date of birth	Term of office	Year-beginning shareholding	Year-end shareholding	Pre-tax payable remuneration earned from the Bank during the reporting period (RMB10 thousand)	Whether receiving remuneration from the Bank's related party (parties)
Fang Heying	Executive Director, Vice President & Chief Financial Officer	Male	Jun. 1966	Since Nov. 2014	0	0	156.79	No
Guo Danghuai	Vice President	Male	May 1964	Since Nov. 2014	0	0	156.51	No
Yang Yu	Vice President	Male	Dec. 1962	Since Dec. 2015	0	0	151.49	No
Mo Yue	Secretary of the Committee for Disciplinary Inspection	Male	Oct. 1959	Since May 2017	0	0	145.32	No
Hu Gang	Vice President	Male	Mar. 1967	Since May 2017	0	0	159.03	No
Xie Zhibin	Party committee member	Male	May 1969	Since Feb. 2019	0	0	–	No
Yao Ming	Chief Risk Officer	Male	Sep. 1960	Since May 2017	0	0	360.68	No
Lu Wei	Secretary to the Board of Directors, Party Secretary of Shenzhen Branch	Male	Oct. 1971	Since Jan. 2017	0	0	345.84	No
Lu Jingen	Business Director, President of Nanjing Branch	Male	Jun. 1969	Since Aug. 2018	0	0	386.58	No
Lü Tiangui	Business Director, Party Secretary of Credit Card Center, General Manager of the Retail Banking Department	Male	Oct. 1972	Since Aug. 2018	0	0	389.92	No

Notes: (1) In February 2019, Mr. Xie Zhibin joined the Bank as Party committee member and didn't receive remuneration from the Bank for the reporting period. The Board of Directors meeting on 26 March 2019 reviewed and adopted related proposals on engaging Mr. Xie Zhibin to be Vice President of the Bank as of the date when CBIRC approves his qualification for office.

(2) The final remunerations for the year 2018 for the senior management members (except the Chief Risk Officer, Business Directors and the Secretary to the Board of Directors) who received remunerations from the Bank are still undergoing confirmation, of which the remaining amounts shall be disclosed upon completion of the confirmation process.

(3) The performance bonuses for the medium-rank and senior management members of the Bank are subject to deferred payment. Such deferred payment for the Chief Risk Officer, Business Directors and the Secretary to the Board of Directors for the year 2018 was in the total amount of RMB4.038 million and remained pending at the time of the report.

8.1.4 Non-incumbent Directors, Supervisors and Senior Management Members

Name	Position prior to departure from office	Gender	Date of birth	Departure time	Year-beginning shareholding	Year-end shareholding	Pre-tax payable remuneration earned from the Bank during the reporting period (RMB10 thousand)	Whether receiving remuneration from the Bank's related party (parties) during the term of office with the Bank
Chang Zhenming	Non-executive Director	Male	Oct. 1956	Jan. 2018	0	0	–	Yes
Zhang Qiang	Vice President	Male	Apr. 1963	Jan. 2018	0	0	14.31	No
Shu Yang	Shareholder Representative Supervisor	Male	May 1964	Feb. 2018	0	0	–	Yes
Cao Guoqiang	Chairman of the Board of Supervisors	Male	Dec. 1964	Mar. 2018	0	0	63.00	No
Wu Xiaoqing	Independent Non-Executive Director	Female	Oct. 1953	Sep. 2018	0	0	22.50	No
Wong Luen Cheung Andrew	Independent Non-Executive Director	Male	Aug. 1957	Sep. 2018	0	0	22.50	No
Zhu Gaoming	Non-executive Director	Male	Jan. 1965	Sep. 2018	0	0	–	Yes
Sun Deshun	Executive Director, President	Male	Nov. 1958	Feb. 2019	0	0	245.63	No

Note: The final remunerations for 2018 for the non-incumbent chairman of the Board of Supervisors, the non-incumbent president and the non-incumbent vice president of the Bank listed in the table are still undergoing confirmation, of which the remaining amounts shall be disclosed upon completion of the confirmation process.

None of the directors, supervisors and senior management members, whether incumbent or non-incumbent during the reporting period, was subject to penalties imposed by the securities regulatory authorities in the past three years.

8.2 Resumes of Directors, Supervisors and Senior Management Members

8.2.1 Directors

Ms. Li Qingping

Chinese Nationality

Chairperson and executive director of the Bank. Ms. Li is concurrently executive director/deputy general manager of CITIC Group, executive director/deputy general manager/executive committee member of CITIC Limited, executive director/deputy general manager of CITIC Corporation Limited, chairperson of CIFH, vice chairperson of CITIC Prudential Life Insurance Co., Ltd. (formerly Pa Hsin-cheng Life Insurance Co., Ltd.), and chairperson of CITIC aiBank Corporation Limited. Ms. Li has been chairperson and executive director of the Bank since 20 July 2016. Prior to that, Ms. Li was executive director and president of the Bank from July 2014 to July 2016; Party secretary of the Bank since May 2014; non-executive director of the Bank between March and May 2014; Party committee member of CITIC Group and concurrently deputy general manager of CITIC Corporation Limited since September 2013; and deputy general manager and executive committee member of CITIC Limited since September 2014. She has been an executive director of CITIC Group, CITIC Corporation Limited and CITIC Limited since December 2015; deputy general manager of CITIC Group since December 2017; chairperson of CIFH since September 2015; vice chairperson of Pa Hsin-cheng Life Insurance Co., Ltd. (now CITIC Prudential Life Insurance Co., Ltd.) since March 2014; and chairperson of CITIC aiBank Corporation Limited since August 2017. Earlier, she was head of retail banking and concurrently general manager of personal finance department of Agricultural Bank of China (ABC) from May 2009 to September 2013; head of retail banking and concurrently general manager of personal banking and personal credit departments of ABC from January 2009 to May 2009; and Party secretary and president of ABC Guangxi Branch from January 2007 to December 2008. Prior to these, she was a cadre, deputy division chief, division chief, deputy general manager and general manager of the International Business Department at the ABC Head Office from August 1984 to January 2007. Ms. Li is a senior economist with over 30 years' professional experience in the Chinese banking industry. She graduated from Nankai University majoring in international finance with a master's degree in economics.

Mr. Cao Guoqiang

Chinese Nationality

Non-executive director of the Bank. Mr. Cao joined the Board of Directors of the Bank in September 2018. He serves as chief financial officer of CITIC Limited since April 2018, and general manager of the Finance Department of CITIC Group since March 2018. Mr. Cao was chairman of the Board of Supervisors of the Bank between December 2015 and March 2018, and held a temporary position at CITIC Group as the general manager of the Finance Department between April 2015 and March 2018. In addition, Mr. Cao has been a director of CITIC Metal Co., Ltd. since April 2018, a director of CITIC Modern Agriculture Investment Co., Ltd. since December 2017, a director of CITIC Myanmar (Hong Kong) Holdings Limited since October 2016, and a director of CITIC Heye Investment Co., Ltd. since December 2013. Mr. Cao was a director of CITIC Holdings Limited between December 2015 and April 2018, a director of CIFH and CNCBI between October 2009 and March 2016, and a director of China Investment and Finance Limited (now renamed "CNCBI Investment") between December 2005 and January 2014. He was vice president of the Bank from April 2010 to October 2015, assistant president of the Bank from April 2006 to April 2010, and general manager of the Budget and Finance Department of the Bank from April 2005 to April 2006. Earlier, between December 1992 and April 2005, Mr. Cao served as assistant general manager of the planning and treasury department at the Head Office of China Merchants Bank (CMB), a director of Shenzhen Speed International Investment Co., Ltd., a director and deputy general manager (presiding) of CMB Pawn Co., Ltd., general manager of the planning and treasury unit at CMB's Shenzhen administrative department, and deputy general manager and general manager of the planning and treasury department at the Head Office of CMB. From July 1988 to June 1992, Mr. Cao worked in the planning and treasury division of the PBOC Shaanxi branch as a senior staff member and deputy section chief. Mr. Cao is a senior economist with 30 years' experience in the Chinese banking industry. He graduated from Hunan College of Finance and Economics with a bachelor's degree in monetary banking and obtained his master's degree in monetary banking from Shaanxi College of Finance and Economics.

Mr. Fang Heying

Chinese Nationality

Executive director, Vice President and Chief Financial Officer of the Bank. Mr. Fang joined the Board of Directors of the Bank in September 2018. He has been Party committee member of the Bank since August 2014, vice president of the Bank since November 2014, concurrently chief financial officer of the Bank since January 2017, deputy secretary of the Party committee of the Bank since February 2019. At the moment, Mr. Fang is also concurrently a director of CNCB Investment, CNCBI and CIFH. Prior to that, Mr. Fang headed the Bank's financial markets business from May 2013 to January 2015. He was concurrently Party secretary and president of the Bank's Hangzhou Branch between May and September 2014 and served as Party secretary and president of the Bank's Suzhou Branch from March 2007 to May 2013. From September 2003 to March 2007, he successively held various positions at the Bank's Hangzhou Branch, including assistant president, Party committee member, and vice president. From December 1996 to September 2003, he worked at the Bank's Hangzhou Branch, successively holding the positions of section chief and deputy general manager of the credit department, general manager and Party secretary of Fuyang sub-branch, deputy general manager of the international settlement department, deputy general manager of the retail business department, and general manager of the business department. From July to December 1996, he was deputy director of Hangzhou Chengdong Office of Shanghai Pudong Development Bank. From December 1992 to July 1996, he worked at the credit department of the experimental urban credit cooperative of Zhejiang Banking School, successively holding the positions of credit clerk, manager, and assistant general manager. From July 1991 to December 1992, he was a teacher at Zhejiang Banking School. Mr. Fang is a senior economist and a graduate of Peking University with a master's degree in business administration. He has over 20 years of experience in the Chinese banking industry.

Ms. Huang Fang

Chinese Nationality

Non-executive director of the Bank. Ms. Huang joined the Board of Directors of the Bank in November 2016. She is a director of Xinhu Zhongbao Co., Ltd. since November 2015, a director of Zhejiang Xinhu Group Co., Ltd. since August 2013, and vice president and chief financial officer of Zhejiang Xinhu Group Co., Ltd. since July 2011. Previously, Ms. Huang was vice president and chief financial officer of Xinhu Holdings Limited from October 2010 to July 2011. From August 1992 to September 2010, she worked for Agricultural Bank of China (ABC) Zhenjiang Provincial Branch, holding various positions, including deputy general manager of the international business department of the branch, deputy general manager (presiding) of Hangzhou Baojiao sub-branch, as well as deputy general manager of the corporate banking unit as well as deputy general manager (presiding) and general manager of the personal finance unit at the business department of the branch. Ms. Huang graduated from Zhejiang University with a bachelor of law degree. She holds an intermediate economist title, and has a wealth of practical financial experience, outstanding leadership and organizational/coordinative capability.

Mr. Wan Liming

Chinese Nationality

Non-executive director of the Bank. Mr. Wan joined the Board of Directors of the Bank in June 2016. He serves as a deputy general manager of China Shuangwei Investment Co., Ltd. since December 2018. Earlier, he was director general of the Financial Management and Supervision Division (Audit Division) of the State Tobacco Monopoly Administration between November 2011 and November 2018. He was a deputy director general of the Financial Management and Supervision Division (Audit Division) of the State Tobacco Monopoly Administration between December 2009 and November 2011, and chief accountant of Yunnan Tobacco Monopoly Bureau (company) from February 2007 to December 2009. Between August 1996 and February 2007, he served multiple positions at Yunnan Tobacco Monopoly Administration (Company), including deputy chief and chief of the finance division, chief of the financial management and audit division, deputy chief accountant and chief of the financial management division. From May 1996 to August 1996, he was a cadre at Yunnan Tobacco Travel Company. From July 1988 to May 1996, he worked as a lecturer and deputy teaching & research director at Yunnan Finance and Trade College. Mr. Wan has worked in economic areas for more than 30 years, with a wealth of financial management experience. He graduated from the Department of Industrial Economics at Renmin University of China with a bachelor's degree in economic management of capital construction.

Mr. He Cao

Chinese Nationality

Independent non-executive director of the Bank. Mr. He joined the Board of Directors of the Bank in June 2016. Previously, he was chairman of China Jinmao Group (formerly Franshion Properties (China) Co., Ltd.), and chairman of Jinmao Investment and Jinmao (China) Investment Holding Co., Ltd. Mr. He joined Sinochem Corporation in 1979 and held various senior positions in financial management, business management and investment enterprises within the group. In 2002, he was appointed assistant to the president of Sinochem Corporation and regarded as a vice president of Sinochem from 2013 onward. Mr. He was president, vice chairman and chairman of China Jinmao (Group) Co., Ltd. since 2002, during which time he successfully ran the Shanghai Jinmao Tower, and presided over the investment, acquisition and construction of multiple luxury five-star hotels and properties in tier-one cities and high-end tourist resorts, developing Jinmao Group into China's well-known high-end commercial real estate developer and operator. Mr. He became chairman, executive director and CEO of Franshion Properties (China) Co., Ltd. in January 2009. Under his chairmanship and promotion, Franshion Properties (China) Co., Ltd. and Jinmao Group completed a strategic reorganization between 2009 and 2010, and the spin-off of Jinmao Tower Property and Franshion Properties' eight high-end hotels in 2014, which was successfully listed on the Hong Kong Stock Exchange as a trust structure of Jinmao Investment and Jinmao Holding. Mr. He once served as co-chair of the "China Hotel Owner Alliance" under the China Hotel Industry Association, and vice president of the All-China Real Estate Chamber of Commerce. In addition, Mr. He was engaged as the executive director of Shanghai Federation of Enterprises in Shanghai, vice chairman of Housing Policy and Market Regulation Research Committee of China Urban Science Research Council, and member of the Professional Committee on Green Building and Energy Conservation under the China Urban Science Research Society. He was a delegate to the 12th and 13th session of the Shanghai Municipal People's Congress and was named Shanghai's model worker in 2007 and one of the economic figures in Shanghai Pudong's 20-year development and opening up in 2012. Mr. He graduated from Jilin College for Finance and Economics with a junior diploma in 1979, from Renmin University of China with a degree in economics in 1986, and from the Graduate School of Political Economics in Jilin University in 1987. Mr. He obtained his MBA from the China Europe International Business School in 2004. He has a senior economist title.

Ms. Chen Lihua

Chinese Nationality

Independent non-executive director of the Bank. Ms. Chen joined the Board of Directors of the Bank in June 2016. She is a professor, Ph.D. tutor and dean of the Management Science and Information System Department of Guanghua School of Management at Peking University. At the same time, Ms. Chen is director of the Center for Research of Circulation Economy and Management, director of Liantai Supply Chain Research and Development Center, deputy dean of the China National Institute for Research of Development Strategy on Hi-Tech Industry Development Zone, and deputy director of the 21st Century Venture Capital Research Center at Peking University. In addition, she is vice president of the China Society of Logistics, deputy director of the Professional Committee of the China Society of Information Economics, member of the Experts Committee of China National Tourism Administration, and an expert on national high-tech zones engaged by the Ministry of Science and Technology. From 1999 to 2001, Ms. Chen was general manager of Beijing Jun Shi Century Information Technology Co., Ltd., a company mainly engaged in the development, production and sales of banking devices. Ms. Chen served as an independent director of Tiger, a Singaporean listed company in 2005 and 2006. She received a Bachelor of Science degree and a Master of Science degree from Jilin University of Technology in 1983 and 1988 respectively. She got her doctoral degree in management science from the City University of Hong Kong in 1998 and did her post-doctoral studies at the Institute of Mathematics and Systems Science of the Chinese Academy of Sciences between 1999 and 2000. Ms. Chen mainly researches and teaches the following areas: management science, supply chain finance, logistics finance, supply chain and logistics management, logistics park management, circulation economy and management, service operation management, hi-tech park and industrial management, technological innovation and management, venture capital investment and entrepreneurial management. In her fields of research, Ms. Chen has carried out extensive cooperation and exchanges with relevant international organizations, including Stanford University, George Mason University, Roma University and universities in Hong Kong. In her capacity as leader or research backbone, Ms. Chen has participated in numerous international cooperation projects and key research and development projects sponsored by the National Natural Science Foundation, ministries and provincial governments in China. She also sits on the review and assessment panels of multiple domestic and foreign academic journals. She has published numerous papers such as "Supply chain coordination based on the trade credit and option contract under capital constraint" on prestigious international publications such as the European Journal of Operational Research and Proceeding of Workshop on Internet and Network Economics. Ms. Chen took the lead to complete many major research reports including Research of the Supply Chain Financial Model for the Traditional Chinese Medicine Industry and the Research of the Supply Chain Financial Model for Agricultural Industry, etc.

Mr. Qian Jun

Chinese Nationality

Independent non-executive director of the Bank. Mr. Qian joined the Board of Directors of the Bank in December 2016. Mr. Qian has been professor of finance and executive dean of Fanhai International School of Finance at Fudan University since July 2017. He was deputy director of the China Academy of Financial Research and co-director of the EMBA/DBA/EE programs at Shanghai Advanced Institute of Finance (SAIF) of Shanghai Jiao Tong University between July 2014 and June 2017. He was an associate editor of the Review of Finance from December 2013 to December 2016. He was professor of finance and a Ph.D. tutor at Shanghai Advanced Institute of Finance (SAIF) and co-director of the EMBA program of Shanghai Jiao Tong University from July 2013 to June 2017. Mr. Qian served as a special-term professor of finance at Shanghai Jiaotong University from May 2009 to June 2013. Prior to joining SAIF, he taught finance at the Carroll School of Management of Boston College between July 2000 and June 2013, being an assistant professor from July 2000 to February 2006 and an associate professor of finance with tenure between March 2006 and June 2013. He worked as a Haub family researcher from September 2011 to June 2013. Since April 2011, Mr. Qian is an associate editor of the Frontiers of Economics in China. He was a special-term professor of finance at the School of Economics and Management of Tsinghua University between July 2007 and June 2009, a visiting associate professor at MIT's Sloan School of Management between July 2007 and June 2008, and a research fellow at the Wharton School of the University of Pennsylvania since September 2002. Mr. Qian did his undergraduate program at the Department of International Economics of Fudan University between 1988 and 1991 and obtained his B.S. degree in economics from the University of Iowa in May 1993 and his Ph.D. from the University of Pennsylvania in May 2000. Mr. Qian's research interests span many topics of theoretical and empirical corporate finance and financial institutions, including commercial and investment banking, mutual and hedge funds, credit rating agencies, mergers and acquisitions, legal systems related to finance, comparison of financial systems in emerging markets, development of financial systems during China's economic transformation, and financial risk prevention and control. His research papers have been published on top academic journals including the American Economic Review, Journal of Finance, Journal of Financial Economics, Journal of Financial and Quantitative Analysis and Journal of International Economics. He also contributed chapters of several books on financial system development, including China's Great Economic Transformation, Emerging Giants: China and India in the World Economy, China's Emerging Financial Markets: Challenges and Opportunities, and Global Perspectives of Rule of Law.

Yan Lap Kei Isaac

Chinese (Hong Kong) Nationality

Independent non-executive director of the Bank. Mr. Yan joined the Board of Directors of the Bank in September 2018. Earlier, he joined Arthur Young & Co. (UK) in 1984, joined KPMG Certified Public Accountants (UK) in 1987, and served as assistant manager at KPMG Certified Public Accountants (Hong Kong) since 1988, as manager since 1989, as senior manager since 1993 and was promoted partner in 1998. He served as a partner at KPMG Huazhen Certified Public Accountants in Beijing (special general partnership) between 2000 and 2017, and established the quality control and risk management department of KPMG (China). Mr. Yan graduated from Liverpool University with an (accounting) Bachelor of Arts degree, and has the chartered accountant qualification in England and Wales as well as the Hong Kong Institute of Certified Public Accountants fellowship. Mr. Yan has abundant experience in aspects such as accounting, audit and risk management, and used to participate many times in the public listing and annual audit of state-owned large and medium-sized enterprises in industries including finance, telecommunications, electricity and manufacturing. He enjoys a wealth of practical experience in merger, acquisition, reconstruction and public listing projects in mainland China and Hong Kong capital markets. Mr. Yan used to serve as a consulting expert of China Banking Regulatory Commission, an accounting standards consulting expert of the PRC Ministry of Finance, a consultant to the Accounting Department of China Securities Regulatory Commission (full-time for a year), a member of the Delisting Committee of the Shenzhen Stock Exchange, a member of the China Technical Professionals Group, Professional Standards Supervisory Committee and Risk Management Committee of the Hong Kong Institute of Certified Public Accountants. He also participated in the review of the first draft of the audit and accounting standards issued by the PRC Ministry of Finance and the English translation work of the audit standards. He was a visiting professor at Beijing National Accounting Institute and Shanghai National Accounting Institute.

8.2.2 Supervisors

Mr. Liu Cheng

Chinese Nationality

Chairman of the Board of Supervisors of the Bank. Mr. Liu serves as chairman of the Board of Supervisors, Employee Representative Supervisor and Party committee member of the Bank since April 2018. Mr. Liu worked at the General Office of the State Council from April 2008 to April 2018, successively serving as a secretary at the division chief level, a secretary at the deputy director general level and a secretary at the director general level. He was an official at the division chief level, a first Secretary, a researcher and deputy division chief of Division One of the Second Secretary Bureau at the General Office of the State Council from December 2004 to April 2008; assistant researcher and researcher of the Finance Division under the Finance Department of the National Development and Reform Commission from July 2003 to December 2004; and principal staff member at the Finance Department, and principal staff member and assistant researcher at the Economic Policy Coordination Department of the State Planning Commission (now National Development and Reform Commission) from March 1995 to July 2003. Mr. Liu graduated from the Finance Department of the Central College of Finance and Economics (now Central University of Finance and Economics) in July 1989 with a bachelor's degree in economics. He stayed on to teach at the college until March 1995, during which period he obtained a master's degree in economics. Mr. Liu obtained his doctor of economics degree in currency and banking from the School of Finance at Renmin University of China in July 2001.

Mr. Deng Changqing

Chinese Nationality

Shareholder representative supervisor and member of the Nomination Committee of the Board of Supervisors of the Bank. He serves as deputy chief accountant of China Poly Group Corporation Limited since January 2019. Mr. Deng was chief accountant of Poly Technologies Inc. between November 2014 and January 2019; concurrently chief accountant of Poly International Holdings Co., Ltd. from August 2016 to January 2019; deputy director and director of the finance department of China Poly Group Corporation (currently China Poly Group Corporation Limited) between February 2009 and November 2014; deputy general manager of the budget and finance department of Poly Technologies Inc. between March 2007 and February 2009; a manager of the finance department, a secretary at the General Office and a senior manager of the finance department of China Poly Group Corporation between May 2000 and March 2007. He graduated from the Beijing Graduate School of China University of Mining and Technology, majoring in economics & management.

Ms. Wang Xiuhong

Chinese Nationality

External supervisor and chairperson of the Nomination Committee of the Board of Supervisors of the Bank. She is honorary president of China Women Judges Society. She was president of China Women Judges Society and vice president of China Judges Society from December 2003 to January 2015. Ms. Wang served as a member (vice minister level) of the judicial committee of the Supreme People's Court of PRC from October 2004 to December 2010; head of the administrative tribunal and a member of the judicial committee of the Supreme People's Court of PRC from May 2003 to September 2004; a deputy director of the Political Department of the Supreme People's Court of PRC from February 1997 to April 2003; executive vice president and deputy Party secretary of the High People's court of Jilin Province and vice president of China Women Judges Association from February 1994 to January 1997. Prior to that, Ms. Wang successively served at Siping District Timber Company in Jilin, Intermediate People's court of Siping District, Liaoyuan Intermediate People's Court and Jilin Intermediate People's Court. With her long-term services in the judicial system, Ms. Wang is very experienced in legal matters. Ms. Wang graduated from Beijing Political Science and Law College (now China University of Political Science and Law).

Mr. Jia Xiangsen

Chinese Nationality

External supervisor and chairperson of the Supervision Committee of the Board of Supervisors of the Bank. He has been an independent director of China Life Insurance Company Limited since March 2016. He was concurrently chief audit executive and director general of the audit bureau at the Head Office of Agricultural Bank of China ("ABC") between March 2010 and March 2014 and headed the ABC Head Office audit bureau between April 2008 and March 2010. From December 1983 to April 2008, Mr. Jia was deputy general manager of the Fengtai District sub-branch of PBOC Beijing Branch, and held various positions at ABC Beijing Branch, including, among others, deputy head of Fengtai District sub-branch, deputy division chief (presiding) at the branch, head of Dongcheng District sub-branch, and eventually vice president and deputy Party secretary of the branch. He was also general manager of the corporate banking department of ABC Head Office and president of ABC Guangdong Provincial Branch. Prior to that, he worked at Chaoyang and Fengtai District offices of PBOC Beijing Branch. Mr. Jia graduated from the graduate school of the Chinese Academy of Social Sciences majoring in monetary banking.

Mr. Zheng Wei

Chinese Nationality

External supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank. He is a professor and dean of risk management and insurance science at the School of Economics of Peking University. Mr. Zheng has been working at the School of Economics of Peking University since July 1988, holding various positions including assistant lecturer, lecturer, associate professor, professor and Ph.D. tutor, and has been assistant dean, deputy dean and dean of risk management and insurance science since March 1999. He is an independent director of Xinhua Life Insurance Co., Ltd. since March 2016 and an independent director of Donghai Shipping Insurance Co., Ltd. since June 2016. He has been an independent director of PICC Reinsurance Co., Ltd. since May 2017, and an independent director of Shanghai Nanyan Information Technology Co., Ltd. since November 2018. Between August 1999 and January 2000, Mr. Zheng was a visiting scholar to the Business School of the University of Wisconsin—Madison. Mr. Zheng graduated from the School of Economics of Peking University with a doctoral degree in finance.

Mr. Cheng Pusheng

Chinese Nationality

Employee representative supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank. Mr. Cheng has been president of the Bank's Taiyuan Branch since January 2019 and Party secretary of the branch since September 2018. He was general manager of the Audit Department of the Bank from May 2015 to September 2018; general manager of the Bank's Centralized Procurement Center between October 2013 and January 2015; deputy general manager of the Bank's Budget and Finance Department and concurrently head of the financial management division within the department between March 2011 and October 2013; assistant general manager and concurrently head of the financial management division within the department from August 2008 to March 2011; head of the financial management division within the Budget and Finance Department between June 2005 and August 2008; deputy head of the budget management division within the Budget and Finance Department between March 2004 and June 2005; and before that a staff member, deputy section chief, section chief and deputy general manager at the Bank's Budget and Finance Department between July 1995 and March 2004. He is a senior economist. Mr. Cheng did his master's program at the Graduate School of Shaanxi College of Finance and Economics (now School of Economics and Finance of Xi'an Jiaotong University) between August 1992 and July 1995 and worked as an employee at Wanrong sub-branch of PBOC Shanxi Provincial Branch from July 1991 to August 1992.

Mr. Chen Panwu

Chinese Nationality

Employee representative supervisor and member of the Nomination Committee of the Board of Supervisors of the Bank. He serves as general manager of the Bank's the Culture, Labor Union Office & Security Department (Safety and Security Department) since September 2018, and executive vice chairman of the trade union of the Bank since December 2014. Prior to that, he was general manager of the Culture, Labor Union Office & Security Department of the Bank between April 2015 and September 2018; deputy general manager and general manager of the Human Resources Department of the Bank from June 2005 to November 2014, during which period he concurrently served as head of the organization department of the Party Committee of the Bank from October 2012 to November 2014. From May 1994 to June 2005, he worked at the Bank's Hangzhou Branch, successively serving as deputy head of the planning and credit unit, head of Fengqi office, general manager of the personnel department, and assistant to the general manager & general manager of the human resources unit. Mr. Chan graduated from Suzhou University with a doctoral degree in finance.

Ms. Zeng Yufang

Chinese Nationality

Employee representative supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank. She has been vice president of the Bank's Shenzhen Branch since May 2011. Earlier, she was assistant president of the Bank's Shenzhen Branch from July 2008 to May 2011; and deputy general manager and general manager of the accounting department of the branch from December 2003 to July 2008. Between August 2001 and November 2003, she was deputy general manager of Shenzhen Gaofei Industrial Co., Ltd. (now renamed "Shenzhen Honemark Information Technology Co., Ltd."). From December 1998 to July 2001, she was assistant chief of the finance and accounting division of State Development Bank Shenzhen Branch. From March 1996 to November 1998, she worked at Shenzhen Branch of China Investment Bank, successively serving as deputy chief of the accounting section and assistant general manager of the accounting unit of Futian sub-branch. Ms. Zeng graduated from East-West University of the USA with a master's degree in business administration.

8.2.3 Senior Management

Mr. Fang Heying

Chinese Nationality

Executive director, Vice President and Chief Financial Officer of the Bank. Please refer to "Directors" in this chapter for Mr. Fang's resume.

Mr. Guo Danghuai

Chinese Nationality

Vice President of the Bank. Mr. Guo serves as Party committee member of the Bank since August 2014 and vice president of the Bank since November 2014. Prior to that, he was chief auditor of the Bank from May 2013 to August 2014; Party secretary and general manager of the Business Department at the Bank's Head Office from March 2010 to May 2013; Party secretary and president of the Bank's Tianjin Branch from July 2006 to March 2010; general manager of the International Business Department of the Bank from January 2005 to July 2006; and assistant president of the Bank between August 2001 and January 2005. From November 2000 to August 2001, he was designated by CITIC Group to be chairman of CITIC Guo'an Group and lead the project on acquisition of Shantou Commercial Bank. He served as Party secretary and president of the Bank's Shenyang Branch from September 1999 to November 2000. Before that, between August 1986 and September 1999, he worked for the Bank, successively holding the positions of staff, deputy section chief and section chief, and also served as section chief, deputy general manager and general manager of the Bank's business department at Capital Mansion, assistant president and vice president of the Bank's Beijing Branch, and deputy general manager of the Business Department at the Bank's Head Office. Mr. Guo is a senior economist and a graduate of Peking University with a master's degree in business administration. He has over 30 years of experience in the Chinese banking industry.

Mr. Yang Yu

Chinese Nationality

Vice President of the Bank. Mr. Yang has been Party committee member of the Bank since July 2015 and vice president of the Bank since December 2015. At the moment, Mr. Yang is concurrently chairman of CITIC Financial Leasing Co. Ltd. Prior to that, he was Party secretary and president of China Construction Bank Limited (CCB) Jiangsu Branch between March 2011 and June 2015; and Party secretary and president of CCB Hebei Branch between July 2006 and February 2011. Between August 1982 and June 2006, Mr. Yang worked at CCB Henan Branch, holding various positions, including deputy head of the branch's budget and finance division, head of the budget and finance division as well as vice president and Party committee member of Xinyang Branch, Party secretary and general manager of Zhengzhou municipal railway branch, Party secretary and president of Zhengzhou Branch, and deputy Party secretary and vice president (presiding) of Henan Provincial Branch. Mr. Yang is a senior economist with a master's diploma and a doctorate degree in management. He has over 30 years of experience in the Chinese banking industry.

Mr. Mo Yue

Chinese Nationality

Secretary of the Committee for Disciplinary Inspection. Mr. Mo has been Secretary of the Committee for Disciplinary Inspection and member of the Party committee of the Bank since May 2017. Prior to that, Mr. Mo was deputy director of the Supervision Department of CITIC Group from October 2015 to May 2017. Earlier, Mr. Mo served as special inspector (deputy departmental head level) and deputy director of the office of the leading group for touring inspection under the Party committee of CITIC Group from June 2010 to October 2015. From July 2007 to June 2010, he worked at CITIC Bohai Aluminum Industries Holding Company Limited, serving successively as member of the Party committee, chief accountant and deputy general manager. He was deputy director and director of the Audit Department of CITIC Corporation between November 2000 and July 2007, and chief auditor of the Audit Department of CITIC Corporation from May 1997 to November 2000. From August 1984 to May 1997, Mr. Mo worked at Tongxian County Audit Office in Beijing. Mr. Mo is a senior economist and a graduate from Beijing College of Economics with a bachelor's degree in economics.

Mr. Hu Gang

Chinese Nationality

Vice President of the Bank. Mr. Hu has been vice president of the Bank since May 2017 and Party committee member of the Bank since November 2017. Mr. Hu was Party secretary of the Bank's Shanghai Branch between December 2014 and July 2018, and concurrently president of Shanghai Branch between May 2015 and July 2018. Prior to that, he was head of the wholesale business of the Bank from May 2014 to May 2017; Chief Risk Officer of the Bank from May 2013 to May 2014; Party committee member, vice president, Party secretary, vice president (presiding) and president of the Bank's Chongqing Branch from May 2005 to May 2013. He served successively as deputy head of the preparatory team for establishment of the Bank's Changsha Branch, Party committee member and vice president of Changsha Branch from June 2000 to May 2005; and chairman of Changsha Xiangcai Urban Credit Cooperative in Hunan Province from October 1997 to June 2000. From August 1993 to October 1997, he worked for Hunan Zhongli Industrial Group Co., Ltd. and served successively as assistant general manager and general manager of Beihaixiang Properties Development Company and vice president of the company's affiliated Hongdu Enterprise Company. From March to August 1993, Mr. Hu was deputy section chief at the personnel department of Hunan Provincial Party Committee Office; and from June 1989 to March 1993, he worked for the Political Department of Hunan Provincial Procuratorate. Mr. Hu is a senior economist and a graduate of Hunan University with a doctoral degree in economics. He has over 10 years of experience in the Chinese banking industry.

Mr. Xie Zhibin

Chinese Nationality

Party committee member of the Bank. Mr. Xie serves as a member of the Party committee of the Bank since February 2019. Previously, Mr. Xie was Secretary of the Committee for Disciplinary Inspection and member of the Party Committee of China Everbright Group Co., Ltd. from July 2015 to January 2019. Between March 2012 to July 2015, he served as Assistant General Manager of China Export Credit Insurance Corporation, during which time, from January 2014 to July 2015, he temporarily worked as a standing member of the Party committee and Deputy Mayor of Hohhot City in Inner Mongolia Autonomous Region. Earlier, from March 2011 to March 2012, he was Party Committee member and assistant general manager of China Export Credit Insurance Corporation. Between October 2001 and March 2011, he was staff member, assistant general manager, deputy general manager and general manager of the human resources department (assistant director, deputy director and director of the organization department under the Party committee) of China Export Credit Insurance Corporation, Party secretary of the company's Shenzhen branch, and person in charge, party secretary, and general manager of the company's Hebei provincial branch. Before that, from July 1991 to October 2001, he was a staff member, chief staff member and deputy director of the People's Insurance Company of China. Mr. Xie is an economist and graduated from Renmin University of China with a doctorate degree in economics.

Mr. Yao Ming

Chinese Nationality

Chief Risk Officer of the Bank. Mr. Yao has been Chief Risk Officer of the Bank since May 2017. Before that, he was general manager of the Credit Approval Department of the Bank between October 2014 and August 2018; general manager of the Risk Management Department of the Bank from July to October 2014; Party secretary and president of the Bank's Wenzhou Branch from March 2013 to June 2014; assistant president, chief risk officer, Party committee member and vice president of the Bank's Nanjing Branch from April 2004 to March 2013; associate, deputy general manager and general manager of the credit review department of Nanjing Branch from April 1999 to April 2004; staff member, deputy section chief and section chief of the credit business department of Nanjing Branch from October 1996 to April 1999. Earlier, he was deputy head of the domestic cooperation department of Nanjing Bole Group Corporation between February 1995 and September 1996; deputy chief of the finance division at the state-owned No. 924 Factory from March 1993 to February 1995; manager of the financial department of Shenzhen Hualianfa Company from April 1991 to March 1993; and accountant at the state-owned No. 924 Factory from August 1984 to April 1991. Mr. Yao is a senior economist and a graduate from Hangzhou Institute of Electronic Industry with a bachelor's degree. He has over 20 years of professional experience in the Chinese banking industry.

Mr. Lu Wei

Chinese Nationality

Secretary to the Board of Directors and Company Secretary of the Bank. Mr. Lu has been Board Secretary, Company Secretary and authorized representative of the Bank since January 2017; Party secretary of the Bank's Shenzhen Branch since January 2019; a board director of JSC Altyn Bank since June 2018; a board director of CITIC aiBank since August 2017; and deputy head of the preparatory team for the establishment of the Bank's Hong Kong Branch since September 2016. Previously, Mr. Lu was general manager of the Asset and Liability Department of the Bank between October 2016 and January 2019; general manager of the Budget and Finance Department (now Finance and Accounting Department) of the Bank from September 2013 to October 2016; and deputy general manager (presiding) of the Budget and Finance Department from March to September 2013. Between January 1997 and March 2013, he worked at the Business Department at the Head Office of the Bank, holding various positions including deputy section chief and deputy division chief at the Corporate Banking Department (during which period, from March 2001 to January 2002, he was seconded by the Bank to HSBC Jersey Branch), management member, deputy general manager (presiding) and general manager of the Bank's Xidan sub-branch, general manager of the Bank's Capital Mansion sub-branch, general manager of the Bank's Interbank Business Department, and Party committee member, assistant general manager and deputy general manager of the Business Department at the Bank's Head Office. Between July 1994 and January 1997, Mr. Lu worked for Beijing Youth Industrial Group Corporation. Mr. Lu is a certified public accountant of PRC, Hong Kong SAR and Australia, with over 20 years' experience in the Chinese banking industry. He graduated from Deakin University in Australia with a master's degree in accounting.

Mr. Lu Jingen

Chinese Nationality

Business Director of the Bank. Mr. Lu Jingen has been Business Director of the Bank since 20 August 2018; and Party secretary and president of Nanjing Branch of the Bank since September 2016. Prior to that, Mr. Lu served as Party secretary and president of the Bank's Changsha Branch from November 2012 to September 2016; Party secretary, vice president (presiding) and president of the Bank's Kunming Branch from March 2007 to November 2012; and assistant general manager (presiding) of the corporate banking department of the Bank from May 2006 to March 2007. He worked at the Business Department of the Bank's Head Office from January 1999 to May 2006, successively serving as deputy head of the corporate loan division, head of the asset preservation division, general manager of the Asian Games Village sub-branch, general manager of the Olympic Village sub-branch, general manager of the CITIC International Building sub-branch, and assistant general manager and Party secretary of the Business Department at the Head Office. Earlier, he worked at the Credit Department of the Bank from August 1994 to January 1999. Mr. Lu is a senior economist with over 20 years' practicing experience in the Chinese banking industry. He graduated from Harbin Engineering University with a bachelor's degree in mechatronics, received his master's degree in economics from Renmin University of China and obtained his EMBA degree from Peking University.

Mr. Lü Tiangui

Chinese Nationalit

Business Director of the Bank. Mr. Lü has been Business Director of the Bank since 20 August 2018; Party secretary of the Bank's Credit Card Center since May 2014; and concurrently general manager of the Bank's Retail Banking Department and Private Banking Department since September 2017. Previously, Mr. Lü served as president of the Bank's Credit Card Center from May 2014 to January 2019. Between January 2003 and May 2014, he was deputy general manager of the finance and law department, general manager of the operation department and general manager of the customer service department of the Credit Card Center of the Bank, as well as assistant president, Party committee member and vice president of the Credit Card Center. Earlier, from August 1993 to January 2003, he was deputy chief of the risk management division at Jilin Branch of Bank of China Corporation Limited. Mr. Lü has 25 years' practicing experience in the Chinese banking industry. He holds qualifications such as senior accountant, Certificated Internal Auditor (CIA) and PRC certified public accountant (CPA). Mr. Lü graduated from Sichuan University with a master's degree in business administration.

8.3 Appointment and Dismissal of Directors, Supervisors and Senior Management Members

8.3.1 Directors

In January 2018, Mr. Chang Zhenming resigned his non-executive directorship at the Bank and membership of the Strategic Development Committee of the Board of Directors of the Bank due to work rearrangements, with effect from 5 January 2018.

On 25 May 2018, the term of the 4th Session of the Board of Directors of the Bank expired. At the 2017 Annual General Meeting, the Bank elected the 5th Session of the Board of Directors. As of 25 May 2018, the Bank has Ms. Li Qingping serve as executive director and chairperson of the 5th Session of the Board of Directors; Mr. Sun Deshun as executive director of the 5th Session of the Board of Directors and President of the Bank; Mr. Zhu Gaoming, Mr. Cao Guoqiang, Ms. Huang Fang and Mr. Wan Liming as non-executive directors of the 5th Session of the Board of Directors; and Mr. He Cao, Ms. Chen Lihua, Mr. Qian Jun and Mr. Yan Lap Kei Isaac as independent non-executive directors of the 5th Session of the Board of Directors. Among them, Ms. Li Qingping, Mr. Zhu Gaoming, Mr. Cao Guoqiang, Ms. Huang Fang and Mr. Wan Liming were nominated by the 4th Session of the Board of Directors with recommendations from relevant shareholders of the Bank. Mr. Cao Guoqiang and Mr. Yan Lap Kei Isaac would assume their directorship upon approval from regulatory authorities of their qualifications for office. The remaining directors were re-elected and took office on 25 May 2018. Before Mr. Yan Lap Kei Isaac officially took office, Ms. Wu Xiaoqing and Mr. Wong Luen Cheung Andrew, independent non-executive directors of the 4th Session of the Board of Directors serving the Bank for nearly six years, continued to perform their duties.

Upon approval by the CBIRC, as of 18 September 2018, Mr. Yan Lap Kei Isaac serves as independent non-executive director of the Board of Directors of the Bank. As per relevant regulatory requirements and the resolution of the Board of Directors of the Bank, as of 18 September 2018, Ms. Wu Xiaoqing and Mr. Wong Luen Cheung Andrew, officially become non-incumbent from their independent non-executive directorship of the Bank.

On 8 August 2018, the 2nd Extraordinary General Meeting of the Bank adopted the resolution on electing Mr. Fang Heying executive director of the 5th Session of the Board of Directors of the Bank. Upon approval by the CBIRC, as of 18 September 2018, Mr. Fang Heying officially serves as executive director of the Bank.

Upon approval by the CBIRC, as of 25 September 2018, Mr. Cao Guoqiang officially serves as non-executive director of the Bank.

In September 2018, due to change of position, Mr. Zhu Gaoming resigned his non-executive directorship at the Bank, with effect from 28 September 2018.

In February 2019, due to age reason, Mr. Sun Deshun no longer held his positions at the Bank, including executive director and president of the Bank, chairman and member of the Risk Management Committee of the Board of Directors and member of the Strategic Development Committee of the Board of Directors, with effect from 26 February 2019.

8.3.2 Supervisors

In February 2018, Mr. Shu Yang resigned his positions as supervisor, chairman of the Supervision Committee and member of the Nomination Committee of the Board of Supervisors of the Bank due to work rearrangements, with effect from 27 February 2018.

In March 2018, Mr. Cao Guoqiang resigned his positions as chairman and member of the Board of Supervisors of the Bank due to work rearrangements, with effect from 23 March 2018.

On 20 April 2018, the Employee Representative Assembly of the Bank elected Mr. Liu Cheng employee representative supervisor of the 4th Session of the Board of Supervisors of the Bank. On 23 April 2018, the 27th meeting of the 4th Session of the Board of Supervisors of the Bank elected Mr. Liu Cheng chairman of the 4th Session of the Board of Supervisors. Mr. Liu Cheng officially assumed his chairmanship on 23 April 2018.

On 25 May 2018, the term of the 4th Session of the Board of Supervisors of the Bank expired. After election at the Employee Representative Assembly on 24 May 2018 and deliberation at the 2017 Annual General Meeting on 25 May 2018, the Bank elected the 5th Session of the Board of Supervisors. As of 25 May 2018, the Bank has Mr. Liu Cheng serve as chairman of the 5th Session of the Board of Supervisors; Mr. Deng Changqing as shareholder representative supervisor of the 5th Session of the Board of Supervisors; Ms. Wang Xiuhong, Mr. Jia Xiangsen and Mr. Zheng Wei as external supervisors of the 5th Session of the Board of Supervisors; and Mr. Cheng Pusheng, Mr. Chen Panwu and Ms. Zeng Yufang as employee representative supervisors of the 5th Session of the Board of Supervisors of the Bank. Among them, Mr. Deng Changqing is a new supervisor and the remaining supervisors were re-elected, all of whom took office on 25 May 2018.

8.3.3 Senior Management Members

In January 2018, Mr. Zhang Qiang resigned his vice presidency of the Bank, with effect from 19 January 2018.

In February 2018, the meeting of the Board of Directors of the Bank adopted the proposal on engaging Mr. Lu Jingen to be Business Director of the Bank. Upon CBIRC approval, from 20 August 2018, Mr. Lu Jingen officially serves as Business Director of the Bank.

In March 2018, the meeting of the Board of Directors of the Bank adopted the proposal on engaging Mr. Lü Tiangui to be Business Director of the Bank. Upon CBIRC approval, from 20 August 2018, Mr. Lü Tiangui officially serves as Business Director of the Bank.

In February 2019, due to age reason, Mr. Sun Deshun no longer held his positions at the Bank, including executive director and president of the Bank, chairman and member of the Risk Management Committee of the Board of Directors and member of the Strategic Development Committee of the Board of Directors, with effect from 26 February 2019.

On 26 February 2019, the Board of Director meeting reviewed and adopted related proposals giving the consent that Mr. Fang Heying would serve as President of the Bank as of the date when the CBIRC approved his qualification for office, prior to which Mr. Fang Heying would perform the duties of the President of the Bank.

In February 2019, Mr. Xie Zhibin joined the Bank as Party committee member. The Board of Directors meeting on 26 March 2019 reviewed and adopted related proposals on engaging Mr. Xie Zhibin to be Vice President of the Bank as of the date when CBIRC approves his qualification for office.

8.4 Remunerations of Directors, Supervisors and Senior Management Members

The scheme of remunerations for the Bank's directors and senior management members shall be drafted by the Nomination and Remuneration Committee under the Board of Directors and reviewed and approved by the Board of Directors. Thereafter the scheme of remunerations for the Bank's directors shall be submitted to the general meeting for approval. The scheme of remunerations for the Bank's supervisors shall be drafted by the Nomination Committee under the Board of Supervisors, and after its approval by the Board of Supervisors shall be submitted to the general meeting for approval. The Bank offers remunerations to directors, supervisors and senior management members who are at the same time employees of the Bank. Such remunerations shall correspond to the positions held by the payees and include salary, bonus, allowance, subsidy, employee welfare and insurance contributions, housing provident fund and annuity. An allowance system is implemented for independent non-executive directors and external supervisors. The Bank does not pay any salary or allowance to any other directors or supervisors. Pursuant to relevant PRC laws and regulations, the Bank has joined various mandatory contributory retirement schemes set out in PRC laws and regulations for all employees (including the executive directors, supervisors, and senior management members that are also employees of the Bank). Actual pre-tax remunerations paid to the directors, supervisors and senior management members (both incumbent and non-incumbent) who received remunerations from the Bank was in the amount of RMB38.5854 million for the reporting period. As at the end of the reporting period, the Bank had not provided any share incentives to directors, supervisors or senior management members.

8.5 Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Bank Held by Its Directors, Supervisors and Senior Management Members

As at the end of the reporting period, none of the Bank's directors, supervisors or senior management members, whether incumbent or non-incumbent during the reporting period, held any shares, share options or restrictive shares of the Bank.

8.6 Interests of Directors and Supervisors in Material Contracts

During the reporting period, neither the Bank or its holding companies, nor any of its subsidiaries or fellow subsidiaries entered into any material contract in relation to the business of the Bank in which any director or supervisor had material interests, whether directly or indirectly.

8.7 Service Contracts of Directors and Supervisors

None of the directors or supervisors of the Bank concluded with the Bank or any of the Bank's subsidiaries any service contract that may not be terminated within one year as of the entry into effect of the contract or that may only be terminated with the payment of other compensations in addition to the mandatory compensations.

8.8 Relationships among Directors, Supervisors and Senior Management Members

There was no material financial, business, family or other relationship among directors, supervisors or senior management members of the Bank.

8.9 Interests of Directors in Businesses Competing with the Bank

None of the directors of the Bank had any interest in businesses that directly or indirectly competed or may compete with the Bank.

8.10 Liability Insurance for Directors, Supervisors and Senior Management Members

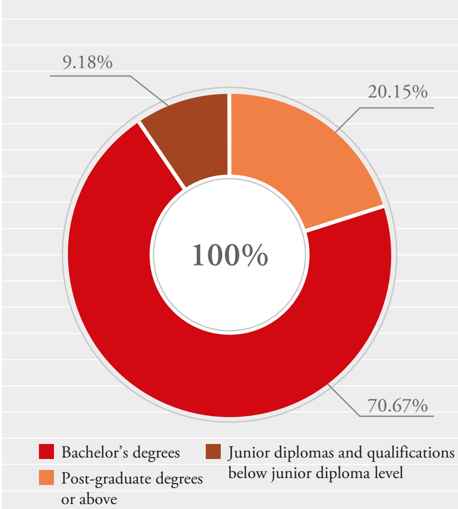
In 2018, the Bank bought liability insurance for all of its directors, supervisors and senior management members. In 2018, the Bank did not benefit any of its directors with any permitted indemnity provisions that had been or were in force.

8.11 Information on Staff and Affiliates

8.11.1 Number and Mix of Employees, Number of Retirees and Affiliates

As at the end of the reporting period, the Bank (including its consolidated subsidiaries) had 56,415 employees, including 52,976 under labor contracts with the Bank and 3,439 dispatched to the Bank or hired with letters of engagement by the Bank. Of all the employees, 11,127 served as managerial function, 41,359 as professional function and 3,929 as supporting function. 11,365 employees, 20.15% of the total, held post-graduate degrees or above; 39,868 employees, 70.67% of the total, held bachelor's degrees; and 5,182 employees, 9.18% of the total, held junior diplomas and qualifications below junior diploma level. In addition, the Bank had 1,418 retirees.

Staff education structure



Region	Name of Affiliate	Address/Postal Code	Telephone/Fax	Number of outlets	Number of staffers	Total Assets (RMB million)
Head Office	Headquarters	Address: No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing Postal Code: 100010	010-85230010	1	1,697	820,764
	Credit Card Center	Address: CITIC Bank Building, 121 Fuhua 1st Road, Futian Street, Futian District, Shenzhen, Guangdong Province Postal Code: 518048	0755-88200000	1	6,503	436,486
Bohai Rim	Business Department of the Head Office	Address: Tower A, Investment Plaza, No. 27, Financial Street, Xicheng District, Beijing Postal Code:100033	010-66293503 010-66211812	80	2,967	810,775
	Tianjin Branch	Address: 3-8/F Tianjin Global Financial Center, No. 2, North Dagu Road, Heping District, Tianjin Postal Code: 300020	022-23028888 022-23028800	34	986	85,965
	Shijiazhuang Branch	Address: CITIC Tower, No. 10, Ziqiang Road, Shijiazhuang, Hebei Province Postal Code: 050000	0311-87884438 0311-87884436	62	1,771	73,748
	Jinan Branch	Address: CITIC Plaza, No. 150, Leyuan Street, Jinan, Shandong Province Postal Code: 250011	0531-85180916 0531-86916444	46	1,529	90,777
	Qingdao Branch	Address: No. 22, Mid Hong Kong Road, Qingdao, Shandong Province Postal Code: 266071	0532-85022889 0532-85022888	53	1,677	99,300
	Dalian Branch	Address: No. 29, Renmin Road, Zhongshan District, Dalian City, Liaoning Province Postal Code: 116001	0411-82821868 0411-82815834	24	866	52,447
	CITIC Financial Leasing Co., Ltd.	Address: 2-310 Kuangshi Guoji Building, CBD, Binhai New Area, Tianjin Postal Code: 300450	010-53939600 010-53778081	1	91	50,217
	CITIC aiBank Corporation Limited (not a consolidated subsidiary)	Address: 8/F, Building 3, No. 5, Anding Road, Chaoyang District, Beijing	010-86496888 010-86496555	1	501	35,924
Yangtze River Delta	Shanghai Branch	Address: CITIC Bank Building, 138 Expo Road, Pudong New Area, Shanghai Postal Code: 200126	021-20268888 021-20268564	51	1,623	304,512
	Nanjing Branch	Address: No. 348, Zhongshan Road, Nanjing, Jiangsu Province Postal Code: 210008	025-83799181 025-83799000	82	3,124	300,487
	Suzhou Branch	Address: West Building, Business Center, Financial Harbor, No. 266 East Suzhou Avenue, Suzhou Industrial Park, Suzhou City, Jiangsu Province Postal Code:/215028	0512-65190307 0512-65198570	29	1,048	119,865
	Hangzhou Branch	Address: No. 9 East Jiefang Road, Sijiqing Neighborhood, Jianggan District, Hangzhou, Zhejiang Province Postal Code: 310002	0571-87032888 0571-87089180	89	3,328	381,950
	Ningbo Branch	Address: CITIC Tower, No. 36, Zhenming Road, Haishu District, Ningbo, Zhejiang Province Postal Code: 315010	0574-87733226 0574-87733060	27	833	78,990
	Lin'an CITIC Rural Bank	Address: No. 777, Shijing Street, Jincheng Neighborhood, Lin'an District, Hangzhou City, Zhejiang Province Postal Code: 311300	0571-61109006 0571-61106889	3	55	1,651

Region	Name of Affiliate	Address/Postal Code	Telephone/Fax	Number of outlets	Number of staffers	Total Assets (RMB million)
Pearl River Delta and West Strait	Fuzhou Branch	Address: Hengli Financial Center, No. 6, Guanfengting Street, Gulou District, Fuzhou, Fujian Province Postal Code: 350001	0591-87613100 0591-87537066	56	1,510	60,760
	Xiamen Branch	Address: CITIC Bank Building (Huijing City), No. 81, West Hubin Road, Xiamen, Fujian Province Postal Code: 361001	0592-2385088 0592-2389000	17	494	23,524
	Guangzhou Branch	Address: CITIC Plaza, No. 233, North Tianhe Road, Guangzhou, Guangdong Province Postal Code: 510613	020-87521188 020-87520668	70	2,541	308,551
	Shenzhen Branch	Address: 1/F (15A, 15-19, 34-36, 41-43) and 5-10/F, Phase II Time Square, No. 8 Third Central Road, Futian District, Shenzhen, Guangdong Province Postal Code: 518048	0755-25941266 0755-25942028	46	1,505	361,441
	Dongguan Branch	Address: Nanfeng Center, No. 106, Hongfu Road, Nancheng District, Dongguan, Guangdong Province Postal Code: 523070	0769-22667888 0769-22667999	32	870	47,266
	Haikou Branch	Address: 1-3/F, Banshan Hua Yuan, No.1 Middle Jinmao Road, Longhua District, Haikou, Hainan Province Postal Code: 570125	0898-68578310 0898-68578360	12	336	13,927
Central Region	Hefei Branch	Address: No. 396, Huizhou Avenue, Baohe District, Hefei, Anhui Province Postal Code: 230001	0551-62898001 0551-62898002	40	1,095	93,692
	Zhengzhou Branch	Address: CITIC Mansion, No.1 Business Inner Ring Road, Zhengdong New District, Zhengzhou, Henan Province Postal Code: 450018	0371-55588888 0371-55588555	83	2,294	186,496
	Wuhan Branch	Address: No. 747 Jianshe Avenue, Jianghan District, Wuhan City, Hubei Province Postal Code: 430015	027-85355111 027-85355222	46	1,406	146,365
	Changsha Branch	Address: Beichen Times Square, No.1500 North Xiangjiang Road, Kaifu District, Changsha, Hunan Province Postal Code: 410000	0731-84582008 0731-84582008	40	1,194	67,620
	Nanchang Branch	Address: Tower A, No. 16, Hengmao Guoji Huacheng, No. 333, South Square Road, Nanchang, Jiangxi Province Postal Code: 330003	0791-6660107 0791-6660107	20	656	58,406
	Taiyuan Branch	Address: Wang Fu Commercial Building, No. 9 Fuxi Street, Taiyuan City, Shanxi Province Postal Code: 030002	0351-7737055 0351-7737000	30	904	45,440

Region	Name of Affiliate	Address/Postal Code	Telephone/Fax	Number of outlets	Number of staffers	Total Assets (RMB million)
Western Region	Chongqing Branch	Address: No. 5 Jiangbei Chengxi Avenue, Jiangbei District, Chongqing Postal Code: 400020	023-63107573 023-63107257	29	1,030	100,106
	Nanning Branch	Address: No. 36-1, Shuangyong Road, Nanning, Guangxi Zhuang Autonomous Region Postal Code: 530021	0771-6115804 0771-5569889	18	539	36,555
	Guiyang Branch	Address: CITIC Building, Changling North Road, Guanshanhu District, Guiyang City, Guizhou Province Postal Code: 550081	0851-82599865	14	414	29,358
	Hohhot Branch	Address: CITIC Building, Jintai Center, Ruyihe Avenue, Ruyi Development Area, Hohhot, Inner Mongolia Autonomous Region Postal Code: 010020	0471-6664933 0471-6664933	34	926	64,527
	Yinchuan Branch	Address: 4-5/F Mast Office Building, No.160 Middle Beijing Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region Postal Code:750002	0951-7868556 0951-7653000	8	255	12,019
	Xining Branch	Address: No.1 Jiaotong Lane, Shengli Road, Chengxi District, Xining City, Qinghai Province Postal Code:810008	0971-8812658 0971-8812616	10	219	9,779
	Xi'an Branch	Address: No. 1, Middle Zhuque Road, Xi'an City, Shaanxi Province Postal Code: 710061	029-89320022 029-89320029	37	1,063	66,936
	Chengdu Branch	Address: No.1480 Tianfu Avenue, High-Tech Area, Chengdu, Sichuan Province Postal Code: 610041	028-65338800 028-85258898	45	1,209	136,596
	Urumqi Branch	Address: CITIC Bank Tower, No.165, North Xinhua Road, Urumqi Postal Code: 830002	0991-2365936 0991-2365888	10	344	26,244
	Kunming Branch	Address: Fulin Square, No. 81, Baoshan Street, Kunming, Yunnan Province Postal Code: 650021	0871-63648407 0871-63648667	33	814	40,058
	Lanzhou Branch	Address: No. 638 West Donggang Road, Chengguan District, Lanzhou, Gansu Province Postal Code: 730000	0931-8890699 0931-8890699	14	332	12,174
	Lhasa Branch	Address: No. 22 Jiangsu Road, Chengguan District, Lhasa City, Tibet Autonomous Region Postal Code: 850000	0891-6599108 0891-6599126	2	119	7,663
Northeastern region	Harbin Branch	Address: No. 236, Hongqi Avenue, Nangang District, Harbin, Heilongjiang Province Postal Code: 150090	0451-55558247 0451-53995558	18	525	24,347
	Changchun Branch	Address: No. 1177, Changchun Avenue, Changchun, Jilin Province Postal Code: 130041	0431-81910011 0431-81910123	19	474	31,554
	Shenyang Branch	Address: No. 336, Daxi Road, Shenhe District, Shenyang, Liaoning Province Postal Code: 110014	024-31510456 024-31510234	50	1,439	43,284
Overseas	CIFH	Room 1801-4, Harcourt House, 39 Gloucester Road, Wan Chai, Hong Kong	+852-36073000 +852-25253303	2	2,145	321,310
	CNCB Investment	Room 2106, 21/F & Room 2801, 28/F, Tower 2, Lippo Centre, No. 89, Queensway, Hong Kong	+852-25212353 +852-28017399	4	1,024	21,911
	London Representative Office	5th Floor, 99 Gresham Street, London, EC2V 7NG	+44 2077109100	1	21	–
	Sydney Representative Office	L27, GATEWAY, 1 Macquarie Place, Sydney, NSW 2000, Australia	+61 2 79668888	1	6	–
	JSC Altyn Bank (not a consolidated subsidiary)	109B Abay ave., Almaty, A05A1B9, Kazakhstan	+77272596900	7	493	7,928

Note: (1) In addition to the data listed in the above table, the Bank's staff also included employees at direct affiliates, 628 employees at Data Center and Software Development Center; the number of staffers of London Representative Office includes staffers hired locally.

(2) Total assets of the Head Office and the branches in the above table are all unaudited internal data without offsetting internal capital transactions; the assets of the Bank's London Representative Office and the Sydney Representative Office were consolidated into the assets of the Head Office.

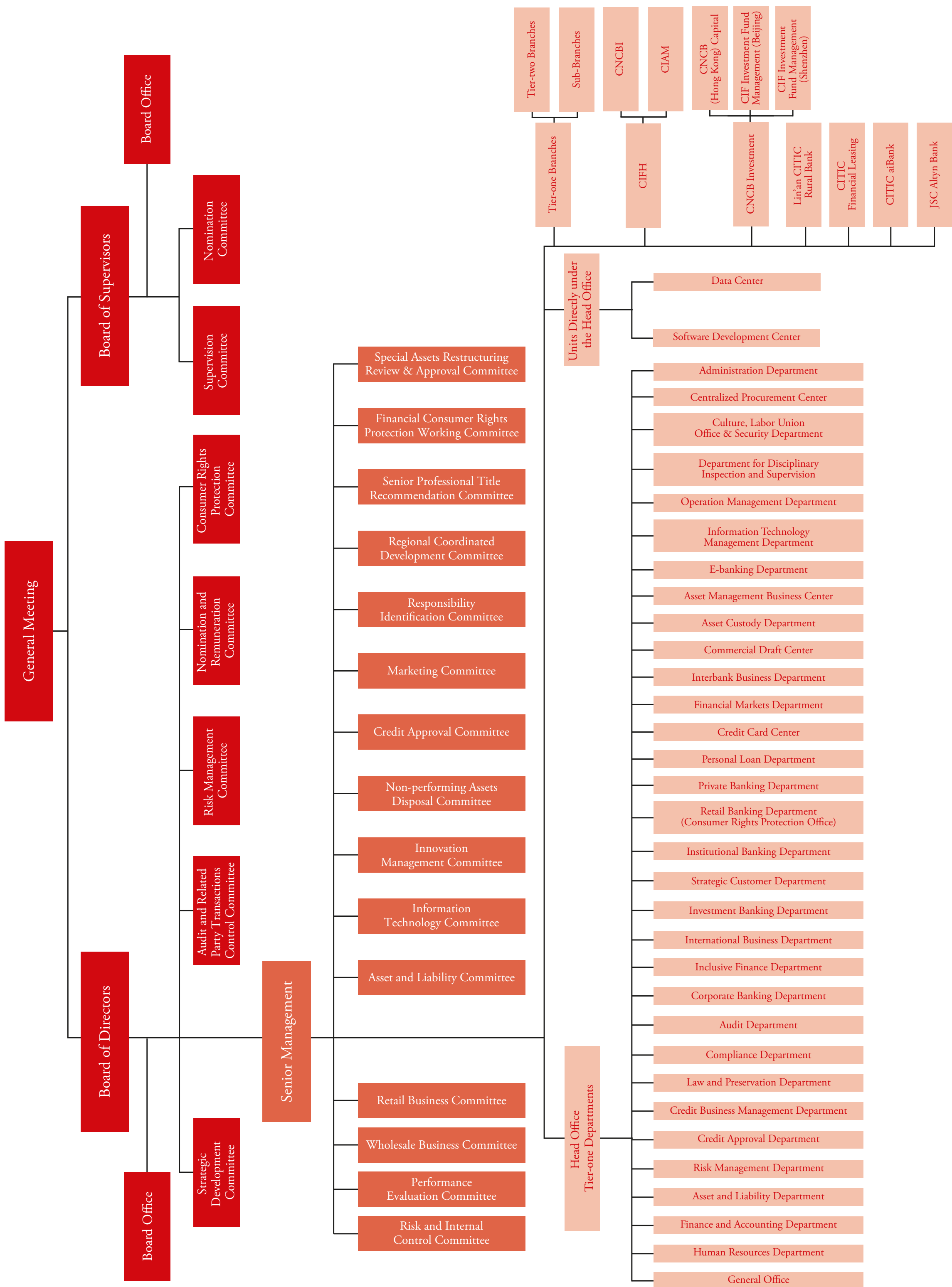
8.11.2 Human Resources Management

During the reporting period, the Bank, under the guidance of its strategy, persistently promoted the transformation of its human resources management, highlighting the construction of institutional framework, relevant mechanisms and talent teams. In close alignment with its differentiated regional development strategies, business transformation and regulatory requirements, the Bank improved the organizational structures of its Head Office and branches, optimized the allocation of human resources, boosted the development of its internal talent market, and increased the inward introduction of financial technology talents. With a focus on strategic execution, the Bank used the "balanced scorecard" model to optimize its departmental performance evaluation systems, smoothed its promotion channels, and increased its competitiveness in terms of remunerations for professionals such as IT and core trading talents. In addition, the Bank made greater efforts to develop its managerial teams. Among others, the Bank made optimal selection of management candidates to build up its leadership teams pursuant to its operation and management needs and regulatory requirements, promoted cultivation of managers through exchange programs, and strengthened the day-to-day supervision of its managerial personnel. Based on its talent echelon planning, the Bank standardized the management of the selection, training, incentivization, use, and exit of "four teams", and steadily implemented the "Double Hundred and Double Thousand" project. With its adherence to the concept of caring for employees, the Bank promoted a series of new initiatives for human resources services, which effectively put in place its employee-oriented corporate culture. At the same time, the Bank reinforced the awareness of compliance and internal control, sorted out the human resources management system, re-examined the human resources work process, and established a long-term management and control mechanism that directly reached the grassroots level and carried out governance from the root causes.

8.11.3 Human Resources Training and Development

During the reporting period, the Bank held 5,309 sessions of face-to-face training in various types, recording 603,000 person-times participation. Through the "Double Hundred Double Thousand" project, in particular, the Bank carried out the cultivation of four teams, i.e., operational and managerial talents, internationalized talents, professional talents and youth backbones, in an orderly manner. At the same time, priority training programs such as training of executives in the integrity of Party members, training of internal trainers and training in anti-money laundering compliance were completed. The Bank established a full-sequence, full-line training system for certification of employee qualifications, which, divided into 10 sections and a total of 55 certification categories, steadily upgraded the job competency and professional quality of all employees. Relying on the three digital training platform systems, these training events achieved full coverage of the entire bank staff.

8.11.4 Organizational Chart

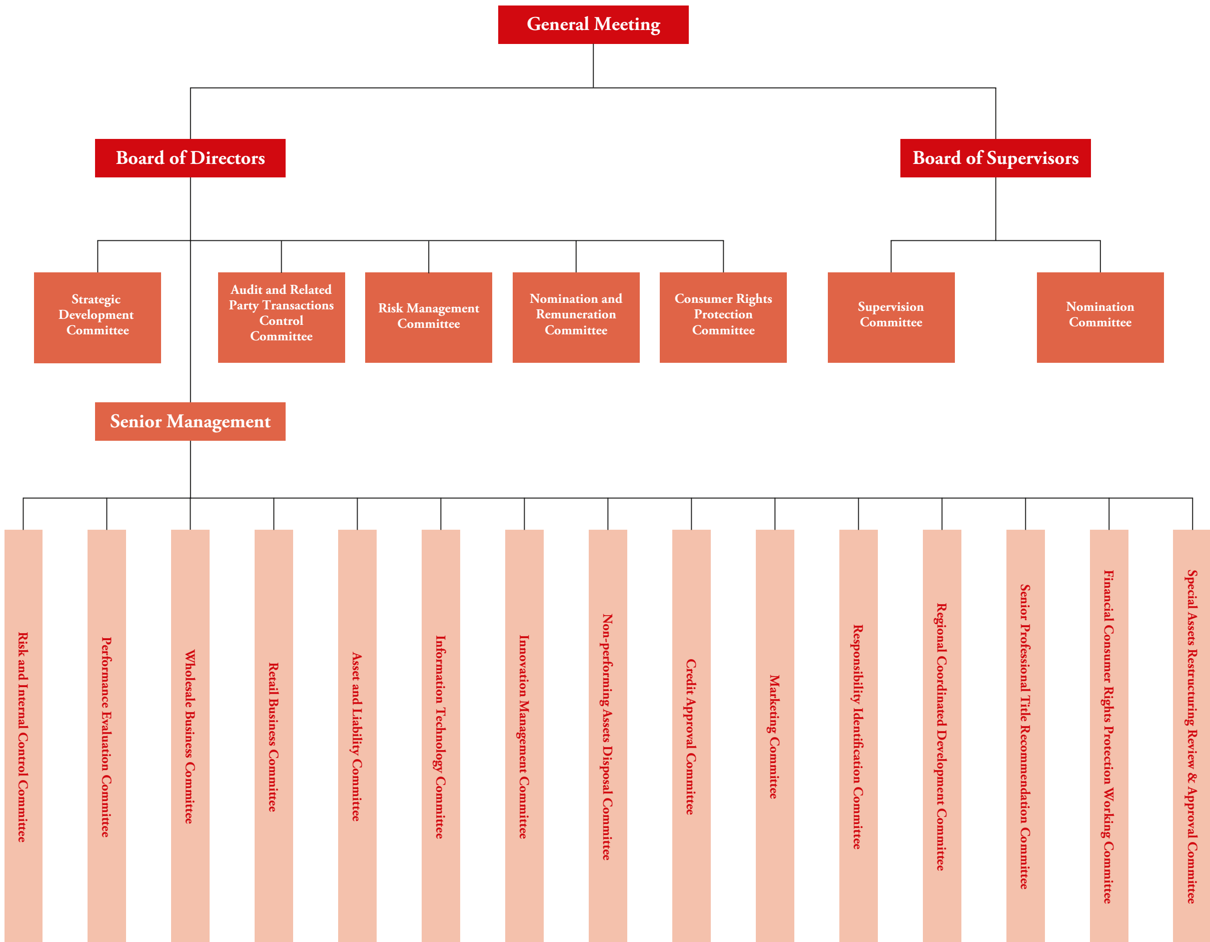


Chapter 9

Corporate Governance Report

Chapter 9 Corporate Governance Report

9.1 Corporate Governance Structure



9.2 Overall Profile of Corporate Governance

During the reporting period, the Bank continued to improve its corporate governance mechanisms and kept improving the effectiveness of corporate governance based on its profound understanding of the objective requirements of a more stringent regulatory environment and its inherent needs for pursuing high-quality development. In particular, it effectively incorporated leadership of the Party into corporate governance, completed the election of the Board of Directors and the Board of Supervisors upon the expiry of their terms of office, coordinated the operation of the main corporate governance actors, and continuously boosted support for performance of duties. The Board of Directors, the Board of Supervisors and their specialized committees effectively performed their functions and standardized their operation. The channels for the directors and supervisors to perform their duties were further broadened and their capability of performing their duties further enhanced.

The Board of Directors played a more effective role of strategic guidance. In particular, it scientifically compiled the its 2018-2020 development plan, optimized strategic management, strengthened evaluation and supervision, and ensured a good beginning in the implementation of the plan. In addition, the board promoted the deepening of business transformation, enhanced the value of light-style development, and increased the capital strength of the Bank, which resulted in more marked achievements of the "Troika" transformation and development. At the same time, the board firmly implemented the national strategies, supported the development of the real economy, promoted financial cooperation under the "Belt and Road Initiative", developed inclusive finance with high quality, accelerated the arrangement in financial technology, and performed social responsibility with enthusiasm. In addition, the board earnestly implemented the government policy on prevention and dissolution of financial risks, vigorously promoted the construction of "Safe CITIC Bank", reinforced the concept of prudent business operation, deepened the reform of the total risk management system, and comprehensively strengthened the long-term mechanism for internal control and compliance at home and abroad. On top of all these, the board also continued self-construction, improved the collective learning mechanism, and self-consciously accepted supervision by the Board of Supervisors and other stakeholders.

The Board of Supervisors earnestly performed its supervisory duties based on its statutory status, statutory duties, and statutory obligations in alignment with the central work of the Bank. It played an active role in pushing for better corporate governance, promoting sound corporate operation, preventing and dissolving financial risks, and safeguarding the rights and interests of shareholders. Focusing on the two pivots of meetings and surveys, the Board of Supervisors further expanded its supervision scope, promoted the utilization of supervision results, and effectively performed its supervisory function. In particular, the Board of Supervisors carried out in-depth supervision over key areas such as strategy implementation, financial activities, internal control development, risk management, and performance of due diligence, continuously improving supervisory effectiveness in these key areas. At the same time, the Board of Supervisors strengthened self-construction, enhanced comprehensive design in line with the new situations, innovated and optimized its work system, further upgraded the pertinence, initiative, comprehensiveness and effectiveness of its work, and made its operation more professional and standardized in a continuous manner.

During the reporting period, the Bank organized the directors, supervisors and the board secretary to participate in trainings by external organizations such as the SSE, CSRC Beijing Bureau and PWC, recording 14 person-times participation, and carried out surveys of 63 person-times its affiliates and subsidiaries, further improving its survey quality.

There was no significant difference between the set-up and operation of the Bank's corporate governance bodies and the relevant requirements of the PRC Company Law, the CSRC and the SEHK; neither were there major corporate governance issues that the regulatory authorities required to resolve but remained outstanding.

9.3 Information on the General Meeting, Board of Directors and Board of Supervisors

During the reporting period, the Bank held 1 annual general meeting, 2 extraordinary general meetings, 1 A shareholders class meeting, 1 H shareholders class meeting, 12 meetings of the Board of Directors (including 10 on-site meetings and 2 meetings for voting by correspondence), 11 meetings of the Board of Supervisors (including 10 on-site meetings and 1 meeting for voting by correspondence) and 42 meetings of the specialized committees under the Board of Directors and Board of Supervisors (including 36 meetings of the specialized committees under the Board of Directors and 6 meetings of the specialized committees under the Board of Supervisors). These meetings were all convened in compliance with the procedures specified in the Articles of Association of the Bank.

9.4 The General Meeting

9.4.1 The General Meeting and Shareholders' Rights

Responsibilities of the general meeting

The general meeting is the Bank's organ of power. It is responsible for making decisions on the Bank's business guiding principles and investment plans; deliberating and approving the Bank's annual financial budget plans, final accounts plans, profit distribution plans and loss remedy plans; deliberating and approving the use of financing proceeds for other than set purposes; electing and replacing directors as well as shareholder representative supervisors and external supervisors, and deciding on the remunerations of directors and supervisors; deliberating and approving work reports of the Board of Directors and Board of Supervisors; producing resolutions on the Bank's plan for increase or decrease of registered capital; producing resolutions on the Bank's plans for merger, division, dissolution, liquidation or change in the corporate form of the Bank, issue of debt securities or other valuable papers for the purpose of capital replenishment of the Bank as well as the listing thereof, and repurchase of the Bank's ordinary shares; amending the Bank's Articles of Association; engaging and dismissing accounting firms and deciding on their remunerations or the ways to determine their remunerations; deliberating proposals put forward by shareholders who individually or collectively hold 3% or more of the voting shares of the Bank; deliberating matters involving major investments and purchase and disposal of major assets within one calendar year that exceed 10% of the audited net asset value of the Bank for the latest reporting period; deliberating share incentive plans, if any; and deciding on or authorizing the Board of Directors to decide on matters relating to the issued preference shares of the Bank, including but not limited to determining whether to repurchase or convert preference shares or pay dividends; deliberating related party transactions that shall be reviewed and approved by the general meeting pursuant to relevant laws, administrative regulations, rules and the securities regulatory rules of the places where the Bank's shares are listed; and deliberating other matters that shall be decided by the general meeting in accordance with relevant laws, administrative regulations, departmental rules, requirements of the securities regulators at the places where the Bank's shares are listed and relevant provisions of the Articles of Association of the Bank.

Annual general meeting

The annual general meeting of the Bank provides an effective communication platform between the shareholders and the Board of Directors. For the convening of a general meeting, the Bank shall issue a written notice 45 days prior to the date of the meeting, informing all shareholders on record and entitled to attend the meeting of the matters to be deliberated as well as the date and venue of the meeting. Shareholders who intend to attend the meeting shall send their written reply slip to the Bank 20 days before the date of the meeting. Directors, supervisors and senior management members of the Bank shall attend the general meeting and answer shareholders' questions at the meeting. Domestic and overseas auditors engaged by the Bank shall also attend the general meeting and answer questions in relation to external audit, audit reports and their contents, accounting policies and independence of auditors.

Unless otherwise provided for or arranged, shareholders of the Bank may vote by poll at the general meeting according to domestic and overseas securities regulatory rules. Details of the voting procedure shall be explained to the shareholders at the beginning of the meeting to ensure shareholders' familiarity with such procedures.

Extraordinary general meeting

In accordance with the Articles of Association of the Bank, extraordinary general meetings may be convened upon written request of at least 50% of the independent directors or external supervisors, the Board of Directors, the Board of Supervisors, or shareholders that individually or collectively hold 10% or more of the Bank's voting shares (actual numbers of shares shall be calculated as per the shareholdings of the requesting shareholders on the date when such a written request is made). The Board of Directors, the Board of Supervisors and ordinary shareholders (including preference shareholders with restored voting rights) that individually or collectively hold 3% or more of the Bank's shares are entitled to present to the Bank their proposals for the general meeting.

Submitting proposals to the general meeting

Ordinary shareholders (including preference shareholders with restored voting rights) that individually or collectively hold 3% or more of the Bank's shares may produce their ad hoc proposals and submit them in writing to the convener of the general meeting 10 days prior to the date of the meeting. Within two days after the receipt of such proposals, the convener shall issue supplementary notices for the general meeting to announce the contents of the ad hoc proposals and submit such proposals to the general meeting for deliberation.

Convening of extraordinary meetings of the Board of Directors

Extraordinary meetings of the Board of Directors may be convened when proposed by shareholders that represent 10% or more of the voting rights. The chairperson of the Board of Directors shall convene and preside over an extraordinary board meeting within 10 days as of the receipt of the proposal made by the shareholders that represent 10% or more of the voting rights.

Making inquiries to the Board of Directors

To make inquiries to the Board of Directors, shareholders may raise their concerns to the Board of Directors or the Bank via email to ir@citicbank.com or via other contacts as provided on the Bank's website. The Bank has published all of its announcements, press releases and useful company information on its website to improve its information transparency.

9.4.2 Convening of General Meetings during the Reporting Period

During the reporting period, the Bank convened 1 annual general meeting, 2 extraordinary general meetings, 1 A shareholders class meeting and 1 H shareholders class meeting, where 23 proposals were adopted after deliberation. The Bank disclosed the resolutions of the general meetings on the websites designated by the stock exchanges where it is listed as well as its own website.

On 6 February 2018, the Bank convened its 1st Extraordinary General Meeting of 2018, the 1st A Shareholders Class Meeting of 2018 and the 1st H Shareholders Class Meeting of 2018. The Bank's then independent non-executive director Ms. Wu Xiaoqing presided over the meetings, and its then independent non-executive director Mr. Wong Luen Cheung Andrew attended the meetings.

On 25 May 2018, the Bank held its 2017 Annual General Meeting. The Bank's chairperson and executive director Ms. Li Qingping presided over the meeting. The Bank's then executive director and President Mr. Sun Deshun, non-executive directors Ms. Huang Fang and Mr. Wan Liming, then independent non-executive directors Ms. Wu Xiaoqing and Mr. Wong Luen Cheung Andrew, and independent non-executive directors Mr. He Cao and Mr. Qian Jun attended the meeting.

On 8 August 2018, the Bank convened its 2nd Extraordinary General Meeting of 2018. The Bank's then independent non-executive director Ms. Wu Xiaoqing presided over the meeting, and its then independent non-executive director Mr. Wong Luen Cheung Andrew attended the meeting.

9.5 Board of Directors

9.5.1 Composition and Responsibilities of the Board of Directors

The Board of Directors is the decision-making body of the Bank. As at the disclosure date of the report, the 5th Session of the Board of Directors comprised 9 members, with Ms. Li Qingping as chairperson. Board members included 2 executive directors, namely, Ms. Li Qingping and Mr. Fang Heying; 3 non-executive directors, namely, Mr. Cao Guoqiang, Ms. Huang Fang and Mr. Wan Liming; and 4 independent non-executive directors, namely, Mr. He Cao, Ms. Chen Lihua, Mr. Qian Jun and Mr.Yan Lap Kei Isaac.

As per the Articles of Association of the Bank, the principal responsibilities of the Board of Directors include the following: to convene the general meeting and report its work to the meeting; to implement resolutions of the general meeting; to determine development strategies, business plans and investment plans of the Bank; to prepare the annual financial budget plan and final accounts plan of the Bank; to prepare profit distribution plans and loss remedy plans for the Bank; in accordance with the Articles of Association or within the scope of mandate authorized by the general meeting, to determine proposals on major investment, major asset acquisition and disposal and other major matters of the Bank; to prepare proposals on the amendment of the Bank's Articles of Association; to appoint or dismiss senior management members of the Bank; to review and finalize the Bank's basic management rules and internal management framework, etc. The Board of Directors should listen to the opinions of the Bank's Party Committee prior to making decisions on major issues of the Bank.

The Board of Directors of the Bank has completed self-assessment of the effectiveness of the design and operation of its internal control. Please refer to "Internal Control Assessment" in this chapter for details.

9.5.2 Meetings of the Board of Directors

During the reporting period, the Board of Directors convened 12 meetings (including 10 on-site meetings and 2 meetings for voting by correspondence). At the meetings the Board of Directors deliberated and adopted 93 proposals, including those respectively regarding the Bank's 2017 Annual Report, 2018-2020 Development Plan, 2018 Annual Audit Plan, 2017 Report on Environment, Society and Governance, 2018-2020 Medium-Term Capital Management Plan, Proposal on Participation in Funding the National Financing Guarantee Fund, the Proposal on the Candidates for the 5th Session of the Board of Directors, 2019 Institutional Development Plan, the Proposal on Sponsoring the Establishment of a Subsidiary for Wealth Management Business, the Proposal on the Non-public Offering of Preference Shares, and the Proposal on Revising the Total Risk Management Policy of CITIC Bank. In addition, the Board of Directors listened to 39 presentations respectively regarding the Bank's assessment of the implementation of its 2015-2017 strategy, internal control and compliance work in 2017, bank-wide anti-money laundering work in 2018, incident prevention and behavior management work report in 2018, interpretation of important regulatory policies, and cooperation with the top ten group loan customers for the full year of 2017 and in the first half of 2018. Significant events were all submitted to the on-site board meetings for deliberation to assure compliance. Matters requiring voting by correspondence and eligible for the same as per the Corporate Governance Code were deliberated at the meetings for voting by correspondence. The attendance records of the directors at the board meetings in the reporting period are set out in the table below.

Incumbent Directors	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Li Qingping	10/12	2/12
Cao Guoqiang	3/3	0/3
Fang Heying	3/3	0/3
Huang Fang	12/12	0/12
Wan Liming	8/12	4/12
He Cao	12/12	0/12
Chen Lihua	11/12	1/12
Qian Jun	12/12	0/12
Yan Lap Kei Isaac	3/3	0/3
Non-incumbent Directors		
Zhu Gaoming	8/9	1/9
Wu Xiaoqing	9/9	0/9
Wong Luen Cheung Andrew	9/9	0/9
Sun Deshun	10/12	2/12

9.5.3 Responsibility Statement of the Directors on the Financial Report

The following statement, which sets out the responsibility of the directors to the financial report, should be read in conjunction with, but distinguished in understanding from, the review opinions as set out in the audit report contained in this annual report.

The directors acknowledge that they are responsible for preparing the financial report of the Bank that gives a true view of the operating results of the Bank for each financial year. The directors are not aware of any events or conditions that could have material adverse impact on the Bank's operation as a going concern.

9.5.4 Independence of Independent Non-Executive Directors and Their Performance of Duties

The independent non-executive directors of the Bank had no business or financial interests in the Bank or its subsidiaries, nor did they assume any managerial positions in the Bank. Therefore, their independence was well guaranteed. The Bank has received an annual confirmation letter from each independent non-executive director confirming his/her independence and recognized his/her independence as such.

The independent non-executive directors of the Bank effectively performed their duties by attending the general meetings as well as meetings of the Board of Directors and its specialized committees and actively expressing their opinions. They also enhanced their understanding of the business development of the Bank's affiliates by multiple means including field surveys and symposiums.

The independent non-executive directors of the Bank focused on continuously enhancing their own capacity for performance of duties. Among others, they communicated with the management for better understanding of relevant presentations and proposals prior to each board meeting. They also participated in various trainings organized by the regulators to understand regulatory trends and requirements, deepen their learning and understanding of regulatory policies, and improve their capacity for performance of duties.

The Audit and Related Party Transactions Control Committee and the Nomination and Remuneration Committee under the Board of Directors were both chaired by independent non-executive directors. The Audit and Related Party Transactions Control Committee comprised entirely of independent non-executive directors, while most of the members of the Nomination and Remuneration Committee and the Consumer Rights Protection Committee were independent non-executive directors. According to the Regulations of China CITIC Bank Corporation Limited on the Work of the Independent Directors in relation to the Annual Report, the independent non-executive directors of the Bank communicated with the auditors and fully performed their role of independent supervision. During the reporting period, the independent non-executive directors did not raise any objections to the proposals of either the Board of Directors or its specialized committees.

The independent non-executive directors of the Bank put forward relevant comments and suggestions regarding the Bank's operation and management, business development, strategic planning, profit distribution, remunerations of senior management members, risk management and related party transactions. The Bank attached great importance to such inputs and implemented them in accordance with its actual situations. For information regarding the attendance of the independent non-executive directors at the general meetings and Board of Directors meetings during the reporting period, please refer to "Convening of General Meetings during the Reporting Period" and "Meetings of the Board of Directors" in this chapter, respectively.

9.5.5 Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules of SEHK (the "Model Code") and has complied with Rules 13.67 and 19A.07B of the Listing Rules to regulate the securities transactions of its directors and supervisors. All the directors and supervisors were consulted specifically for this matter and all of them confirmed that they had strictly complied with the relevant provisions of the Model Code throughout the reporting period.

9.5.6 The Board of Directors' Deliberation of the Sustainable Development Report

The Board of Directors deliberated the 2018 Sustainable Development Report of China CITIC Bank as a separate proposal and had no objections to the content of the report.

9.6 Specialized Committees under the Board of Directors

There were 5 specialized committees under the Board of Directors, namely, the Strategic Development Committee, the Audit and Related Party Transactions Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and the Consumer Rights Protection Committee.

9.6.1 Strategic Development Committee

As at the disclosure date of the report, the Strategic Development Committee of the 5th Session of the Board of Directors comprised 4 directors, with chairperson and executive director Ms. Li Qingping as committee chairperson, and Mr. Cao Guoqiang, Mr. Fang Heying and Mr. Qian Jun as committee members. Its principal responsibilities include: to study the Bank's operation and management targets, long-term development strategies, and special strategic development plans respectively regarding human resources, information technology development and other areas, and make recommendations thereon to the Board of Directors; to study programs on major cooperation, investment, financing, and merger and acquisition, and make recommendations thereon to the Board of Directors; and to supervise and examine the implementation of annual business plans and investment programs as authorized by the Board of Directors.

During the reporting period, the Strategic Development Committee convened 5 meetings in total where it deliberated and adopted 28 proposals, including those respectively regarding the Bank's 2018-2020 Development Plan, Amendments to the Articles of Association, and 2019 Institutional Development Plan, and listened to 2 presentations respectively regarding the Bank's implementation of its 2015-2017 Strategy and the recent "share repurchase" series policies. The attendance records of the Strategic Development Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Li Qingping	4/5	1/5
Cao Guoqiang	0/0	0/0
Fang Heying	0/0	0/0
Qian Jun	5/5	0/5
Non-incumbent Directors		
Sun Deshun	4/5	1/5

Note: (1) Upon election by the Board of Directors, Mr. Cao Guoqiang started to serves as a member of the Strategic Development Committee under the 5th Session of the Board of Directors as of 13 December 2018; between the afore-mentioned date and the end of the reporting period, the Strategic Development Committee did not convene any meeting.

(2) On 26 March 2019, the meeting of Board of Directors reviewed and adopted related proposals, electing Mr. Fang Heying, the executive director, as member of the Strategic Development Committee.

9.6.2 Audit and Related Party Transactions Control Committee

As at the disclosure date of the report, the Audit and Related Party Transactions Control Committee of the 5th Session of the Board of Directors comprised 3 directors, with independent non-executive director Mr. Yan Lap Kei Isaac as chairperson, and Mr. He Cao and Mr. Qian Jun as members. The principal responsibilities of the Audit and Related Party Transactions Control Committee include the following: to inspect the risk profiles and compliance status, accounting policies and practices, financial reporting procedures and financial position of the Bank; to review the Bank's regulations on financial monitoring, internal control and risk management; and to study the regulations on related party transactions, make recommendations thereon to the Board of Directors, and supervise the implementation of such regulations.

During the reporting period, the Audit and Related Party Transactions Control Committee convened 15 meetings in total. At the meetings, the committee reviewed and adopted 25 proposals, including those respectively regarding the Bank's periodic reports, engagement of accounting firms for 2018 and their fees, amendments to the internal audit charter, and credit extension to related parties, and listened to 12 presentations respectively regarding the Bank's operating results for the full year of 2017 and for the 1st quarter, first half and 3rd quarter of 2018, and internal control and compliance work in 2017. The attendance records of the Audit and Related Party Transactions Control Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Yan Lap Kei Isaac	3/3	0/3
He Cao	14/15	1/15
Qian Jun	14/15	1/15
Non-incumbent members		
Wu Xiaoqing	12/12	0/12
Wong Luen Cheung Andrew	7/7	0/7

During the preparation and audit of the Bank's 2018 Annual Report, the Audit and Related Party Transactions Control Committee reviewed the audit time frame and progress schedule of the external auditors and checked on and supervised external auditors' work by means of listening to presentations and arranging symposiums. The committee reviewed the Bank's financial statements twice, the first time before the certified public accountants (CPAs) responsible for the annual audit arrived at the premise, and the second time after the CPAs produced their preliminary audit opinion. In addition, the committee carried out multiple rounds of adequate communication with the CPAs responsible for the annual audit. The Audit and Related Party Transactions Control Committee convened a meeting on 21 March 2019, opining that the financial statements gave a true, accurate and complete view of the overall situation of the Bank. Based on its review of the external auditor's summary report on the annual audit plus its comprehensive objective assessment of the performance and professional quality of the annual audit assignment, the committee gave the consent that the Bank continue to engage PricewaterhouseCoopers Zhong Tian LLP as its domestic auditor and PricewaterhouseCoopers as its overseas auditor for 2019 and decided to submit these matters to the Board of Directors for deliberation.

9.6.3 Risk Management Committee

As at the disclosure date of the report, the Risk Management Committee of the 5th Session of the Board of Directors of the Bank comprised 3 directors, with executive director Mr. Fang Heying as chairman, and Mr. Qian Jun and Mr. Yan Lap Kei Isaac as members. The principal responsibilities of the committee include the following: to supervise the senior management's control of credit risk, liquidity risk, market risk, operational risk, compliance risk and reputation risk; to evaluate risk preference, credit policy, policies on management of liquidity risk, market risk, operation risk, compliance risk and reputation risk, lawfulness and compliance of business operation, risk management profile and risk tolerance of the Bank on a regular basis; to advise the Board of Directors on how to improve risk management and internal control of the Bank; to comprehensively manage the risk of money laundering across the bank, guide the whole bank on how to fulfill its anti-money laundering duties and obligations, review and identify the overall situation of money laundering risks, report the same to the Board of Directors and put forward opinions on how to handle major anti-money laundering matters.

During the reporting period, the Risk Management Committee convened 6 meetings where it deliberated and adopted 16 proposals, including those respectively regarding the Bank's 2017 Report on Management of Capital Adequacy Ratios, 2017 Report on Internal Assessment of Capital Adequacy and 2018 Risk Preference Statement, and the proposal on strengthening the construction of CITIC Bank's anti-money laundering risk management system; and the committee listened to 19 presentations including those respectively regarding the Bank's total risk management for the full year of 2017 and in the 1st quarter, first half and 3rd quarter of 2018, report on the Group's execution of financial statements consolidation management in 2017, credit policy re-examination in the first half of 2018 and credit extension guidance in the second half of 2018, and further enhancement of bank-wide data management. The attendance records of the Risk Management Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	**In-person attendance/number of meetings**	**Attendance by proxy/number of meetings**
Fang Heying	0/0	0/0
Qian Jun	6/6	0/6
Yan Lap Kei Isaac	2/2	0/2
Non-incumbent members		
Li Qingping	0/2	2/2
Wu Xiaoqing	4/4	0/4
Sun Deshun	5/6	1/6

Note: (1) Upon election by the Board of Directors, Mr. Fang Heying started to serves as a member of the Risk Management Committee under the 5th Session of the Board of Directors of the Bank since 13 December 2018; between the afore-mentioned date and the end of the reporting period, the Risk Management Committee did not convene any meeting.

(2) On 26 March 2019, the meeting of Board of Directors reviewed and adopted related proposals, electing Mr. Fang Heying, the executive director as member of the Risk Management Committee.

9.6.4 Nomination and Remuneration Committee

As at the disclosure date of the report, the Nomination and Remuneration Committee of the 5th Session of the Board of Directors of the Bank comprised 3 directors, with independent non-executive director Mr. Qian Jun as chairman, and Ms. Huang Fang and Mr. Yan Lap Kei Isaac as members. Principal responsibilities of the Nomination and Remuneration Committee are the following: to assist the Board of Directors in formulating the procedures and standards for selecting and appointing board directors and senior management members; to advise the Board of Directors on candidates for independent non-executive directors; to deliberate the remuneration management rules and policies of the Bank; to formulate the performance evaluation methods and remuneration schemes for directors and senior management members, and to make recommendations on the remuneration schemes to the Board of Directors and supervise the implementation of such schemes.

During the reporting period, the Nomination and Remuneration Committee convened 7 meetings where it deliberated and adopted 20 proposals, including those respectively regarding the report on assessment of the directors' performance of duties in 2017, the nomination of the candidates for the 5th Session of the Board of Directors, the policy on remunerations for directors of the 5th Session of the Board of Directors, the 2017 plan for the final accounts of employee remunerations and the 2017 plan for payment of remunerations to senior management members. The attendance records of the Nomination and Remunerations Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	**In-person attendance/number of meetings**	**Attendance by proxy/number of meetings**
Qian Jun	7/7	0/7
Huang Fang	4/4	0/4
Yan Lap Kei Isaac	2/2	0/2
Non-incumbent members		
Wong Luen Cheung Andrew	3/3	0/3
Wu Xiaoqing	3/3	0/3
Chen Lihua	3/3	0/3

During the reporting period, the Nomination and Remuneration Committee studied and reviewed the remuneration scheme for the Bank's senior management and supervised its implementation. The committee was of the view that the senior management of the Bank performed its fiduciary duties and due diligence in 2018 within its scope of mandate as specified in relevant laws and regulations and the Bank's Articles of Association, and as guided and authorized by the Board of Directors and supervised by the Board of Supervisors, which in turn further increased corporate value and shareholder value of the Bank. Upon review, the committee held that the remunerations for directors, supervisors and senior management members as disclosed by the Bank were consistent with relevant remuneration policies and schemes and in compliance with applicable information disclosure standards required for listed issuers by domestic and overseas regulators. The committee confirmed that the Bank did not have any share incentive scheme in effect as at the end of the reporting period.

During the reporting period, the Nomination and Remuneration Committee performed the nomination procedure for directors and senior management members in line with the its rules of procedures, including: reviewing the qualifications of the nominated candidates for directors, supervisors and senior management members in terms of their independence, expertise, experiences and capabilities; reviewing the structure, size and composition of the Board of Directors (including skills, knowledge and experience) at least on an annual basis; and making recommendations on any proposed changes regarding the Board of Directors to match the Bank's development strategy.

9.6.5 Consumer Rights Protection Committee

As at the disclosure date of the report, the Consumer Rights Protection Committee of the 5th Session of the Board of Directors of the Bank comprised 3 directors, with non-executive director Ms. Huang Fang as chairperson, and Mr. He Cao and Ms. Chen Lihua as members. Principal responsibilities of the Consumer Rights Protection Committee include the following: to formulate the Bank's strategies, policies and objectives on consumer rights protection; to urge the senior management to effectively implement relevant work of consumer rights protection; and to supervise and assess the Bank's consumer rights protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties.

During the reporting period, the Consumer Rights Protection Committee convened 3 meetings where it deliberated and adopted 2 proposals respectively regarding its 2018 annual work plan and the election of its chairperson, and the committee listened to 2 presentations respectively regarding the Bank's service quality and consumer rights protection for the full year of 2017 and the first half of 2018. The attendance records of the Consumer Rights Protection Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	**In-person attendance/number of meetings**	**Attendance by proxy/number of meetings**
Huang Fang	2/2	0/2
He Cao	2/3	1/3
Chen Lihua	2/3	1/3
Non-incumbent members		
Wu Xiaoqing	1/1	0/1

9.7 Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank accountable to the general meeting. As at the disclosure date of the report, the Board of Supervisors of the Bank comprised 8 members, with employee representative supervisor Mr. Liu Cheng as chairman. Other members of the Board of Supervisors included shareholder representative supervisor Mr. Deng Changqing; external supervisors Ms. Wang Xiuhong, Mr. Jia Xiangsen and Mr. Zheng Wei; and employee representative supervisors Mr. Cheng Pusheng, Mr. Chen Panwu and Ms. Zeng Yufang.

During the reporting period, the Board of Supervisors convened 11 meetings (including 10 on-site meetings and 1 meeting for voting by correspondence) where it deliberated 30 proposals, including those respectively regarding the Bank's periodic reports, profit distribution plan, internal control assessment report, social responsibility report, annual assessment report on the performance of duties, and internal assessment of capital adequacy; and the committee listened to 22 presentations, including those respectively regarding the Bank's report on operating results, report on total risk management, report on internal control and compliance, rectification of regulatory issues notified by the CBIRC, data governance, management of financial statement consolidation, anti-money laundering work, incident prevention and employee behavior management. At the same time, members of the Board of Supervisors attended all on-site meetings of the Board of Directors and some of the meetings of the specialized committees of the Board of Directors as non-voting delegates and expressed their view points in a timely manner, to ensure adequate supervision over the Bank's significant events and decision-making process. In addition, the Board of Supervisors carried out supervisory inspections of the Bank's operation and management activities by attending senior management meetings as non-voting delegates and reviewing various documents and information.

During the reporting period, the Board of Supervisors continuously enriched its survey approaches and improved the quality and effectiveness of the surveys, focusing on identification of problems. To this end, it conducted special surveys on issues that were of holistic implications to the Bank such as strategy implementation and internal control and compliance, and visited peers for in-depth exchanges on the working mechanism, system and innovation of the Board of Supervisors. Throughout the year, the Board of Supervisors organized its supervisors for 4 collective surveys, covering 6 branches and 2 peer banks. For universal trendy issues and other major issues found in the surveys, the Board of Supervisors organized concentrated in-depth discussions to form opinions and suggestions, and effectively conveyed them to the Board of Directors and the senior management through survey reports and other methods to promote the transformation of survey results.

The attendance records of the members of the Board of Supervisors at the board meetings during the reporting period are set out in the table below.

Incumbent Supervisors	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Liu Cheng	8/8	0/8
Deng Changqing	6/6	0/6
Wang Xiuhong	8/11	3/11
Jia Xiangsen	11/11	0/11
Zheng Wei	10/11	1/11
Cheng Pusheng	8/11	3/11
Chen Panwu	9/11	2/11
Zeng Yufang	11/11	0/11

Non-incumbent Supervisors	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Cao Guoqiang	2/2	0/2
Shu Yang	0/0	0/0

9.8 Specialized Committees under the Board of Supervisors

The Supervision Committee and the Nomination Committee are the specialized committees set up under the Board of Supervisors.

9.8.1 Supervision Committee

As at the disclosure date of the report, the Supervision Committee of the Bank's Board of Supervisors comprised 4 supervisors, with Mr. Jia Xiangsen as chairman, and Mr. Zheng Wei, Mr. Cheng Pusheng and Ms. Zeng Yufang as members. Primary responsibilities of the committee include the following: to supervise the Board of Directors in the establishment of prudent business concepts and value propositions and the formulation of development strategies consistent with the Bank's real situations, and to carry out supervisory inspections of the Bank's business decisions, financial activities, risk management and internal control.

During the reporting period, the Supervision Committee under the Board of Supervisors convened 4 meetings and adopted 10 proposals including those respectively regarding the Bank's periodic reports, profit distribution plan, internal control assessment report and social responsibility report, etc. The attendance records of the Supervision Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Jia Xiangsen	4/4	0/4
Zheng Wei	4/4	0/4
Cheng Pusheng	0/2	2/2
Zeng Yufang	4/4	0/4

Non-incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Shu Yang	0/0	0/0

Note: Upon election by the 1st meeting of the 5th Session of the Board of Supervisors of the Bank convened on 25 May 2018, Supervisor Cheng Pusheng started to serve as a member of the Supervision Committee under the 5th Session of the Board of Supervisors and no longer sat on the Nomination Committee of the Board of Supervisors.

9.8.2 Nomination Committee

As at the disclosure date of the report, the Nomination Committee of the Bank's Board of Supervisors comprised 3 supervisors, with Ms. Wang Xiuhong as chairperson, and Mr. Deng Changqing and Mr. Chen Panwu as members. Principal responsibilities of the committee include the following: to draft procedures and standards on selecting and appointing candidate supervisors elected by the general meeting, and to carry out preliminary review of the qualifications for office of such candidate supervisors and put forward corresponding recommendations. The employee representative supervisors of the Bank are democratically elected or dismissed by employees of the Bank.

During the reporting period, the Nomination Committee of the Board of Supervisors convened 2 meetings which deliberated and adopted 9 proposals including the proposal regarding the assessment report regarding the performance of duties on the part of the Board of Directors, the Board of Supervisors and the senior management and their members. The attendance records of the Nomination Committee members at the committee meetings during the reporting period are set out in the table below.

Incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Wang Xiuhong	2/2	0/2
Deng Changqing	1/1	0/1
Chen Panwu	2/2	0/2

Non-incumbent members	In-person attendance/number of meetings	Attendance by proxy/number of meetings
Shu Yang	0/0	0/0
Cheng Pusheng	1/1	0/1

Note: Upon election by the General Meeting of the Bank convened on 25 May 2018, Supervisor Deng Changqing started to serve as a member of the Nomination Committee of the Board of Supervisors.

9.9 Independent Opinions of the Board of Supervisors on Relevant Matters

9.9.1 Compliance of Business Operation

The Bank conducted its business according to relevant laws, and its decision-making process complies with relevant requirements of laws, regulations and Article of Association; Neither breach of laws, regulations or Article of Association nor behavior that would impair the interests of the Bank were identified on part of the directors or senior management members in their duty performing.

9.9.2 Truthfulness of the Financial Report

The compilation and review process of the financial report is compliant with laws, administrative regulations and regulatory provisions and no misrepresentation, distortion or material defect was identified in the report.

9.9.3 Use of Proceeds

During the reporting period, the Bank's use of the proceeds was consistent with the purposes stated in its prospectuses.

9.9.4 Acquisition and Disposal of Assets

During the reporting period, the Board of Supervisors was not aware of any acquisition, sale or disposal of assets by the Bank that might impair shareholder rights and interests or result in loss of the Bank's assets or constitute insider trading.

9.9.5 Related Party Transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions that might impair the interests of the Bank or its shareholders.

9.9.6 Implementation of Resolutions Adopted at the General Meetings

The Board of Supervisors had no objections to the reports and proposals that the Board of Directors submitted to the general meetings for deliberation during the reporting period. The Board of Supervisors supervised the implementation of the resolutions adopted at the general meetings and held that the Board of Directors diligently implemented the relevant resolutions of the general meetings.

9.9.7. Internal Control

The Board of Supervisors deliberated the 2018 Internal Control Assessment Report of China CITIC Bank and had no objections to the content of the report.

9.9.8 Sustainable Development Report

The Board of Supervisors deliberated the 2018 Sustainable Development Report of China CITIC Bank and had no objections to the content of the report.

9.9.9 Profit Distribution Plan

The Board of Supervisors deliberated the 2018 Profit Distribution Plan of China CITIC Bank and was of the view that the profit distribution plan complied with relevant laws, regulations and the Bank's Articles of Association, and was in the interests of all shareholders and conducive to promoting long-term development of the Bank.

9.9.10 Dividend Distribution Plan for Preference Shares

During the reporting period, the dividend distribution plan for preference shares of the Bank complied with applicable laws and regulations, the Bank's Articles of Association and the terms of issuance for the preference shares.

9.9.11 Implementation of the Regulations on Management of Information Disclosure

During the reporting period, the Bank performed its information disclosure obligations in strict accordance with relevant regulatory requirements, earnestly implemented various regulations on management of information disclosure matters, and disclosed information in a timely and fair manner. The information disclosed during the reporting period was truthful, accurate and complete.

Except for the above disclosed matters, the Board of Supervisors had no objections to other supervisory issues during the reporting period.

9.10 Senior Management

The senior management is the executive arm of the Bank accountable to the Board of Directors. There is strict division of duties and separation of power between the Bank's senior management and Board of Directors. As authorized by the Board of Directors, the senior management manages and makes decisions on business operation within its mandate. The Board of Directors evaluates the performance of the senior management members, the results of which shall be used as the basis for determining remunerations and other incentive arrangements for the senior management members. The senior management should truthfully report to the Board of Directors or the Board of Supervisors, on a regular basis or as required by the Board of Directors or the Board of Supervisors, information regarding the Bank's business performance, important contracts, financial positions, risk profiles, business outlooks and significant events.

The Bank's senior management comprised 10 members. For details thereof, please refer to Chapter 8 "Directors, Supervisors, Senior Management Members, Staff and Affiliates" of this report.

9.11 Establishment and Implementation of Performance Evaluation and Incentive Mechanisms for Senior Management Members

The Bank has set up its mechanism for annual performance evaluation of the senior management members, which assesses the latter's attainment of business targets and ability to perform duties. Results of the annual performance evaluation are used as an important basis for determining the executives' remunerations, appointment or removal, work rearrangement, exchange, and participation in trainings.

9.12 Chairperson and President

As at the disclosure date of the report, the Bank set separated positions of its Chairperson and President. Ms. Li Qingping was Chairperson and executive director of the Bank, responsible for presiding over the general meeting, convening and presiding over meetings of the Board of Directors and examining the implementation of board resolutions and other relevant matters. Mr. Fang Heying was Vice President and executive director of the Bank, performing the duties of the President of the Bank including implementing board resolutions and leading the Bank in its business operation and management and other relevant matters. The division of duties between the Chairperson and President of the Bank was clearly defined and in compliance with the Hong Kong Listing Rules.

9.13 Company Secretary as per the Hong Kong Listing Rules

As at the disclosure date of this report, the Bank engaged, externally, Ms. Kam Mei Ha Wendy (FCS, FCIS) as the joint company secretary of the Bank as per the Hong Kong Listing Rules; and the main contact person of Ms. Kam Mei Ha Wendy within the Bank was Mr. Lu Wei, the Board Secretary and company secretary of the Bank. The contact information of Mr. Lu Wei is Tel: +86-10-85230010, Fax: +86-10-85230079.

9.14 Explanations on Independence from the Controlling Shareholder

The Bank is fully independent from the controlling shareholder in terms of business, personnel, assets, institutional set-up and financials, maintains independent and complete business separate from that of the controlling shareholder and is capable of independent business operation.

In terms of business, the Bank has a complete business system and the capability to operate directly on the market in an independent manner and is engaged independently in business operation within its authorized business scope, without interference or control by its controlling shareholder or any other related parties, and free of any adverse impact on the independence and completeness of its operating autonomy as a result of its related relationship with its controlling shareholder and other related parties.

In terms of personnel, the Bank has its own independent labor, personnel and payroll management systems. None of the members of its senior management has taken any position in the controlling shareholder or any other entities controlled by the controlling shareholder; neither has any financial staffer of the Bank taken any position concurrently in the controlling shareholder or any other entities controlled by the controlling shareholder.

In terms of assets, the Bank has the ownership or use right of the land and buildings as well as intellectual property rights such as trademarks and domain names that are related to its business operation.

In terms of financials, the Bank has established its own independent accounting and finance department, independent accounting system and independent financial management framework for independent financial decision making. It has set up its own independent bank account according to law and shares no bank account with its controlling shareholder. The procedures and requirements in relation to the controlling shareholder's opening of accounts with the Bank are identical to those applicable to any other third party that has opened accounts with the Bank, and the accounts of the controlling shareholder are completely separated from the funds and accounts of the Bank.

In terms of institutional set-up, the Bank has established the general meeting, the Board of Directors and the Board of Supervisors, and set up business and management departments as required by its business operation and management. The Bank exercises its discretion on business operation and management independently and is free from any mix of institutional structure with its controlling shareholder.

9.15 Independent Non-Executive Directors' Statement on Undertakings Made by CITIC Group and CIFH under the Non-Competition Deed

CITIC Group transferred its 70.32% equity interest in CIFH to the Bank on 23 October 2009, thus releasing CIFH from all obligations under the Non-Competition Deed.

The independent non-executive directors of the Bank came to a conclusion on the non-competition undertakings of CITIC Group, holding that CITIC Group honored its non-competition undertakings during the reporting period. CITIC Group produced a statement on the performance of its non-competition undertakings under the Non-Competition Deed it entered into with the Bank on 13 March 2007.

9.16 Development and Review of Corporate Governance Policies and Practices

The Board of Directors of the Bank attached great importance to the establishment and improvement of internal rules and regulations on corporate governance. In the reporting period, the Bank amended the Articles of Association of China CITIC Bank Corporation Limited and formulated the Measures on Equity Management of China CITIC Bank Corporation Limited in light of its own real situations and relevant regulatory requirements. These efforts further improved the Bank's corporate governance regulations and provided an important support for the Bank to carry out scientific operation of corporate governance and more standard management of shareholder rights and obligations.

9.17 Review and Supervision of Training and Continuing Professional Development of Directors, Supervisors and Senior Management Members

The Board of Directors kept urging the directors and senior management members to participate in relevant trainings for better professional development in general and for the directors to enhance their comprehensive quality and competence for performance of duties in particular. During the reporting period, the Board of Directors and the Board of Supervisors organized the directors and the supervisors to participate in relevant trainings in accordance with the applicable requirements of the CSRC, Hong Kong Securities and Futures Commission, SEHK and CBIRC. These trainings achieved very good results.

The table below sets out the participation of the Bank's incumbent directors, supervisors, and board secretary in the trainings provided by relevant external institutions.

Name	Title	Trainer	Training Model	Training Duration (day)
Li Qingping	Chairperson, Executive director	CSRC Beijing Bureau	Concentrated lecturing	1
Cao Guoqiang	Non-executive director	CSRC Beijing Bureau	Concentrated lecturing	1
Fang Heying	Executive director, Vice President & Chief Financial Officer	CSRC Beijing Bureau	Concentrated lecturing	1
Huang Fang	Non-executive director	CSRC Beijing Bureau	Concentrated lecturing	1
Wan Liming	Non-executive director	CSRC Beijing Bureau	Concentrated lecturing	1
He Cao	Independent non-executive director	SSE	Concentrated lecturing	2.5
Chen Lihua	Independent non-executive director	SSE	Concentrated lecturing	2.5
Qian Jun	Independent non-executive director	SSE	Concentrated lecturing	2.5
Yan Lap Kei Isaac	Independent non-executive director	SSE	Concentrated lecturing	3
Liu Cheng	Chairperson of the Board of Supervisors	CSRC Beijing Bureau	Concentrated lecturing	1
Deng Changqing	Shareholder representative supervisor	CSRC Beijing Bureau	Concentrated lecturing	1
Cheng Pusheng	Employee representative supervisor	CSRC Beijing Bureau	Concentrated lecturing	1
Lu Wei	Secretary to the Board of Directors	SSE	Concentrated lecturing	3

Mr. Lu Wei, Board Secretary and Company Secretary of the Bank, participated in relevant professional trainings organized by the regulators and other relevant organizations, completing more than 15 hours training during the reporting period, compliant with relevant regulatory requirements of SEHK.

As per relevant regulatory requirements, the Bank compiled the References for Directors and Supervisors on both regular and non-regular basis to help the directors and supervisors gain a comprehensive understanding of the business momentum, strategic implementation, risk control, internal control and compliance of the Bank. The directors of the Bank reviewed the reports and other written materials provided to them regarding the latest developments in the banking industry in general and the Bank's business in particular as well as relevant legal and regulatory requirements. Below is a summary of the incumbent directors' continuing professional development during the reporting period.

Name	Trainings on business, director duties and corporate governance	Monthly updates and other reading materials on latest developments in the Bank's business operation and the banking industry as well as relevant legal and regulatory requirements
Li Qingping *(Chairperson, Executive director)*	✓	✓
Cao Guoqiang *(Non-executive director)*	✓	✓
Fang Heying *(Executive director, Vice President & Chief Financial Officer)*	✓	✓
Huang Fang *(Non-executive director)*	✓	✓
Wan Liming *(Non-executive director)*	✓	✓
He Cao *(Independent non-executive director)*	✓	✓
Chen Lihua *(Independent non-executive director)*	✓	✓
Qian Jun *(Independent non-executive director)*	✓	✓
Yan Lap Kei Isaac *(Independent non-executive director)*	✓	✓

9.18 Review and Supervision of the Company's Policies and Practices for Compliance with Legal and Regulatory Requirements

Under the guidance of the Board of Directors, the Bank solidly implemented the special governance program of the CBIRC regarding rectification of chaos at the banking market to upgrade its internal control and management mechanisms. Among others, the Bank continued to improve its internal control oversight system, deepened the construction of the employee behavior management system in line with relevant regulatory requirements, reinforced authorization management and pushed for rectification from the root causes. In addition, the Bank implemented the new anti-money laundering regulations, improved the top designs of its internal rules on anti-money laundering, and reinforced compliance management at its overseas institutions to ensure regulatory compliance. The Board of Directors periodically reviewed internal control and compliance reports, guided the comprehensive promotion of a compliance and risk culture, and further elevated all-employee recognition of the value of compliance.

9.19 Compliance with the Corporate Governance Code under the Hong Kong Listing Rules

The Bank was in compliance with all code provisions as well as most of the recommended best practices of the Corporate Governance Code set out in Appendix 14 to the Listing Rules of SEHK throughout the year ended 31 December 2018, except for the following:

According to Code A.1.3 of the Corporate Governance Code, the meeting notice of the Board of Directors shall be given at least 14 days before each regular board meeting, while all directors and supervisors shall be notified in writing 10 days prior to a regular Board meeting according to Article 179 of the Bank's Articles of Association. The Bank adopted the above-mentioned latter notice practice for regular board meetings because a 10-day prior notice practice complies with applicable PRC laws and regulations, and reasonable time is deemed to have been given.

According to Code A.6.7 of the Corporate Governance Code, independent non-executive directors and other non-executive directors should attend the general meetings. Some directors were unable to attend the general meetings of the Bank in person due to conflict of timing or other arrangements.

According to Code A.5.6 of the Corporate Governance Code, the Nomination and Remuneration Committee (or the Board of Directors) should have a policy on membership diversity of the Board of Directors and should disclose the policy or a summary of the policy in the corporate governance report. The current session of the Board of Directors of the Bank comprises members of different genders, ages, cultures, education backgrounds and professional experiences. For relevant information about the directors, please refer to Chapter 8 of this report, "Directors, Supervisors, Senior Management Members, Staff and Affiliates". The Board of Directors has formulated the Policy on Diversification of Board Membership to comply with the requirement of Code A.5.6 of the Corporate Governance Code.

The Bank believes that diversity of board members is conducive to enhancing its operational quality and is a key factor in its efforts to attain strategic goals, maintain competitive advantages and achieve sustainable development. In setting the composition of the board membership, the Bank will consider the diversity of board members in a number of ways, including but not limited to talent, skill, knowledge, industry and expertise, cultural and educational backgrounds, gender, age and ethnicity. The appointment of all board members should be made after comprehensive consideration of the talents, skills, knowledge and experiences required for the overall operation of the board.

When reviewing candidates for board directorship and making recommendations to the board, the Nomination and Remuneration Committee under the Board of Directors will consider candidates based on their respective objective conditions, and consider the benefits of board member diversity in all aspects, taking into comprehensive account the talents, skills, knowledge, experiences and cultural and educational backgrounds of board members. At any given time, the Nomination and Remuneration Committee may recommend that the board seek improvement to its diversity in one or more aspects in order to maintain an appropriate and balanced composition of the Board in the light of the Bank's business development.

Given the changes in the external business environment and regulatory requirements in general and changes in the business scopes and scales of banks in particular, there is no end to the improvement of internal control of banks. Therefore, the Bank will follow the requirements of external regulators, the work requirements of listed companies and the criteria of leading banks in the world to continuously optimize its internal control management.

9.20 Management of Investor Relations

During the reporting period, the Bank communicated with participants of the capital market by more than 1,500 person-times cumulatively through various online and offline interaction channels and approaches such as hosting and visiting investors, setting up hotlines and emails and organizing large events, which effectively met the needs of domestic and overseas investors and analysts for communication with the Bank. At the same time, the Bank actively promoted its 2018-2020 Development Plan, publicized its business strategies on accelerating business transformation, strengthening risk prevention and control and consolidating its development foundation, so as to upgrade the level and quality of its communication with the capital market and increase investor recognition of the Bank's investment value. The Bank held annual results releases in Beijing and Hong Kong SAR in March 2018 and an interim results release in Beijing in August 2018, organized road shows in other countries and regions in April and May 2018, and hosted numerous events in April, June and November 2018 such as cooperation symposiums with fund companies, a special-theme credit card open day and a CITIC aiBank special-theme investor open day, communicating with major institutional investors from home and abroad by nearly 500 person-times, delivering to the capital market the positive energy of the Bank's business development, and gaining continuous attention from the market. The overall results were impressive. The Bank received the 2018 "Golden Lion Award for Listed Companies with Best Investor Relations Management" from Sina Finance, the only listed bank to receive this honor.

During the reporting period, the Bank dynamically monitored changes in shareholders' shareholdings, viewpoints of market research reports, its stock prices and market value, and capital market sentiment, continued to conduct in-depth research and survey of the capital market, and made timely accurate reports on relevant important information to the senior management and regulatory authorities. These efforts conveyed useful market opinions to the industry and effectively promoted virtuous interaction between business operation and the capital market. The Bank implemented the Provisional Measures for Equity Management of Commercial Banks and the supporting regulatory requirements thereof promulgated by the CBIRC, and coordinated with its major shareholders to improve equity management, revised and improved the relevant provisions of its Articles of Association on equity management, and formulated its own measures on equity management. In addition, the Bank developed measures for management of overseas roadshows to enhance the level of refined management of relevant work.

9.21 Information Disclosure and Management of Insider Information

The Bank attached great attention to information disclosure and management of insider information. It published periodic reports and interim announcements in strict compliance with the legal and regulatory provisions on information disclosure required by its listing venues. During the reporting period, the Bank published over 340 periodic reports, interim announcements and other documents at the SSE and the SEHK, totaling 2.85 million words. At the same time, the Bank worked harder to make its information disclosure more proactive and transparent, published timely preliminary annual results, rationally guided market expectations, and continuously increased disclosure of information on topical investor concerns in periodic reports. All these helped provide investors with timely, adequate and effective information.

During the reporting period, the Bank actively improved its information disclosure management mechanism, proactively boosted internal and external communication, prepared the tables for disclosure items relating to announcement, scientifically formulated disclosure plans, consolidated the foundation for announcement compliance, and ensured that all disclosure work was completed in an orderly manner. At the same time, the Bank managed insider information and insiders, standardized the information transmission process, intensified the management of insider information, and actively prevented the risks of insider information divulgence and insider trading in strict accordance with the regulatory requirements of the listing venues and its own regulations. During the reporting period, the Bank won recognition from the regulatory authorities for its standard operation in information disclosure. In its annual assessment of listed companies' information disclosure work, the SSE gave the Bank the highest rating — Class A.

9.22 Management of Related Party Transactions

During the reporting period, the Bank continued to attach great importance to the management of related party transactions pursuant to the regulatory requirements of the CBIRC, the CSRC, the SSE and the SEHK. In combination with the regulatory policy trends and the requirements of new regulations, further efforts were made to optimize its mechanism for such management in combination with the regulatory policy trends and the requirements of new regulations. As a result, the Bank was able to raise the awareness for compliance of related party transactions, upgrade the efficiency and degree of refinement in the management of related party transactions, promote the creation of synergistic value and shareholder value under the premise of compliance, and effectively protect the interests of shareholders and investors.

The Bank upheld its management system that featured decision making by the Board of Directors, supervision by the Board of Supervisors, execution by the senior management, and division of duties among business units. Management and business units of the Bank at all levels effectively performed their obligations of reviewing and disclosing related party transactions, reported material related party transactions to the Board of Directors for deliberation on a case-by-case basis, and disclosed such transactions and filed them with the CBIRC and the Board of Supervisors for record in a timely manner, in strict compliance with relevant requirements on the management of related party transactions. The Audit and Related Party Transactions Control Committee under the Board of Directors consisted fully of independent non-executive directors who carried out preliminary review of material related party transactions and expressed independent opinions thereabout on behalf of minority shareholders to ensure that such transactions were made in a fair manner on terms no more favorable than those available to independent third parties and in the overall interests of the Bank and all of its shareholders.

During the reporting period, the Bank strictly followed the regulatory requirements on related party transactions in alignment with the new policies and regulations. In particular, to implement the Provisional Measures for Equity Management of Commercial Banks and the supporting documents thereof promulgated by the CBIRC in 2018, the Bank took the initiative to strengthen communication and coordination with its major shareholders, consulted its external auditors and securities lawyers to jointly study and determine the scope of identification in relation to its major shareholders and their related parties, comprehensively collected relevant information thereof, and submitted such information to the regulatory authorities. At the same time, the Bank established a regular work mechanism with its major shareholders, dynamically updated the information about such major shareholders and their related parties and the list of the Bank's related parties, and effectively managed related party transactions. Moreover, the Bank actively boosted policy communication and achieved criteria adjustment and mechanism optimization for quota management of related credit extension. In particular, it further strengthened the routine management as well as statistics and monitoring of the annual caps on related party transactions between the Bank and its major shareholders and their related parties in the 2018-2020 period pursuant to the rules of the SSE and SEHK, thereby continuously improving refined management of related party transactions, raising the compliance awareness of related party transactions and carrying out management training and standard guidance, to ensure that its related party transactions were made in an orderly and compliant manner.

9.23 Internal Control Assessment

The purpose of the Bank's internal control is to reasonably ensure lawfulness and compliance of business and management, safety of assets, and truthfulness and completeness of financial reports and other relevant information, improve business efficiency and effectiveness, and promote implementation of the development strategy. The Board of Directors authorized the internal audit function to self-assess the effectiveness of the internal control design and operation of the Bank in accordance with relevant requirements such as the Basic Standards for Enterprise Internal Control, Guidelines for Assessment of Enterprise Internal Control and Guidelines for Internal Control of Commercial Banks, and in combination with the Bank's rules and assessment measures on internal control. The internal audit function produced the 2018 Internal Control Assessment Report of China CITIC Bank Corporation Limited ("the Internal Control Assessment Report"), holding that the Bank's internal control was valid as at 31 December 2018 (record date). In the course of the self-assessment exercise, the Bank was not aware of any material defects in its internal control. The Board of Supervisors of the Bank reviewed the Internal Control Assessment Report and had no objections to the content of the report.

Please refer to the relevant announcements published on the websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com) on the disclosure date of this report for the Internal Control Assessment Report (including the statements of the Board of Directors and the Board of Supervisors on their respective responsibilities in relation to internal control).

9.24 Development of Internal Control and Major Measures Adopted

The Bank made further efforts to implement its "413 Compliance Action" and carried out more vigorous comprehensive rectification to achieve compliant business operation across the Bank. Adhering to the principle of "addressing both the symptoms and the root causes but focusing on the root causes; placing punishment and prevention on an equal footing but highlighting prevention", the Bank made the arrangements to implement the "413 Compliance Action" which mainly included: rule implementation — escort action, behavior management — demining action, chaos rectification — sword action, and repeated investigations versus repeated violations — governance action. Policies were comprehensively executed from multiple dimensions including further development of rules and regulations, effective rectification of problems, greater accountability for violations and tougher supervision and inspection. In this process, the Bank focused on addressing problems and deficiencies in areas such as institutional construction/rule development, employee behavior management, deepening chaos rectification and addressing the problem of repeated investigations versus repeated violations. At the same time, more efforts were made to achieve compliant business operation and steady growth, explore relevant practices to construct a sound long-term internal control and compliance mechanism, comprehensively upgrade the level of internal control and compliance management throughout the Bank, and create a compliance culture where "one cannot afford, dare not and does not want to violate regulations". All these built a safe and stable business environment for the Bank to achieve healthy development.

The Bank continued to boost the construction of its internal control mechanisms, and went all in to achieve the "Safe CITIC Bank" management goal. Among others, it formulated the Implementation Plan for Its Three-year Strategy (2018-2020) from the perspective of internal control and compliance, which served as an effective guide for the entire bank to curb major cases, prevent risks and losses, and reasonably control reputation risk. A series of internal control regulations were successively revised and issued, such as the Administrative Measures of CITIC Bank for Rectification Work, the Basic Requirements of CITIC Bank on Accountability Management and the Administrative Measures of CITIC Bank on Internal Control of Incompatible Jobs and Positions, so as to further improve the Bank's internal control management. At the same time, the Bank organized its branches to sort out existing rules, internalize external regulations, implement dynamical management of rules and regulations, and ensure that the internal rules and measures closely follow the regulatory requirements and effectively match the actual operation and development situations of the Bank. For key businesses, the Bank practiced the standard management model of "compliance manuals, negative lists, and penalty criteria" and clarified the "compliance red lines, risk bottom lines, responsibility links and penalty criteria" for those business areas. In addition, the Bank continued to organize special-theme events such as "Top Leaders Talk About Cases" and WeChat learning for compliance department heads of the branches, so as to enhance the risk awareness of all employees. The Bank also comprehensively carried out self-examination for the purpose of chaos governance. Through "double-line self-examination" and "supervision by higher levels and examination at lower levels" at the two stages of assessment and self-examination, the Bank effectively met the requirements on rectification of banking industry chaos. By formulating and issuing the Administrative Measures of CITIC Bank for Compliance Officer Management of Overseas Branches, the Bank enhanced compliance management of its overseas branches, promoted the construction of compliance systems at the overseas branches in an orderly manner, implemented job responsibilities relating to compliance management.

The Bank reinforced the management of authorization and supervision over activities in excess of authorization to reinforce the awareness of a tier-one legal person in a continuous manner. Above all, the Bank reinforced the requirements on managing the entire bank as a tier-one legal person, and improved its matrix authorization system. By horizontally authorizing 8 members of the Bank's top leadership in charge of different specific aspects and 32 departments and vertically authorizing 38 branches, the Bank, for the first time in its history, established a clear standardized credit approval authorization system with the combination of basic authorization and operational manuals, and printed/issued 78 letters of authorization, which improved the authority, timeliness and seriousness of authorization. At the same time, the Bank strengthened management of authorization at all levels and standardized branch sub-authorization, completing the review and filing of more than 130 branch and Head Office department sub-authorizations. In addition, the Bank standardized the authorization management at all levels, and made timely and dynamic adjustments to authorization to promote healthy business development, recording 47 dynamic adjustments for the whole year. Moreover, the Bank trained authorization managers on major changes and key requirements by 800 person-times.

The Bank enhanced employee behavior management/control and continued to improve the incident prevention/control system. In order to intensify the management of employee behavior, the Bank formulated and issued the Measures of CITIC Bank for Behavior Management of Its Practitioners and the Measures of CITIC Bank for Score-based Behavior Management of Its Practitioners. Among others, it established an employee behavior oversight mechanism, scored employees in the case of behavioral irregularities, and standardized the system for whole-process management of employee behavior that covers monitoring, identification, recording, processing, reporting and evaluation of employee behavior risks, which effectively prevented and controlled behavioral risks. At the same time, the Bank worked harder to construct its incident prevention mechanism, and further improve the framework of regulations on incident prevention. In particular, it formulated and issued the Interim Measures of CITIC Bank for Flying Inspection of Incident Prevention and Behavior Management and the Measures of CITIC Bank for Management of Part-time Internal Control and Compliance Managers (Trial). In addition, the Bank required the signing of the letters of responsibility for incident prevention and the employee commitments for incident prevention at all levels, having each level manage its next inferior level, and implementing incident prevention responsibilities at all levels. At the same time, the Bank continued to push for risk screenings of abnormal fund transactions in employee accounts, surprise flying inspections, visits to employee families and whistle blows of integrity issues. These efforts acted as a deterrent and boosted employee awareness of proactive compliance. In addition, the Bank arranged job rotation of staffers in important posts and key positions to achieve on-the-job check and balance and effectively prevent operational risk and moral hazard.

The Bank improved its management of compliance review and effectively prevented compliance risk in its business operation. Among others, the Bank systematically combed the new regulations, comprehensively analyzed various types of regulatory penalties, and strengthened compliance review of new products, new businesses and new rules in alignment with new products, new businesses, and key projects of the business departments. Compliance review for the whole year recorded over 4,200 pertinent review comments, which effectively prevented compliance risk in business operation from the sources. In addition, the Bank summarized its practical experiences of compliance review over the recent years, sorted out the representative and typical compliance review cases, established a "compliance review case library", and published a total of 40 compliance review cases in 10 categories to guide compliance reviewers across the bank in their exchange and learning activities and upgrade the professional competency of the compliance reviewers in a continuous manner.

9.25 Internal Audit

In accordance with its audit objective and positioning of "risk whistle blowing, supervisory assessment and adding value to management", pursuant to the work arrangements set out in the Bank's 2018-2020 development plan and the implementation program of the "8100 Project", and with the guidance of the Audit Department's Implementation Program for the Bank's New Three-year Plan (2018-2020), the Bank earnestly performed its duties of audit supervision, enhanced the rigor of audit supervision and expanded its audit coverage in both depth and width. The independence and effectiveness of audit work enjoyed further enhancement.

During the reporting period, the Bank amended its internal audit charter in accordance with the Regulations of the National Audit Office on Internal Audit Work (CNAO Order No. 11), clarifying that its internal audit function shall conduct its work under the direct leadership of the Party Committee of the Head Office and the Board of Directors. In particular, the internal audit function made further efforts to reinforce audit supervision over key units, key risk areas, key operational and managerial components and personnel at key posts, explicitly defined the comprehensive audit requirement that all tier-one branches should be audited "once every two years", and incorporated special audit and economic responsibility audit into its comprehensive audit for combined implementation. In addition, special audits were completed for areas such as credit business, remunerations and performance, financial operation, information technology, anti-money laundering by overseas outlets, data governance, and outsourcing, which expanded the audit coverage from multiple dimensions. At the same time, such audit work fully revealed the deficiencies of internal control and strengthened the supervision and assessment of problem rectification at the Bank.

9.26 External Audit of Internal Control

For the reporting period, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP to audit the effectiveness of its internal control over financial reporting as at 31 December 2018 in accordance with the relevant requirements of the Guidelines on Audit of Enterprise Internal Control and the practicing standards for PRC certified public accountants. Based on the audit findings, PricewaterhouseCoopers Zhong Tian LLP presented to the Bank its audit report on internal control. For details thereof, please refer to the announcement published by the Bank on the websites of SSE (http://www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com).

In its audit opinion on internal control over financial reporting of the Bank, PricewaterhouseCoopers Zhong Tian LLP was of the view that the Bank maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Standards for Enterprise Internal Control and relevant regulations as at 31 December 2018.

9.27 Auditors and Their Remunerations

With regard to the auditors engaged by the Bank for the reporting period and their remunerations, please refer to Chapter 5 "Report of the Board of Directors — Engagement of Auditors" for details thereof.

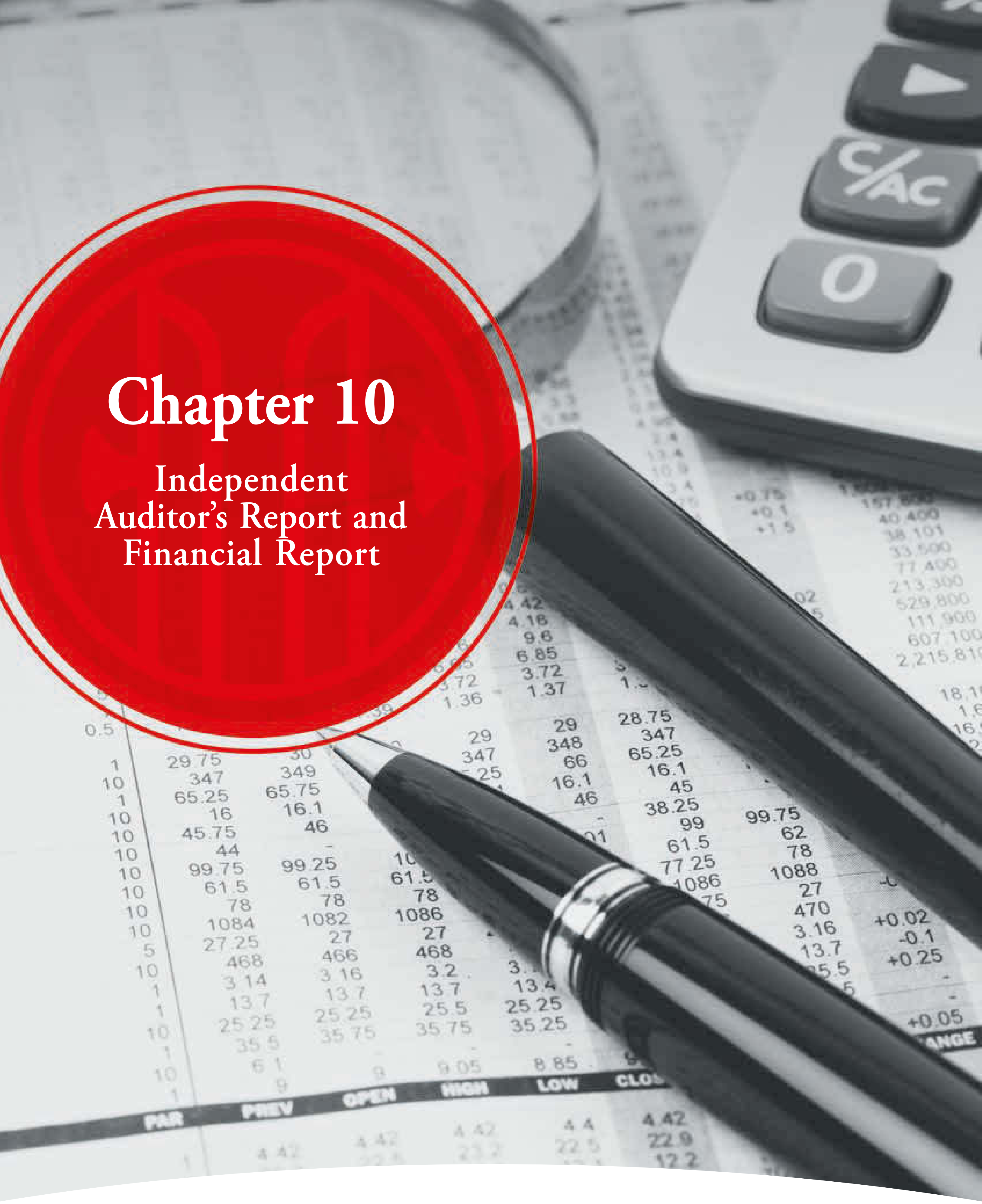
PricewaterhouseCoopers was the overseas auditor engaged by the Bank for the reporting period. Its statement of reporting obligation in respect of the consolidated financial statements is set out in Chapter 10 "Independent Auditor's Report and Audited Financial Statements" of this report.

9.28 Responsibility Statement of the Board of Directors on Risk Management, Internal Control and Compliance Management

The Board of Directors bears the ultimate responsibility for the Bank's risk management, internal control and compliance management and is responsible for reviewing the effectiveness of the regulations thereon. In consideration that the above-mentioned risk management and internal control systems are designed to manage rather than eliminate the risk of failing to achieve business objectives, the Board of Directors can only provide reasonable instead of absolute assurance that the above-mentioned systems and internal control can prevent any material misstatement or loss. For details on the Bank's risk management, please refer to Chapter 4 "Management Discussion and Analysis — Risk Management" of this report.

Chapter 10

Independent Auditor’s Report and Financial Report



To the Shareholders of China CITIC Bank Corporation Limited

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

Opinion

What we have audited

The consolidated financial statements of China CITIC Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 181 to 320, which comprise:

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

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit losses for loans and advances to customers and financial investments
- Consolidation of structured entities – Non-principal guaranteed wealth management products
- De-recognition of financial assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments	
Refer to Note 4(c), Note 5(i), Note 25 and Note 26 to the consolidated financial statements. As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB3,616.75 billion, and a loss allowance of RMB101.10 billion was recognized in the Group's consolidated statement of financial position; the Group's gross financial investments was RMB1,291.95 billion, and a loss allowance of RMB4.41 billion was recognized in the Group's consolidated statement of financial position. The balances of loss allowances for the loans and advances to customers and financial investments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under International Financial Reporting Standard 9: Financial Instruments expected credit losses models.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers, and financial investments, primarily including: (1) Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on-going monitoring and optimization of the models; (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, and forward-looking measurement; (3) Internal controls over the accuracy and completeness of key inputs used by the models; (4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances and financial investments in stage 3; (5) Internal controls over the information systems for model-based measurement.

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of expected credit losses for loans and advances to customers and financial investments (continued)

Key Audit Matter

The management assesses whether the credit risk of loans and advances to customers and financial investments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances and financial investments classified into stages 1 and 2, and all personal loans, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances and financial investments in stage 3, the management assesses loss allowance by estimating the cash flows from the loans.

The measurement models of ECL involves significant management judgments and assumptions, primarily including the following:

(1) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

How our audit addressed the Key Audit Matter

The substantive procedures we preformed primarily included:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management’s identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management’s model analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments (continued)	
(2) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (3) The estimated future cash flows for corporate loans and advances and financial investments in stage 3. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the management adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the exposures of the loans and advances to customers and financial investments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also performed walk-through testing and reconciliation of the transmission of major data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness. For corporate loans and advances and financial investments in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, and financial investments, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of Structured Entities – Non-principal Guaranteed Wealth Management Products	
Refer to Note 4(a), Note 5(vii) and Note 65 to the consolidated financial statements. As at 31 December 2018, unconsolidated structured entities included non-principal guaranteed wealth management products ("WMPs") issued and managed by the Group. Management's decision on whether or not to consolidate structured entities was based on an assessment of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities. We focused on the consolidation assessment and judgment made by management involving the structured entities for non-principal guaranteed WMPs during our audit, as whether or not to consolidate these entities involved significant judgment.	We evaluated and tested the design and operating effectiveness of management's relevant controls over the consolidation of structured entities for non-principal guaranteed WMPs. These controls primarily included the review and approval of the contractual terms, the results in variable return calculations, and the consolidation assessment conclusions for these structured entities. We selected samples of structured entities for non-principal guaranteed WMPs and performed the following tests: • assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities; • performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; • assessed whether the Group acted as a principal or an agent through analysis of the scope of the Group's decision-making authority, its remuneration entitlement, other interests the Group held, and the rights held by other parties. Based on the procedures performed above, we found management's judgment relating to the consolidation of structured entities for non-principal guaranteed WMPs acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
De-recognition of Financial Assets Refer to Note 4(c), Note 5(vi) and Note 66 to the consolidated financial statements. During the year ended 31 December 2018, the Group entered into transactions which involved transfers of financial assets including those through securitisation and loan transfers. Management analysed the Group's contractual rights and obligations in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, the Group assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met. The de-recognition assessment relating to the transfer of financial assets involved significant judgment from management, and as such, we focused our audit on the de-recognition of these financial assets.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results. We selected samples and read through transaction agreements to assess the contractual rights and obligations of the Group, and whether the Group transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows, to independent third parties. We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations. For financial assets where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether the Group had relinquished its controls over these financial assets, and if the Group had a continuing involvement in these transferred financial assets. Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Chapter 10 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Interest income		**233,793**	220,762
Interest expense		**(129,021)**	(121,117)
Net interest income	6	**104,772**	99,645
Fee and commission income		**50,739**	51,687
Fee and commission expense		**(5,591)**	(4,829)
Net fee and commission income	7	**45,148**	46,858
Net trading gain	8	**6,519**	6,583
Net gain from investment securities	9	**9,046**	3,757
Net hedging (loss)/gain	10	**(1)**	1
Other operating income		**282**	387
Operating income		**165,766**	157,231
Operating expenses	11	**(52,600)**	(48,913)
Operating profit before impairment		**113,166**	108,318
Impairment losses on			
— Loans and advances to customers		**—**	(50,170)
— Others		**—**	(5,617)
Total impairment losses	12	**—**	(55,787)
Credit impairment losses	13	**(57,886)**	—
Impairment losses on other assets	14	**(347)**	—
Revaluation gain on investment properties		**35**	30
Share of loss of associates and joint ventures		**(642)**	(285)
Profit before tax		**54,326**	52,276
Income tax expense	15	**(8,950)**	(9,398)
Profit for the Year		**45,376**	42,878
Net profit attributable to:			
Equity holders of the Bank		**44,513**	42,566
Non-controlling interests		**863**	312
Profit for the year		**45,376**	42,878
Other comprehensive income, net of tax:	16		
Items that will not be reclassified to profit or loss (net of tax):			
— Net changes on the measurement of defined benefit plan		**7**	(8)
— Fair value changes on financial investments designated at fair value through other comprehensive income		**11**	—
— Fair value changes on transfers from owner-occupied property to investment property		**65**	—
Items that may be reclassified subsequently to profit or loss (net of tax):			
— Other comprehensive income transferable to profit or loss under equity method		**(10)**	(9)
— Fair value changes on available-for-sales financial assets		**—**	(8,042)
— Fair value changes on financial assets at fair value through other comprehensive income		**10,040**	—
— Impairment allowance on financial assets at fair value through other comprehensive income		**140**	—
— Exchange difference on translating foreign operations		**2,209**	(2,583)
Other comprehensive income, net of tax	16	**12,462**	(10,642)
Total comprehensive income for the year		**57,838**	32,236
Total comprehensive income attribute to:			
Equity holders of the Bank		**57,022**	31,924
Non-controlling interests		**816**	312
Earnings per share attributable to the ordinary shareholders of the Bank			
Basic and diluted earnings per share (RMB)	17	**0.88**	0.84

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

Chapter 10 Consolidated Statement of Financial Position

As at 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	**31 December 2018**	31 December 2017
Assets			
Cash and balances with central banks	18	**538,708**	568,300
Deposits with banks and non-bank financial institutions	19	**99,153**	124,350
Precious metals		**4,988**	3,348
Placements with and loans to banks and non-bank financial institutions	20	**176,160**	172,069
Financial assets at fair value through profit or loss	21	**—**	65,904
Derivative financial assets	22	**31,991**	65,451
Financial assets held under resale agreements	23	**10,790**	54,626
Interest receivables	24	**—**	32,643
Loans and advances to customers	25	**3,515,650**	3,105,984
Financial investments	26	**1,600,163**	—
— at fair value through profit or loss		**308,872**	—
— at amortised cost		**778,238**	—
— at fair value through other comprehensive income		**510,346**	—
— designated at fair value through other comprehensive income		**2,707**	—
Available-for-sale financial assets	27	**—**	631,690
Held-to-maturity investments	28	**—**	216,586
Investments classified as receivables	29	**—**	531,118
Investments in associates and joint ventures	30	**3,881**	2,341
Investment properties	32	**443**	295
Property, plant and equipment	33	**21,385**	21,330
Intangible assets		**1,879**	1,139
Goodwill	34	**896**	849
Deferred tax assets	35	**23,174**	21,825
Other assets	36	**37,453**	57,843
Total assets		**6,066,714**	5,677,691
Liabilities			
Borrowings from central banks		**286,430**	237,600
Deposits from banks and non-bank financial institutions	38	**782,264**	798,007
Placements from banks and non-bank financial institutions	39	**115,358**	77,595
Financial liabilities at fair value through profit or loss		**962**	—
Derivative financial liabilities	22	**31,646**	64,937
Financial assets sold under repurchase agreements	40	**120,315**	134,500
Deposits from customers	41	**3,649,611**	3,407,636
Accrued staff costs	42	**10,549**	8,838
Taxes payable	43	**4,920**	8,858
Interest payable	44	**—**	39,323
Provisions	45	**5,013**	796
Debt securities issued	46	**552,483**	441,244
Deferred tax liabilities	35	**16**	8
Other liabilities	47	**54,061**	45,916
Total liabilities		**5,613,628**	5,265,258

As at 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	31 December 2018	31 December 2017
Equity			
Share capital	48	**48,935**	48,935
Preference shares	49	**34,955**	34,955
Capital reserve	50	**58,977**	58,977
Other comprehensive income	51	**5,269**	(11,784)
Surplus reserve	52	**34,450**	31,183
General reserve	53	**74,255**	74,251
Retained earnings	54	**179,820**	163,121
Total equity attributable to equity holders of the Bank		**436,661**	399,638
Non-controlling interests	55	**16,425**	12,795
Total equity		**453,086**	412,433
Total liabilities and equity		**6,066,714**	5,677,691

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

Approved and authorised for issue by the board of directors on 26 March 2019.

Li Qingping	**Fang Heying**	**Li Peixia**	**Company stamp**
Chairperson	*Executive Director, Vice President and Chief Financial Officer*	*General Manager of Finance Department*	

Chapter 10 Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 31 December 2017		**48,935**	**34,955**	**58,977**	**(11,784)**	**31,183**	**74,251**	**163,121**	**7,646**	**5,149**	**412,433**
Change in accounting policy	3(c)	–	–	–	4,544	(939)	–	(9,502)	(235)	–	(6,132)
As at 1 January 2018		**48,935**	**34,955**	**58,977**	**(7,240)**	**30,244**	**74,251**	**153,619**	**7,411**	**5,149**	**406,301**
(i) Net profit		–	–	–	–	–	–	44,513	574	289	45,376
(ii) Other comprehensive income	16	–	–	–	12,509	–	–	–	(47)	–	12,462
Total comprehensive income		–	–	–	12,509	–	–	44,513	527	289	57,838
(iii) Contribution by non-controlling shareholders	55	–	–	–	–	–	–	–	–	3,343	3,343
(iv) Profit appropriations											
– Appropriations to surplus reserve	52	–	–	–	–	4,206	–	(4,206)	–	–	–
– Appropriations to general reserve	53	–	–	–	–	–	4	(4)	–	–	–
– Dividend distribution to ordinary shareholders of the Bank	54	–	–	–	–	–	–	(12,772)	–	–	(12,772)
– Dividend distribution to preference shareholders of the Bank		–	–	–	–	–	–	(1,330)	–	–	(1,330)
– Dividend distribution to non-controlling interests		–	–	–	–	–	–	–	(5)	–	(5)
– Dividend distribution to other equity instruments holders	55	–	–	–	–	–	–	–	–	(289)	(289)
As at 31 December 2018		**48,935**	**34,955**	**58,977**	**5,269**	**34,450**	**74,255**	**179,820**	**7,933**	**8,492**	**453,086**

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 1 January 2017		48,935	34,955	58,636	(1,142)	27,263	73,911	136,666	123	5,149	384,496
(i) Net profit		–	–	–	–	–	–	42,566	22	290	42,878
(ii) Other comprehensive income	16	–	–	–	(10,642)	–	–	–	–	–	(10,642)
Total comprehensive income		–	–	–	(10,642)	–	–	42,566	22	290	32,236
(iii) Contribution by non-controlling shareholders	55	–	–	341	–	–	–	–	7,506	–	7,847
(iv) Profit appropriations											
– Appropriations to surplus reserve	52	–	–	–	–	3,920	–	(3,920)	–	–	–
– Appropriations to general reserve	53	–	–	–	–	–	340	(340)	–	–	–
– Dividend distribution to ordinary shareholders of the Bank	54	–	–	–	–	–	–	(10,521)	–	–	(10,521)
– Dividend distribution to preference shareholders of the Bank		–	–	–	–	–	–	(1,330)	–	–	(1,330)
– Dividend distribution to non-controlling interests		–	–	–	–	–	–	–	(5)	–	(5)
– Dividend distribution to other equity instruments holders	55	–	–	–	–	–	–	–	–	(290)	(290)
As at 31 December 2017		48,935	34,955	58,977	(11,784)	31,183	74,251	163,121	7,646	5,149	412,433

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

Chapter 10 Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Year ended 31 December	
	2018	2017
Operating activities		
Profit before tax	**54,326**	52,276
Adjustments for:		
— revaluation gain/(loss) on investments, derivatives and investment properties	**2,825**	(1,434)
— investment gain	**(7,897)**	(1,006)
— net loss/(gain) on disposal of property, plant and equipment, intangible assets and other assets	**(363)**	9
— unrealised foreign exchange loss/(gain)	**8**	(415)
— credit impairment losses	**57,886**	55,515
— impairment losses on other assets	**347**	272
— depreciation and amortisation	**2,942**	2,811
— interest expense on debt securities issued	**22,416**	19,171
— dividend income from equity investment	**(320)**	(178)
— income tax paid	**(15,875)**	(14,521)
Subtotal	**116,295**	112,500
Changes in operating assets and liabilities:		
Decrease in balances with central banks	**68,403**	14,730
Decrease/(increase) in deposits with banks and non-bank financial institutions	**3,159**	(9,442)
Decrease in placements with and loans to banks and non-bank financial institutions	**42,501**	10,896
Decrease in financial assets at fair value through the profit or loss	**—**	14,712
Decrease in financial assets held under resale agreements	**43,837**	116,178
Increase in loans and advances to customers	**(450,950)**	(365,544)
Decrease in investments in financial assets held for trading purposes	**17,850**	—
Decrease in investments classified as receivables	**—**	503,423
Decrease in deposits from banks and non-bank financial institutions	**(19,990)**	(183,284)
Increase in borrowings from central banks	**43,980**	53,550
Increase/(decrease) in placements from banks and non-bank financial institutions	**36,480**	(4,921)
Increase in financial liabilities at fair value through profit or loss	**958**	—
Decrease/(increase) in financial assets sold under repurchase agreements	**(14,229)**	14,162
Increase/(decrease) in deposits from customers	**196,044**	(215,583)
Decrease in other operating assets	**6,721**	495
Increase/(decrease) in other operating liabilities	**11,257**	(7,798)
Subtotal	**(13,979)**	(58,426)
Net cash flows from operating activities	**102,316**	54,074

Chapter 10 Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

		Year ended 31 December	
	Notes	**2018**	2017
Investing activities			
Proceeds from disposal and redemption of investments		**1,396,004**	1,007,237
Proceeds from disposal of property, plant and equipment, land use rights, and other assets		**1,154**	52
Cash received from equity investment income		**320**	178
Payments on acquisition of investments		**(1,535,459)**	(1,131,592)
Payments on acquisition of equipment and other assets		**(4,754)**	(7,980)
Net cash paid for acquisition of associates and joint ventures	30	**(1,838)**	(1,590)
Net cash flows used in investing activities		**(144,573)**	(133,695)
Financing activities			
Cash received from share capital issued		**—**	7,847
Cash received from debt securities issued	46	**922,161**	862,890
Cash received from other equity instruments issued	55	**3,343**	—
Cash paid for redemption of debt securities issued		**(815,230)**	(801,447)
Interest paid on debt securities issued		**(21,836)**	(17,699)
Dividends paid		**(14,396)**	(12,146)
Net cash flows from financing activities		**74,042**	39,445
Net increase/(decrease) in cash and cash equivalents		**31,785**	(40,176)
Cash and cash equivalents as at 1 January		**337,915**	385,356
Effect of exchange rate changes on cash and cash equivalents		**6,309**	(7,265)
Cash and cash equivalents as at 31 December	56	**376,009**	337,915
Cash flows from operating activities include:			
Interest received		**220,101**	226,761
Interest paid		**(113,272)**	(101,237)

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

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

1 Corporate information

China CITIC Bank Corporation Limited (the "Bank" or "CNCB") is a joint stock company incorporated in the People's Republic of China (the "PRC" or "Mainland China") on 31 December 2006. Headquartered in Beijing, the Bank's registered office is located at No.9 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. The Bank listed its A shares and H shares on Shanghai Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited, respectively on 27 April 2007.

The Bank operates under financial services certificate No. B0006H111000001 issued by the China Banking Insurance Regulatory Commission (the "CBIRC", originally named China Banking Regulatory Commission), and unified social credit code No. 91110000101690725E issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, finance leasing and other non-banking financial services.

As at 31 December 2018, the Group mainly operates in Mainland China with branches covering 31 provinces, autonomous regions and municipalities. In addition, the Bank's subsidiaries have operations in Mainland China, the Hong Kong Special Administrative Region of PRC ("Hong Kong") and other overseas countries and regions.

For the purpose of these consolidated financial statements, Mainland China refers to the PRC excluding Hong Kong, the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The consolidated financial statements were approved by the Board of Directors of the Bank on 26 March 2019.

2 Basis of preparation

These consolidated financial statements have been prepared on a going concern basis.

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

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Functional currency and presentation currency

The functional currency of the Bank is Renminbi ("RMB"). The functional currencies of overseas subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the consolidated financial statements according to Note 4(b)(ii). The consolidated financial statements of the Group are presented in Renminbi and, unless otherwise stated, expressed in millions of Renminbi.

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These consolidated 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.

These consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and at fair value through other comprehensive income, and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(a) New and amended standards adopted by the Group in 2018

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current year and relevant to the Group.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IAS 28	IASB Annual Improvements 2014 – 2016 cycle
Amendments to IAS 40	Transfer of Investment Property
International Financial Reporting Interpretations Committee 22 ("IFRIC 22")	Foreign Currency Transactions and Advance Consideration

The new accounting policies of IFRS 9 – Financial Instruments and their impacts are disclosed in Note 3(c) Changes in accounting policies. The adoption of the other new standards and amendments do not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards and new interpretations that have been issued but are not yet effective.

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	IASB Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement	1 January 2019

3 Statement of compliance (Continued)

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

IFRS 16: Leases

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. The standard replaces IAS 17 'Leases', and related interpretations.

IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or the lease is short-term, in the consolidated statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the consolidated statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

The impact of IFRS 16 will mainly be the accounting treatment of the Group as a lessee. The right-of-use asset and the lease liability reflecting future lease payments will be recognised by the Group in the consolidated statement of financial position except for those the commitment is of low value or is short-term, or those commitment arrangement which is not qualified as lease under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group apply the standard from its mandatory adoption date of 1 January 2019. The Group apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As a lessor or lessee, there will be no significant impact on the Group's consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 – Uncertainty over income tax treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation does not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

In October 2017, the IASB amended IFRS 9 by issuing Prepayment Features with Negative Compensation. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income. The adoption of this amendment does not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – IASB Annual Improvements 2015 – 2017 Cycle

The IASB Annual Improvements 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income taxes and IAS 23 – Borrowing Costs. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

3 Statement of compliance (Continued)

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

On 12 October 2017, the IASB issued amendments to IAS 28 – Investments in Associates and Joint Ventures to clarify that company's account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 19 – Employee benefits' regarding plan amendment, curtailment or settlement

On 8 February 2018, the IASB issued amendments to IAS 19 – Employee benefits' regarding plan amendment, curtailment or settlement to require an entity to determine the amount of any past service cost, or gain or loss on settlement by measuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

(c) Changes in accounting policies

The Group has adopted the revised IFRS 15 – Revenue issued by the IASB in May 2014 and the corresponding principles to prepare the consolidated financial statement for fiscal year 2018. The adoption of the above standards does not have a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 9 – Financial Instruments issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to International Financial Reporting Standard 7 'Financial Instruments: Disclosures' (IFRS 7) have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

Further details of the specific IFRS 9 accounting policies applied in the current period are described in Note 4 (c).

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(i) Classification and measurement of financial instruments

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

IAS 39 Financial assets	IAS 39 Measurement category	IAS 39 Carrying amount	IFRS 9 Measurement category	IFRS 9 Financial assets	IFRS 9 Carrying amount
Cash and balances with central banks	Amortised cost	568,300	Amortised cost	Cash and balances with central banks	568,300
Deposits with banks and non-bank financial institutions	Amortised cost	124,350	Amortised cost	Deposits with banks and non-bank financial institutions	124,290
Placements with and loans to banks and non-bank financial institutions	Amortised cost	172,069	Amortised cost	Placements with and loans to banks and non-bank financial institutions	171,905
Financial assets at fair value through profit or loss	Financial assets at FVPL	60,129	Financial assets at FVPL	Financial investments	65,246
	Financial assets designated at FVPL	5,775	Financial assets designated at FVPL		658
Derivative financial assets	Fanancial assets at FVOCI	65,451	Fanancial assets at FVOCI	Derivative financial assets	65,451
Financial assets held under resale agreements	Amortised cost	54,626	Amortised cost	Financial assets held under resale agreements	54,589
Interest receivables	Amortised cost	32,643	Amortised cost	Interest receivables	25,455
Loans and advances to customers	Amortised cost	3,105,984	Amortised cost	Loans and advances to customers	3,093,081
			Financial assets at FVOCI		5,903

IAS 39 Financial assets	IAS 39 Measurement category	IAS 39 Carrying amount	IFRS 9 Measurement category	IFRS 9 Financial assets	IFRS 9 Carrying amount
Available-for-sale financial assets	Fanancial assets at FVOCI	631,690	Financial assets at FVPL	Financial investments	131,547
			Amortised cost		105,573
			Fanancial assets at FVOCI		399,219
			Financial assets designated at FVOCI		605
Held-to-maturity investments	Amortised cost	216,586	Financial assets at FVPL	Financial investments	12,155
			Amortised cost		204,886
Investments classified as receivables	Amortised cost	531,118	Financial assets at FVPL	Financial investments	183,921
			Amortised cost		327,541
			Fanancial assets at FVOCI		24,679
Other financial assets	Amortised cost	26,313	Amortised cost	Other financial assets	25,813

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

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

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Cash and balances with central banks				
Amortised cost	568,300	—	—	568,300
Deposits with banks and non-bank financial institutions				
Amortised cost	124,350	—	(60)	124,290
Placements with and loans to banks and non-bank financial institutions				
Amortised cost	172,069	—	(164)	171,905
Derivative financial assets				
At fair value through profit or loss	65,451	—	—	65,451
Financial assets held under resale agreements Amortised cost	54,626	—	(37)	54,589
Interest receivables				
Amortised cost	32,643	(6,164)	(1,024)	25,455
Loans and advances to customers				
Amortised cost	3,105,984	(5,908)	(6,995)	3,093,081
At fair value through other comprehensive income	—	5,908	(5)	5,903
Total	3,105,984	—	(7,000)	3,098,984

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Financial assets at fair value through profit or loss				
At fair value through profit or loss	60,129	(60,129)	—	—
Designated at fair value through profit or loss	5,775	(5,775)	—	—
Financial investments				
At fair value through profit or loss	—	65,246	—	65,246
Designated at fair value through profit or loss	—	658	—	658
Total	65,904	—	—	65,904
Available-for-sale financial assets				
At fair value through other comprehensive income	631,690	(631,690)	—	—
Financial investments				
At fair value through profit or loss	—	131,442	105	131,547
Amortised cost	—	100,451	5,122	105,573
At fair value through other comprehensive income	—	399,192	27	399,219
Designated at fair value through other comprehensive income	—	605	—	605
Total	631,690	—	5,254	636,944
Held-to-maturity investments				
Amortised cost	216,586	(216,586)	—	—
Financial investments				
At fair value through profit or loss	—	11,620	535	12,155
Amortised cost	—	204,966	(80)	204,886
Total	216,586	—	455	217,041
Investments classified as receivables				
Amortised cost	531,118	(531,118)	—	—
Financial investments				
At fair value through profit or loss	—	178,507	5,414	183,921
Amortised cost	—	327,517	24	327,541
At fair value through other comprehensive income	—	25,094	(415)	24,679
Total	531,118	—	5,023	536,141
Other financial assets				
Amortised cost	26,313	—	(500)	25,813

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

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

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

	Allowance and provisions under IAS 39	Reclassification	Remeasurements	Allowance and provisions under IFRS 9
Deposits with banks and non-bank financial institutions	—	—	60	60
Placements with and loans to banks and non-bank financial institutions	1	—	164	165
Financial assets held under resale agreements	—	—	37	37
Interest receivables	3,946	—	1,024	4,970
Loans and advances to customers				
— Amortised cost	90,903	—	6,995	97,898
— At fair value through other comprehensive income	—	—	7	7
Available-for-sale financial assets	78	(78)	—	—
Investments classified as receivables	2,943	(2,943)	—	—
Financial investments				
— Amortised cost	—	2,684	360	3,044
— At fair value through other comprehensive income	—	337	613	950
Other financial assets	2,601	—	133	2,734
Subtotal	100,472	—	9,393	109,865
Off-balance sheet credit assets	402	—	4,155	4,557
Total	100,874	—	13,548	114,422

(iv) Financial assets that have been reclassified to the amortised cost category

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9.

	31 December 2018
Reclassified into amortised cost	
From available-for-sale financial assets(IAS 39) reclassified to financial assets at amortised cost (IFRS 9)	
Fair values as at 31 December 2018	**93,836**
Fair value gain that would have been recognised during the year if the financial assets had not been reclassified	**3,856**

4 Summary of significant accounting policies

(a) Consolidated financial statements

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities assumed are measured based on their carrying amounts in the financial statements of the acquiree at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total face value of shares issued) is adjusted against share premium in the capital reserve with any excess adjusted against retained earnings. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. The combination date is the date on which one combining enterprise obtains control of other combining enterprises.

(ii) Business combinations not involving entities under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination. Where (i) the aggregate of the acquisition date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (ii) the acquirer's interest in the acquisition date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (Note 4(l)). If (i) is less than (ii), the difference is recognised in the consolidated statement of profit or loss for the current period. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed as incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in the consolidated statement of profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquire will be reclassified to profit or loss.

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries, as well as structured 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 Bank has power, only substantive rights (held by the Bank and other parties) are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest is presented separately in the consolidated statement of financial position within owners' equity. Profit or loss and total comprehensive income attributable to non-controlling equity holders are presented separately in the consolidated statement of profit or loss and other comprehensive income.

When the amount of loss for the current period attributable to the non-controlling interest of a subsidiary exceeds the non-controlling interest's portion of the opening balance of equity holders' equity of the subsidiary, the excess is allocated against the non-controlling interests.

4 Summary of significant accounting policies (Continued)

(a) Consolidated financial statements (Continued)

(iii) Consolidated financial statements (Continued)

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated only limited to the extent that this is no evidence of impairment.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated.

Where a subsidiary was acquired during the reporting period, through a business combination not involving enterprises under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Bank acquires a non-controlling interest from a subsidiary's non-controlling equity holders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the non-controlling interests are adjusted and the amount of the consideration paid or received is adjusted to capital reserve (share premium) in the consolidated statement of financial position. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, non-controlling interests and other related items in equity holders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when the control is lost.

If there is a difference between the accounting entity of a Group and the accounting entity of the bank or a subsidiary on mearsuring the same transaction, the transaction will be adjusted from the perspective of the Group.

(b) Foreign currency translations

(i) Translation of foreign currency transactions

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated into Renminbi by applying the spot exchange rates at the dates of the transaction. Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the reporting date. The resulting exchange differences are recognised in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate at the date the fair value is determined. The differences arising from the translation of financial assets at fair value through other comprehensive income is recognised in other comprehensive income. Changes in the fair value of monetary assets denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in the consolidated statement of profit or loss, and other changes in the carrying amount are recognised in other comprehensive income. The translation differences resulting from other monetary assets and liabilities are recognised in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(b) Foreign currency translations (Continued)

(ii) Translation of financial statements denominated in foreign currency

Financial statements denominated in foreign currency are translated into Renminbi for the preparation of consolidated financial statements. The assets and liabilities in the financial statements denominated in foreign currency are translated into Renminbi at the spot exchange rates prevailing at the reporting date. The equity items, except for "retained earnings", are translated to Renminbi at the spot exchange rates at the dates on which such items arose. Income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. The resulting exchange differences are recognised in other comprehensive income.

Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in equity holders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows.

(c) Financial instruments

IFRS 9 (applicable since 1 January 2018)

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell asset.

(i) Initial recognition and classification of financial instruments

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets:

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

The business model adopted by the Group for managing its financial assets refers to how the Group manages its financial assets in order to generate cash flows. The business model determines whether the cash flows from the financial assets managed by the Group come from the collection of contractual cash flows, sale of financial assets or a combination of the two methods. In determining the business model for a group of financial assets, the Group considers various factors, including: past experience in collecting cash flows from this group of assets; how to assess the performance of this group of asset and report it to key management personnel; how to assess and manage risks are; and how to compensate people responsible for managing these assets, among others.

The contractual cash flow characteristics of financial assets refer to contractual terms as agreed in the financial instrument contracts that reflect the economic characteristics of the financial assets, i.e., the contractual cash flows arising at a specified date from the financial assets are solely payments of principal and interest on the principal amount outstanding. Of which, the principal is the fair value of the financial asset at initial recognition, and the amount of the principal may change over the life of the financial asset, if, e.g., there are repayments of principal; and the interest includes consideration for the time value of money, and credit risk, other basic lending risks and costs associated with holding the financial asset for a particular period of time.

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

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

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial assets (Continued)

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: i) the Group's business model for managing the asset; and ii) the cash flow characteristics of asset.

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

- Amortised cost: Assets that are held for collection of contractual cashflows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost.

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting the liabilities. A financial instrument is an equity instrument if, and only if, both conditions i) and ii) below are met:

i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity investments of the Group are measured at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. After designation, the fair value change is recognised in the other comprehensive income and it is not allowed to subsequently reclassify to profit or loss (including upon disposal). Impairment loss and reversal of impairment is not presented separately in the financial statement and is included in the fair value change. Dividend income as the return from investments is recognised by the Group when the right to receive is formed.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortised cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's key management personnel.

(ii) Measurement of financial assets

Initial measurement

Financial assets at FVPL are stated at fair value. Financial assets at fair value through profit or loss, transaction costs that are directly attributable to profit or loss. Financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets.

Subsequent measurement

Subsequent measurement of financial assets depends on the categories:

Financial assets measured at amortised cost

The amortised cost is the amount at which the financial asset is measured at initial recognition: i) minus the principal; ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount; iii) for financial assets, adjusted for any loss allowance.

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

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(ii) Measurement of financial assets (Continued)

Subsequent measurement (Continued)

Financial assets measured at amortised cost (Continued)

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

i) a POCI financial asset, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to its amortised cost; and

ii) a financial assets that is not a POCI financial asset but has subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to its amortised cost. If, in a subsequent period, the financial asset improves its quality so that it is no longer credit-impaired and the improvement in credit quality can be related objectively to a certain event occurring after the application of the above-mentioned rule, then the interest income can again be calculated by applying the effective interest rate to its gross carrying amount. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

If the Group revises its estimates of payments or receipts, the difference between the gross carrying amount of the financial asset or amortised cost of a financial liability calculated from revised estimated contractual cash flows and the present vaule of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate should be recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial assets is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments

Where an investment in an equity investment not held for trading is designated as a financial asset measured at fair value through other comprehensive income, the fair value changes of the financial asset is recognised in the other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to retained earnings. The dividends on the investment are recognised in profit or loss only when the Group's right to receive payment of the dividends is established.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(ii) Measurement of financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are stated at fair value and a gain or loss on a financial assets that is measured at fair value should be recognised in profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are measured at fair value with all gains or losses recognised in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

- changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognised in other comprehensive income; and

- other changes in fair value of such financial liabilities are recognised in profit or loss of the current period.

(iii) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with exposure arising from loan commitments, financial guarantee contracts and lease receivables.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, ie, all cashshort falls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures ECL of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- the time value of money; and

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Detailed information about ECL in the above areas is set out in note 61(a).

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at fair value through other comprehensive income. The loss allowance is recongnised in other comprehensive income and the impairment loss is recognised in profit or loss, and it should not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-months ECL at the current reporting date and the amount of ECL reversal is recognise in profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(iii) Impairment of financial assets (Continued)

At the reporting date, the Group only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance for POCI financial assets. At each reporting date, the Group recognises in profit or loss the amount of the changes in lifetime ECL as an impairment gain or loss.

(iv) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

(v) Derivatives and hedges

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(v) Derivatives and hedges (Continued)

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments for fair value hedges.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(vi) Derecognition of financial assets

Financial assets

The Group derecognises a financial asset only when (1) the contractual rights to the cash flows from the asset expire, or (2) when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, or (3) when it transfers the financial asset and gives up the control of the transferred assets though the Group neither transfers nor retains substantially all the risks and rewards of ownership.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in the consolidated statement of profit and loss:

— the carrying amount of the financial asset transferred;

— the sum of the consideration received from the transfer and the cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(vi) Derecognition of financial assets (Continued)

Financial liabilities

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. An agreement between the Group and an existing lender to exchange 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 financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit and loss.

(vii) Securitisation

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. When the securitisation of financial assets that qualify for de-recognition, the relevant financial assets are de-recognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability. When the securitisation of financial assets that partially qualify for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

(viii) Sales of assets on condition of repurchase

De-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset

(ix) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the consolidated statement of financial position and are not offset. However, financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only if the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(x) Financial assets held under resale and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions which the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions which the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

Cash advanced or received is recognised as amounts held under resale and repurchase agreements on the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the consolidated statement of financial position.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(x) Financial assets held under resale and financial assets sold under repurchase agreements (Continued)

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, should be expired over the period of the respective transaction using the effective interest method and are included in interest expense and interest income, respectively.

(xi) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity holder's equity.

IAS 39 (applicable until 31 December 2017)

(i) Classification

The Group classifies financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred, and on the contractual terms of the financial instruments. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through profit or loss.

A financial asset is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial assets; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as financial assets at fair value through profit or loss or as available-for-sale financial assets; (ii) those that meet the definition of loans and receivables.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(i) Classification (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as financial assets at fair value through profit or loss or as available-for-sale financial assets. Loans and receivables mainly comprise balances with central banks, deposits and placements with and loans to banks and non-bank financial institutions, financial assets held under resale agreements, investments classified as receivables, and loans and advances to customers.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments or (iii) loans and receivables.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities or are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial liabilities; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

Other financial liabilities

Other financial liabilities are financial liabilities other than those at fair value through profit or loss, and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debts securities issued.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(ii) Derivatives and embedded derivatives

Derivatives mainly include forward and swap contracts in foreign currency market and interest rate market. The Group enters into derivatives to hedge its exposure on foreign exchange and interest rate risks; and for customer initiated transactions. The Group adopts hedge accounting in accordance with Note 4(c)(ix)for derivatives designated as hedging instruments if the hedge is effective. Other derivatives are accounted for as trading financial assets or financial liabilities. Derivatives are recognised at fair value upon initial recognition. Positive fair value is recognised as assets while the negative fair value is recognised as liabilities. Gain or loss on re-measurement to fair value is recognised immediately in the consolidated statement of profit or loss.

Certain derivative is embedded into a non-derivative instrument (the host contract). The embedded derivatives are separated from the host contract and accounted for as a derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. When the embedded derivative is separated, the host contract is accounted for in accordance with Note 4 (c)(i).

(iii) Recognition and de-recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expired; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group neither transfers nor retains substantially all the risks and rewards of ownership but does not continue to control the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in the consolidated statement of profit or loss:

— the carrying amount of the financial asset transferred;

— the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(iii) Recognition and de-recognition (Continued)

Securitisation

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for de-recognition of financial assets are set out above. When the securitisation of financial assets that qualify for de-recognition, the relevant financial assets are de-recognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets that partially qualify for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

Sales of assets on condition of repurchase

De-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liability

Financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged/cancelled, or (ii) an agreement between the Group and an existing lender to exchange 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 financial liability derecognised and the consideration paid is recognised in the consolidated statement of profit or loss.

(iv) Measurement

Financial instruments are measured initially at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instruments. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost under effective interest rate method, while other categories of financial instruments are measured at fair value. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and fair value cannot be reliably measured are measured at cost.

Gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(iv) Measurement (Continued)

Gain or loss on an available-for-sale financial asset is recognised directly as other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from the amortised cost portion of monetary financial assets which are recognised directly in the consolidated statement of profit or loss. When the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the consolidated statement of profit or loss. Dividend income from the available-for-sale equity instruments is recognised in the consolidated statement of profit or loss when the investee declares the dividends.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from other comprehensive income to the profit or loss.

For financial instrument carried at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial instrument is derecognised, impaired, or through the amortisation process.

(v) Impairment

The Group assesses at the reporting date the carrying amount of a financial asset (other than those at fair value through profit or loss). If there is objective evidence that the financial asset is impaired, the Group will recognise the impairment loss in the consolidated statement of profit or loss.

Objective evidence that a financial asset is impaired included but is not limited to:

— significant financial difficulty of the borrower or issuer;

— a breach of contract by the borrower or issuer, such as a default or delinquency in interest or principal payments;

— the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

— it is probable that the borrower will enter bankruptcy or other financial reorganisations;

— disappearance of an active market for that financial asset because of financial difficulties of the issuer;

— observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

— significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the borrower or issuer operates, indicating that the advances to borrowers or the cost of an investment in an equity instrument may not be recovered;

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(v) Impairment (Continued)

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and

— other objective evidence indicating there is an impairment of a financial asset.

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, investments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, including loans and advances to customers, investments classified as receivables and held-to-maturity investments, an impairment loss is recognised in the consolidated statement of profit or loss when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

Financial assets will be grouped according to the similarities of credit risk characteristics during the portfolio assessment of impairment. These credit risk characteristics are usually related to the future cash flow measurement of the asset being inspected, reflecting the debtor's ability to repay all due amounts in accordance with the contractual terms of these assets.

Impairment reversal and written-off

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortised cost including loans and advances to customers, Investments classified as receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal, had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of profit or loss.

When the Group determines that a financial asset carried at amortised cost has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the financial asset carried at amortised cost is written off against its allowance for impairment losses. If in a subsequent period the financial asset carried at amortised cost written off is recovered, the amount recovered will be recognised in the consolidated statement of profit or loss through impairment losses.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(v) Impairment (Continued)

Rescheduled loans

Rescheduled loans are loans that have been rescheduled due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve the agreement of new loan conditions. The Group has analysed de-recognition of rescheduled loans in accordance with Note 4 (c)(iii). Management continuously reviews rescheduled loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the impairment allowance is calculated using the loan's original effective interest rate.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in other comprehensive income is removed from other comprehensive income and recognised in the consolidated statement of profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from other comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss, is removed from equity and recognised in the consolidated statement of profit or loss.

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired. If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss shall be treated in accordance with following principle:

— impairment loss on debt instruments classified as available-for-sale should be reversed, with the amount of the reversal recognised profit or loss;

— impairment loss on equity instruments classified as available-for-sale should not be reversed through profit or loss, and any subsequent increase in the fair value of such assets is recognised directly in equity;

— impairment loss of available-for-sale equity investments carried at cost should not be reversed through the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(vi) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the consolidated statement of financial position and are not offset. However, financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only if the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vii) Financial assets held under resale and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions which the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions which the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

Cash advanced or received is recognised as amounts held under resale and repurchase agreements on the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, should be expired over the period of the respective transaction using the effective interest method and are included in interest expense and interest income, respectively.

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity holders' equity.

(ix) Hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item is being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

4 Summary of significant accounting policies (Continued)

(d) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes and precious metals leasing are initially measured at fair value and subsequent changes in fair value are recorded in the consolidated statement of profit or loss.

(e) Interests in subsidiaries

In the Bank's consolidated statement of financial position, interests in subsidiaries are accounted for using the cost less impairment losses (see Note 4 (n)). Cost includes direct attributable costs of investment. Dividends declared by subsidiaries are recognised in investment income.

Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(f) Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

When acquiring associates and joint ventures, the Group recognises as initial investment cost in the principle which: for the investments obtained by making payment in cash, the Group recognises the purchase cost which is actually paid as initial investment costs; for the investments obtained by equity securities, the Group recognises the fair value of the equity securities issued as initial investment cost.

An investment in an associate or a joint venture is accounted for using the equity method, unless the investment is classified as held for sale.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(f) Interests in associates and joint ventures (Continued)

The Group adopts the following accounting treatments when using the equity method:

— Where the initial investment cost of an associate or joint venture exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

— After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's profit or loss, other comprehensive income or profit distribution, is recognised in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

— The Group recognises its share of investee's profits or losses, other comprehensive income and other changes in equity holders' equity after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures. When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

— The Group discontinues recognising its share of net losses of investees after the carrying amount of investment to the associates and joint ventures and any long-term interest that in substance forms part of the Group's net interest in the associates and joint ventures are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Additional loss is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate. Where profits are subsequently made by the associates and joint ventures, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

The Group makes provisions for impairment of interests in associates and joint ventures in accordance with the principles described in Note 4 (n).

(g) Property, plant and equipment

Property, plant and equipment is asset held by the Group for the conduct of business and is expected to be used for more than one year. Construction-in-progress, an item of property, represents property under construction and is transferred to property when ready for its intended use.

4 Summary of significant accounting policies (Continued)

(g) Property, plant and equipment

(i) Cost

Property, plant and equipment is stated at cost upon initial recognition. Costs of a purchased property, plant and equipment comprise purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. Costs of a self-constructed property, plant and equipment comprise construction materials, direct labor costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of profit or loss as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost, less residual value if applicable, of property, plant and equipment and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

	Estimated useful lives	*Estimated residual value*	*Depreciation rate*
Buildings	30 – 35 years	0%-5%	2.71%-3.33%
Computer equipment and others	3 – 10 years	0%-10%	9.00%-33.33%

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each reporting date.

(iv) Impairment

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 4 (n).

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss on the date of disposal or retirement.

4 Summary of significant accounting policies (Continued)

(h) Land use rights

Land use rights are stated at cost less amortisation and included under other assets. Land use rights are amortised on a straight-line basis over the respective periods of grant. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property, plant and equipment.

Impairment loss on land use rights is accounted for in accordance with the accounting policies as set out in Note 4 (n).

(i) Intangible assets

Intangible assets are initially recognised at cost. The cost less estimated net residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment loss on intangible assets is accounted for in accordance with the accounting policies as set out in Note 4 (n). Impaired intangible assets are amortised net of accumulated impairment losses.

Intangible assets which are not yet available for use should be estimated at least at each financial year-end, even if there was no indication that the assets were impaired.

(j) Investment properties

Investment properties are land and/or buildings which are owned and/or held under a leasehold interest to earn rental income and/or for capital appreciation.

The Group's investment properties are accounted for using the fair value model for subsequent measurement when either of the following conditions is met:

— There is an active property market in the location in which the investment property is situated;

— The Group can obtain the market price and other relevant information regarding the same type of or similar properties from the property market, so as to reasonably estimate the fair value of the investment property.

Investment properties are stated at fair value in the consolidated statement of financial position. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss.

When there is a change in use of properties from owner-occupation to earn rentals or for capital appreciation, the investment property transferring from property, plant and equipment or intangible assets is measured at fair value on the date of transfer. If the fair value on the transferred investment property is lower than the carrying amount of property, plant and equipment or intangible assets on the date of transfer, the difference is recognised in profit or loss, otherwise in the comprehensive income.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit and loss.

4 Summary of significant accounting policies (Continued)

(k) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(i) Finance leases

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receipts and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment"), is included in "loans and advances to customers" on consolidated statement of financial position as a finance lease receivable. At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable. The difference between the net lease investment and the aggregate of their present value is recognised as unearned finance income which is included in "loans and advances to customers" as well. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses are accounted in accordance with the accounting policies as set out in Note 4 (c)(v).

When the Group is a lessee under finance leases, an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease, is included in "property, plant and equipment" on the consolidated statement of financial position as a leased asset. An amount equals to the minimum lease payments is included in "other liabilities" on the consolidated statement of financial position recognised as a long-term payable. The difference between the recorded amount of the leased asset and the recorded amount of the payable shall be accounted for as unrecognised finance charge. The Group recognises financial charge for the current period using the effective interest method.

Depreciation policies are accounted in accordance with the accounting policies as set out in Note 4 (g) and impairment losses are accounted in accordance with the accounting policy as set out in Note 4 (n). If there is a reasonable certainty that the lessee will obtain ownership of the leased asset by the end of the lease term, the leased asset should be depreciated over its useful life. Otherwise, leased asset is depreciated over the shorter of the lease term and its estimated useful life.

(ii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 4(g) except where the asset is classified as an investment property. Impairment losses are accounted in accordance with the accounting policies as set out in Note 4(n). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 4 (u)(iv).

When the Group has the use of assets held under 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, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

4 Summary of significant accounting policies (Continued)

(l) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or a group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in the consolidated statement of profit or loss.

On disposal of the related CGU or a group of CGUs, any attributable amount of the purchased goodwill net of allowance for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted in accordance with the accounting policies as set out in Note 4 (n).

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

When the Group seizes assets to compensate for the losses of loans and advances and interest receivables, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets are included in the carrying value of repossessed assets.

When the fair value less costs to sell is lower than a repossessed asset's carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss. Repossessed assets are recognised at the carrying value, net of allowance for impairment losses.

The repossessed assets are disposed after acquisition and cannot be used without authorisation. The repossessed assets that are transferred to own use are treated as newly purchased property, plant and equipment.

Any gain or loss arising from the disposal of the repossessed assets is included in the consolidated statement of profit or loss in the period in which the item is disposed.

(n) Allowance for impairment of non-financial assets

(i) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset other than goodwill such as investments in associates and joint ventures, property, plant and equipment, investment properties, intangible assets and other assets may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(n) Allowance for impairment of non-financial assets (Continued)

(ii) Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or the group of CGUs that is expected to benefit from the synergies of the combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that is largely independent of the cash flows from other assets or groups of assets.

The CGU or the group of CGUs to which goodwill has been allocated is tested for impairment by the Group annually, or whenever there is an indication that the CGU or the group of CGUs are impaired, by comparing the carrying amount of the CGU or the group of CGUs, including the goodwill, with the recoverable amount of the CGU or the group of CGUs. The recoverable amount of the CGU or the group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or the group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or a group of the CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of the CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of the CGUs containing the goodwill. In such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or the group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or the group of CGUs, pro rata on the basis of the carrying amount of each asset. The carrying amount of an asset should not be reduced below the highest of its fair value less costs of disposal (if measurable); its value in use (if determinable) and zero.

An impairment loss in respect of goodwill is not reversed.

(o) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique (Note 63).

(p) Employee benefits

(i) Short-term employee benefits

During the accounting period when an employee has rendered service to the Group, the Group recognises the undiscounted amount of short-term employee benefits as a liability and as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset. Short-term employee benefits include wages, bonuses, labor union expenses and exployee education expenses, social insurance such as medical insurance, work-related injury insurance and maternity insurance, as well as housing provident funds, which are all calculated based on the regulated benchmark and ratio.

4 Summary of significant accounting policies (Continued)

(p) Employee benefits (Continued)

(ii) Post-employment benefits: Defined contribution plans

Pursuant to the relevant laws and regulations in the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are charged to profit or loss when the related services are rendered by the employees.

In addition to the statutory provision plan, the Bank's employees have joined its annuity scheme (the "scheme") which was established by the CITIC Group Corporation ("CITIC Group") in accordance with policies regarding the state owned enterprise annuity policy. The Bank has made annuity contributions in proportion to its employee's gross salaries which are expensed in the consolidated statement of profit or loss when the contributions are made.

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss as and when the contribution fall due.

(iii) Post-employment benefits: Defined benefit plans

The defined benefit plans of the Group are supplementary retirement benefits provided to the domestic employees.

The Group adopts the projected unit credit actuarial cost method, using unbiased and mutually compatible actuarial assumptions to estimate the demographic and financial variables, to measure the obligation associated in the defined benefits plan. The discounted present value of the defined benefit obligation, is recognised as the liabilities of the defined benefit plans.

The Group recognises the obligation of defined benefit plans in the accounting period in which the employees render the related services. Past-service costs are recognised immediately in the consolidated statement of profit or loss. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Re-measurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(q) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to the grants. Government grants are measured at the amount received or will be received when recognised as monetary assets. Government grants are measured at fair value when recognised as non-monetary assets.

The grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. The grants related to income are government grants other than those related to assets. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in the consolidated statement of profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in the consolidated statement of profit or loss immediately. The Group uses the same statement method for similar government grants.

The prime based loan of the Group is calculated based on actual incoming loan as entry value and preferential interest rate. The direct interest charges against the cost of loan.

4 Summary of significant accounting policies (Continued)

(r) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(s) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. 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 the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The Group recognise the loss allowance of financial guarantee contracts measured by ECL as a provision.

A contingent liability is (a) a possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or (b) a present obligation that arises from past events and it is not probable that an outflow of economic benefits is required to settle the obligation; or the amount of the obligation cannot be measured reliably. Such liability is disclosed as contingent liabilities under Note 57.

(t) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(u) Income recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from owners. Revenue is recognised when the controls of related products or services is obtained and satisfy the other conditions for different type of revenues as below.

(i) Interest income

Interest income of financial assets is calculated using the effective interest method and included in the profit and loss. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. 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 interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan or anticipating will not, the fee is recognised as revenue on expiry.

(iii) Dividend income

Dividend income is recognised in the consolidated statement of profit or loss on the date when the Group's right to receive payment is established.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable.

(v) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

4 Summary of significant accounting policies (Continued)

(v) Income tax

Current tax and deferred tax are recognised in the consolidated statement of profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current income tax is the expected tax payables on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payables in respect of previous periods. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences also arise from unused tax losses and unused tax credits. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

At the reporting date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and meet the additional conditions that deferred tax assets and liabilities relate to income taxes levied by the same authority on the same taxable entity.

(w) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturity of three months or less at acquisition.

(x) Profit distribution

Proposed dividends for ordinary shares which are declared and approved after the end of each reporting period are not recognised as a liability in the consolidated statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the notes to the consolidated financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved.

(y) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control, jointly control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

4 Summary of significant accounting policies (Continued)

(z) Operating segments

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker for the purposes of allocating resources and assessing performance. The Group considers the business from different perspectives including products and services and geographic areas. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

5 Critical accounting estimates and judgements

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

The estimates and associated key assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Measurement of the expected credit loss allowance (IFRS 9)

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 61(a).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 61(a).

5 Critical accounting estimates and judgements (Continued)

(ii) Impairment losses on loans and advances to customers and investments classified as receivables (IAS 39)

Loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognised in the consolidated statement of profit or loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics, as described in Note 4 (c)(v) impairment of financial assets carried at amortised cost.

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations, overdue status, financial position of guarantors, latest collateral valuations, concession the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing loans and advances to customers defaults. These judgments are made both during management's regular assessments of credit quality of loans and advances to customers and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Factors affecting these estimates include the availability and granularity of information related to specific borrowers; the results of regulatory reviews and the related portfolio analysis, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customer's defaults of related borrowers.

Corporate loans and advances to customers not identified as impaired from individually assessments, together with all personal loans and advances to customers are included in in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Migration model is used for corporate loans and roll rate models are used for personal loans considering the similarity of credit risks and applying key assumptions. Significant judgments are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgments include modelling assumptions (e.g., loss given default) and levels of correlation between qualitative factors and loans and advances to customers default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; (iii) high risk products and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodologies and assumptions used for loss estimation, makes adjustments where appropriate.

5 Critical accounting estimates and judgements (Continued)

(ii) Impairment losses on loans and advances to customers and investments classified as receivables (IAS 39) (Continued)

Investments classified as receivables

In determining whether an impairment loss should be recognised in the consolidated statement of profit or loss, the Group makes significant estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to investments classified as receivables by underlying assets or groups of underlying assets with similar risk characteristics, as described in Note 4 (c)(v) Impairment of financial assets carried at amortised cost.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows based on the underlying assets related to individually significant impaired investment classified as receivables.

Investments classified as receivables not identified as impaired from the individual assessment are included in groups with similar credit risk characteristics by underlying assets with the consideration of risk factors specific to different industries and different type of underlying assets, and assessed for impairment collectively. Significant judgments are applied to the calculation of collectively assessed impairment.

(iii) Impairment of available-for-sale equity investments (IAS 39)

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data of market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance, financial information regarding the investee and industry practice.

(iv) Classification of financial assets (IFRS 9)

The critical judgments the Group has in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include evaluation and reporting of financial asset performance to key management personnel, risks affecting the performance of financial assets and their management methods, and related business management personnel. The way to get paid, etc.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; Wether interests is only included currency time value, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, Wether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

(v) Fair value of financial instruments

For financial instruments without active market, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period. However, where market data are not available, management needs to make estimates on such unobservable market inputs based on assumptions. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

5 Critical accounting estimates and judgements (Continued)

(vi) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements and etc.. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transferred financial asset to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets was transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

— whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows to independent third parties;

— the extent to which the associated risks and rewards of ownership of the financial assets are transferred by using appropriate models. Significant judgment is applied in the Group's assessment with regard to the parameters and assumptions applied in the models, estimated cash flows before and after the transfers, the discount rates used based on current market interest rates, variability factors considered and the allocation of weightings in different scenarios;

— where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets.

(vii) Consolidation of structured entities

The Group makes significant judgment to assess whether or not to consolidate structured entities. When performing this assessment, the Group:

— assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities;

— performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and

— assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group's decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.

(viii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

6 Net interest income

	Year ended 31 December	
	2018	2017
Interest income arising from (Note (i)):		
Deposits with central banks	**7,049**	7,633
Deposits with banks and non-bank financial institutions	**2,472**	3,040
Placements with and loans to banks and non-bank financial institutions	**8,203**	6,223
Financial assets held under resale agreements	**987**	1,068
Loans and advances to customers		
— corporate loans	**95,562**	89,053
— personal loans	**61,401**	48,279
— discounted bills	**8,645**	4,004
Financial investments		
— at amortised cost	**32,881**	—
— at fair value through other comprehensive income	**16,534**	—
Investments classified as receivables	**—**	35,438
Investments in debt securities	**—**	25,922
Others	**59**	102
Subtotal	**233,793**	220,762
Interest expense arising from:		
Borrowings from central banks	**(8,937)**	(6,151)
Deposits from banks and non-bank financial institutions	**(26,389)**	(36,896)
Placements from banks and non-bank financial institutions	**(3,389)**	(3,006)
Financial assets sold under repurchase agreements	**(1,623)**	(2,691)
Deposits from customers	**(66,254)**	(53,190)
Debt securities issued	**(22,416)**	(19,171)
Others	**(13)**	(12)
Subtotal	**(129,021)**	(121,117)
Net interest income	**104,772**	99,645

Note:

(i) Interest income from impaired financial assets is RMB375 million for the year ended 31 December 2018 (2017: RMB643 million).

(Amounts in millions of Renminbi unless otherwise stated)

7 Net fee and commission income

	Year ended 31 December	
	2018	2017
Fee and commission income:		
Bank card fees	**32,656**	30,453
Guarantee and advisory fees	**5,613**	6,358
Agency fees and commission (Note (i))	**4,839**	4,534
Commission for custodian business and other fiduciary	**6,044**	8,737
Settlement and clearance fees	**1,269**	1,215
Others	**318**	390
Total	**50,739**	51,687
Fee and commission expense	**(5,591)**	(4,829)
Net fee and commission income	**45,148**	46,858

Note:

(i) Agency fees and commission represent fees earned for sale of bonds, investment funds and insurance products, and provision of entrusted lending activities.

8 Net trading gain

	Year ended 31 December	
	2018	2017
Debt securities and certificates of interbank deposit	**3,897**	2,187
Foreign currencies	**1,983**	1,664
Derivatives and related exposures	**552**	2,131
Financial instrument designated at fair value through profit or loss	**87**	601
Total	**6,519**	6,583

9 Net gain from investment securities

	Year ended 31 December	
	2018	2017
Financial investments		
— at fair value through profit or loss	**7,745**	—
— at amortised cost	**(1,416)**	—
— at fair value through other comprehensive income	**(494)**	—
Revaluation loss on transfer out of equity at disposal	**(262)**	—
Net gain from sale of available-for-sale securities	**—**	1,221
Net gain from bills rediscounting	**134**	(5)
Net gain from securitisation of financial assets	**3,181**	2,622
Others	**158**	(81)
Total	**9,046**	3,757

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

10 Net hedging (loss)/gain

	Year ended 31 December	
	2018	2017
Net (loss)/gain of fair value hedge	**(1)**	1

11 Operating expenses

	Year ended 31 December	
	2018	2017
Staff costs		
— salaries and bonuses	**22,196**	20,280
— welfare expenses	**1,400**	1,121
— social insurance	**1,469**	1,324
— housing fund	**1,300**	1,291
— labour union expenses and employee education expenses	**416**	378
— housing allowance	**196**	497
— other short-term benefits	**61**	48
— post-employment benefits – defined contribution plans	**2,453**	2,377
— post-employment benefits – defined benefit plans	**102**	11
— other long-term benefits	**6**	89
Subtotal	**29,599**	27,416
Property and equipment expenses		
— rent and property management expenses	**4,972**	4,899
— depreciation	**1,830**	1,818
— amortisation expenses	**1,112**	993
— electronic equipment operating expenses	**458**	524
— maintenance	**485**	498
— others	**398**	372
Subtotal	**9,255**	9,104
Tax and surcharges	**1,699**	1,660
Other general operating and administrative expenses (Note (i))	**12,047**	10,733
Total	**52,600**	48,913

Note:

(i) Included in other general operating and administrative expenses were audit fees of RMB20 million for the year ended 31 December 2018 (2017: RMB18 million) and non-audit fees of RMB21 million for the year ended 31 December 2018 (2017: RMB12 million).

(Amounts in millions of Renminbi unless otherwise stated)

11 Operating expenses (Continued)

(a) Individuals with highest emoluments

For the year ended 31 December 2018, of the 5 individuals with the highest emoluments in the Group, there was no director (2017: Nil) and no supervisor (2017: Nil). The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals of the Group were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**20,089**	21,235
Discretionary bonuses	**18,452**	19,789
Contribution to pension scheme	**1,438**	1,418
Total	**39,979**	42,442

The emoluments before individual income tax of the five individuals of the Group with the highest emoluments are within the following bands:

	Year ended 31 December	
	2018	2017
RMB5,000,001 – RMB10,000,000	**3**	4
RMB10,000,001 – RMB15,000,000	**2**	1

No inducement fee and compensation for loss of office was paid to the five highest paid individuals for the year ended 31 December 2018 (2017: Nil).

12 Impairment losses on assets

	31 December 2017
Loans and advances to customers	50,170
Deposits with banks and non-bank financial institutions	(32)
Interest receivables	4,212
Available-for-sale financial assets	(69)
Held-to-maturity investments	(2)
Investments classified as receivables	1,018
Repossessed assets	272
Off-balance sheet items	(77)
Others	295
Subtotal	5,617
Total	55,787

(Amounts in millions of Renminbi unless otherwise stated)

13 Credit impairment losses

	31 December 2018
Deposits with banks and non-bank financial institutions	**11**
Placements with and loans to banks and non-bank financial institutions	**(1)**
Financial assets held under resale agreements	**(33)**
Interest receivables	**3,034**
Loans and advances to customers	**47,753**
Financial investments	
— at amotised cost	**999**
— at fair value through other comprehensive income	**75**
Other assets-financial assets	**6,098**
Off-balance sheet items	**(50)**
Total	**57,886**

14 Impairment losses on other assets

	31 December 2018
Other assets-repossessed assets	**347**

15 Income tax

(a) Recognised in the consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 December 2018	2017
Current tax			
— Mainland China		**12,680**	15,249
— Hong Kong		**561**	487
— Overseas		**46**	104
Deferred tax	35(c)	**(4,337)**	(6,442)
Total		**8,950**	9,398

Mainland China and Hong Kong income tax have been provided at the rate of 25% and 16.5% respectively. Overseas tax has been provided at the rates of taxation prevailing in the regions in which the Group operates respectively.

(b) Reconciliation between income tax expense and accounting profit

	Year ended 31 December 2018	2017
Profit before tax	**54,326**	52,276
Income tax calculated at PRC statutory tax rate	**13,581**	13,069
Effect of different tax rates in other regions	**(286)**	(325)
Tax effect of non-deductible expenses	**274**	259
Tax effect of non-taxable income		
— interest income arising from PRC government bonds and local government bonds	**(3,353)**	(3,097)
— the dividends of funds	**(1,209)**	(301)
— others	**(57)**	(207)
Total	**8,950**	9,398

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

16 Other comprehensive income, net of tax

	Year ended 31 December	
	2018	2017
Items that will not be reclassified subsequently to profit or loss		
Changes on the measurement of defined benefit plans, net of tax		
— net changes recognised during the year before tax	**9**	(11)
— income tax	**(2)**	3
Fair value changes on financial asset designated at fair value through other comprehensive income, net of tax		
— net changes in fair value recognised during the year before tax	**15**	—
— income tax	**(4)**	—
Transfer from owner-occupied property to investment property		
— net changes during the year before tax	**65**	—
Subtotal	**83**	(8)
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income transferable to profit or loss under equity method		
— net changes during the year	**(10)**	—
Other comprehensive income of available-for-sale financial assets		
— net changes in fair value recognised during the year	**—**	(10,877)
— net amount transferred to profit or loss	**—**	149
— income tax	**—**	2,686
Fair value changes on financial assets at fair value through other comprehensive income, net of tax (Note (i))		
— net changes during the year before tax	**13,300**	—
— net amount transferred to profit or loss	**149**	—
— Income tax	**(3,409)**	—
Credit impairment allowance on financial assets at fair value through other comprehensive income (Note (ii))		
— net changes during the year	**173**	—
— Income tax	**(33)**	—
Exchange differences on translation	**2,209**	(2,583)
Share of other comprehensive income of associates and joint ventures	**—**	(9)
Subtotal	**12,379**	(10,634)
Other comprehensive income, net of tax	**12,462**	(10,642)

Note:

(i) Fair value changes on financial assets at fair value through other comprehensive income include those of financial investments and loans and advances to customers at fair value through other comprehensive income (Note 25(a)).

(ii) Credit impairment allowance include financial investments and loans and advances to customers at fair value through other comprehensive income (Note 25(a)).

(Amounts in millions of Renminbi unless otherwise stated)

17 Earnings per share

Earnings per share information for the year ended 31 December 2018 and 2017 is computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the year.

The Bank issued non-cumulative preference shares during the year ended 31 December 2016, under the terms and conditions as detailed in Note 49. The Bank declared and paid cash dividends of RMB1,330 million of non-cumulative preference shares for the year of 2018 (2017: 1,330 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	Year ended 31 December	
	2018	2017
Profit for the year attributable to equity holders of the Bank	**44,513**	42,566
Less: dividend attributable to preference shareholders of the Bank	**1,330**	1,330
Profit for the year attributable to ordinary shareholders of the Bank	**43,183**	41,236
Weighted average number of shares (in million shares)	**48,935**	48,935
Basic and diluted earnings per share (in RMB)	**0.88**	0.84

18 Cash and balances with central banks

	Notes	**31 December 2018**	31 December 2017
Cash		**6,188**	6,740
Balances with central banks			
— statutory deposit reserve funds	(i)	**399,797**	462,743
— surplus deposit reserve funds	(ii)	**128,424**	89,288
— fiscal deposits	(iii)	**2,816**	4,083
— foreign exchange reserve	(iv)	**1,288**	5,446
Accrued interest		**195**	—
Total		**538,708**	568,300

Notes:

(i) The Group places statutory deposit reserve funds with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserve funds are not available for use in the Group's daily business.

As at 31 December 2018, the statutory deposit reserve funds placed with the PBOC was calculated at 12% (as at 31 December 2017: 15%) of eligible Renminbi deposits for domestic branches of the Bank and at 12% (as at 31 December 2017: 15%) of eligible Renminbi deposits from overseas financial institutions. The Bank was also required to deposit an amount equivalent to 5% (as at 31 December 2017: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds.

As at 31 December 2018, the statutory RMB deposit reserve rates applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited in mainland China, a subsidiary of the Group, was at 9% (as at 31 December 2017: 9%).

The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by respective jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve funds deposits placed with the PBOC.

(ii) The surplus deposit reserve funds are maintained with the PBOC for the purposes of clearing.

(iii) Fiscal deposits placed with the PBOC are not available for use in the Group's daily operations, and are non-interest bearing.

(iv) The foreign exchange reserve is maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the Notice. In accordance with the relevant notice issued by the PBOC on 8 September 2017, the Group adjusted the foreign exchange risk reserve ratio required to domestic financial institutions for forward foreign exchange business to 0% from 11 September 2017. The Group's remaining foreign exchange risk reserves will be gradually released after the expiration of the long-term sale of foreign exchange on behalf of clients.

(Amounts in millions of Renminbi unless otherwise stated)

19 Deposits with banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**31 December 2018**	31 December 2017
In Mainland China			
— banks		**44,318**	73,832
— non-bank financial institutions		**21,028**	17,557
Subtotal		**65,346**	91,389
Outside Mainland China			
— banks		**31,984**	26,187
— non-bank financial institutions		**1,783**	6,774
Subtotal		**33,767**	32,961
Accrued interest		**114**	—
Gross balance		**99,227**	124,350
Less: Allowances for impairment losses	37	**(74)**	—
Net balance		**99,153**	124,350

(b) Analysed by remaining maturity

	Note	**31 December 2018**	31 December 2017
Demand deposits (Note (i))		**65,023**	67,370
Time deposits with remaining maturity			
— within one month		**22,256**	45,629
— between one month and one year		**11,834**	11,351
Subtotal		**34,090**	56,980
Accrued interest		**114**	—
Gross balance		**99,227**	124,350
Less: Allowances for impairment losses	37	**(74)**	—
Net balance		**99,153**	124,350

Note:

(i) As at 31 December 2018, the carrying amount of pledged deposits with banks and other financial institutions was RMB1,343 million (as at 31 December 2017: RMB1,676 million). These deposits were mainly maintenance margin with a regulatory body.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

20 Placements with and loans to banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	31 December 2018	31 December 2017
In Mainland China			
— banks		**13,680**	15,320
— non-bank financial institutions		**113,351**	119,065
Subtotal		**127,031**	134,385
Outside Mainland China			
— banks		**48,421**	37,685
— non-bank financial institutions		**—**	—
Subtotal		**48,421**	37,685
Accrued interest		**873**	—
Gross balance		**176,325**	172,070
Less: Allowances for impairment losses	37	**(165)**	(1)
Net balance		**176,160**	172,069

(b) Analysed by remaining maturity

	Note	31 December 2018	31 December 2017
Within one month		**112,284**	66,564
Between one month and one year		**63,168**	105,506
Accrued interest		**873**	—
Gross balance		**176,325**	172,070
Less: Allowances for impairment losses	37	**(165)**	(1)
Net balance		**176,160**	172,069

21 Financial assets at fair value through profit or loss

	Notes	31 December 2017
Held for trading financial assets		
— debt securities	(a)	38,728
— certificates of interbank deposit	(b)	19,400
— investment funds		2,001
Subtotal		60,129
Financial assets designated at fair value through profit or loss	(c)	5,775
Total		65,904

(Amounts in millions of Renminbi unless otherwise stated)

21 Financial assets at fair value through profit or loss (Continued)

(a) Held for trading – debt securities

	31 December 2017
Issued by	
In Mainland China	
— governments	705
— policy banks	4,039
— banks and non-bank financial institutions	2,722
— corporates	30,098
Subtotal	37,564
Outside Mainland China	
— banks and non-bank financial institutions	1,063
— corporates	101
Subtotal	1,164
Total	38,728
Listed in Hong Kong	668
Listed outside Hong Kong	36,788
Unlisted	1,272
Total	38,728

(b) Held for trading – certificates of interbank deposit

	31 December 2017
Issued by	
Banks in Mainland China	19,400
Listed outside Hong Kong	19,400

(c) Financial assets designated at fair value through profit or loss

	31 December 2017
Issued by	
In Mainland China	
— banks	606
— policy banks	53
— corporates	2,523
Subtotal	3,182
Outside Mainland China	
— banks	2,593
Total	5,775
Listed outside Hong Kong	659
Unlisted	5,116
Total	5,775

Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

(Amounts in millions of Renminbi unless otherwise stated)

22 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in foreign exchange, precious metals, interest rate and credit derivatives related to trading, asset and liability management and customer initiated transactions. The Group, through the operations of its branch network, acts as an intermediary for a wide range of customers for structuring deals to offer risk management solutions to match individual customer needs. These positions are actively managed through hedging transactions with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses these derivatives for proprietary trading purposes and to manage its own asset and liability and structural positions. Derivatives, except for those which are designated as hedging instruments (Note 22(c)), are held for trading. Derivatives classified as held for trading are for trading and customer initiated transactions purpose, and those for risk management purposes but do not meet the criteria for hedge accounting.

The contractual/notional amounts of derivatives provide a basis for comparison with fair values of derivatives recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the derivatives and, therefore, do not indicate the Group's exposure to credit or market risks.

	31 December 2018			31 December 2017		
	Nominal amount	**Assets**	**Liabilities**	Nominal amount	Assets	Liabilities
Hedging instruments (Note 22(c))						
— interest rate derivatives	**8,385**	**96**	**8**	9,799	123	18
Non-Hedging instruments						
— interest rate derivatives	**1,837,247**	**6,010**	**5,966**	1,632,189	2,430	2,294
— currency derivatives	**2,595,674**	**24,826**	**24,501**	3,347,855	62,030	62,368
— precious metal derivatives	**58,644**	**1,048**	**1,170**	51,586	868	257
— credit derivatives	**820**	**11**	**1**	—	—	—
Total	**4,500,770**	**31,991**	**31,646**	5,041,429	65,451	64,937

(a) Nominal amount analysed by remaining maturity

	31 December 2018	31 December 2017
Within three months	**1,921,744**	1,868,273
Between three months and one year	**2,033,875**	2,751,469
Between one year and five years	**542,276**	418,881
Over five years	**2,875**	2,806
Total	**4,500,770**	5,041,429

(b) Credit risk weighted amounts

The credit risk weighted amount has been computed in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by the CBIRC in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments, including those customer-driven back-to-back transactions. As at 31 December 2018, the total amount of credit risk weighted amount for counterparty was RMB20,158 million (as at 31 December 2017: RMB70,217 million).

(c) Fair value hedge

A subsidiary of the Group utilises fair value hedge to eliminate the effect of fair value changes of financial assets and financial liabilities caused by market interest rate fluctuations. Interest rate swap contracts are used for hedging interest risks arising from debt securities at fair value through other comprehensive income, available-for-sale debt securities, certificates of deposit and subordinated bonds issued.

(Amounts in millions of Renminbi unless otherwise stated)

23 Financial assets held under resale agreements

(a) Analysed by types and locations of counterparties

	Note	**31 December 2018**	31 December 2017
In Mainland China			
— banks		**3,402**	28,417
— non-bank financial institutions		**6,428**	26,209
Subtotal		**9,830**	54,626
Outside Mainland China			
— banks		**958**	—
Accrued interest		**6**	—
Gross balance		**10,794**	54,626
Less: Allowance for impairment losses	37	**(4)**	—
Net balance		**10,790**	54,626

(b) Analysed by types of collateral

As at 31 December 2018 and 31 December 2017, the collateral type of financial asset under resale agreements of the Group are all debt instruments. The collateral received by the Group in resale transactions are disclosed in Note 58 Collateral.

(c) Analysed by remaining maturity

As at 31 December 2018 and 31 December 2017, the financial assets held under resale agreements of the Group all mature within one month.

24 Interest receivables

	Note	31 December 2017
Loans and advances to customers		13,543
Debt securities		11,138
Investments classified as receivables		9,508
Others		2,400
Gross balance		36,589
Less: Allowance for impairment losses	37	(3,946)
Net balance		32,643

The accrued interests or interest receivables of 2018 derived from respective financial assets are disclosed in Note 18, Note 19, Note 20, Note 23, Note 25 and Note 26 to conform the presentation in current year.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers

(a) Analysed by nature

	Notes	31 December 2018
Loans and advances to customers at amortised cost		
Corporate loans and advances		
— loans		**1,833,171**
— discounted bills		**146,414**
— finance lease receivables		**47,817**
Subtotal		**2,027,402**
Personal loans and advances		
— residential mortgages		**643,407**
— credit cards		**442,493**
— personal consumption		**203,853**
— business loans		**194,737**
Subtotal		**1,484,490**
Accrued interest		**8,338**
Gross balance		**3,520,230**
Less: Allowances impairment losses	37	**(101,100)**
Loans and advances to customers at amortised cost, net		**3,419,130**
Loans and advances to customers at fair value through other comprehensive income		
— loans		**137**
— discounted bills		**96,383**
Carrying amount of loans and advances at fair value through other comprehensive income		**96,520**
— fair value changes through comprehensive income		**21**
Total		**3,515,650**
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	37	**(132)**

	Note	31 December 2017
Corporate loans		
— loans		1,812,589
— discounted bills		107,456
— finance lease receivables		45,258
Subtotal		1,965,303
Personal loans		
— residential mortgages		505,305
— credit cards		333,719
— personal consumption		226,545
— business loans		166,015
Subtotal		1,231,584
Gross balance		3,196,887
Less: Allowances for impairment losses	37	
— individually assessed		(28,930)
— collectively assessed		(61,973)
Subtotal		(90,903)
Net balance		3,105,984

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses

	31 December 2018				
	Stage one	**Stage two**	**Stage three (Note (i))**	**Total**	**Stage three loans and advances as a % of gross total loans and advances**
Gross loans and advances to customers at amortised costs	**3,353,529**	**92,949**	**65,414**	**3,511,892**	**1.81%**
Accrued interest	**7,592**	**727**	**19**	**8,338**	
Less: Allowance for impairment losses	**(31,940)**	**(22,788)**	**(46,372)**	**(101,100)**	
Carrying amount of loans and advances to customers measured at Amortised cost	**3,329,181**	**70,888**	**19,061**	**3,419,130**	
Carrying amount of loans and advances to customers at fair value through other comprehensive income	**96,520**	**—**	**—**	**96,520**	
Total	**3,425,701**	**70,888**	**19,061**	**3,515,650**	
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	**(132)**	**—**	**—**	**(132)**	

	31 December 2017				
		Identified impaired loans and advances			
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed (Note (ii))	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross balance	3,143,239	11,393	42,255	3,196,887	1.68%
Less: Allowance for impairment losses	(52,997)	(8,976)	(28,930)	(90,903)	
Net balance	3,090,242	2,417	13,325	3,105,984	

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses (Continued)

Notes:

(i) Stage 3 loans are loans and advances to customers that have incurred credit impairment.

	31 December 2018
Secured portion	**37,648**
Unsecured portion	**27,766**
Gross balance	**65,414**
Allowance for impairment losses	**(46,372)**
Net balance	**19,042**

As at 31 December 2018, the maximum exposure covered by pledge and collateral held of secured portion is RMB35,221 million.

(ii) Individually assessed identified impaired loans

	31 December 2017
Secured portion	24,360
Unsecured portion	17,895
Gross balance	42,255
Individual allowance for impairment losses	(28,930)
Net balance	13,325

As at 31 December 2017, the maximum exposure covered by pledge and collateral held of secured portion is RMB22,199 million.

The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(c) Overdue loans analysed by overdue period

	31 December 2018				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**9,221**	**9,602**	**1,977**	**493**	**21,293**
Guaranteed loans	**9,284**	**8,292**	**6,639**	**627**	**24,842**
Loans with pledged assets					
— loans secured by collateral	**16,428**	**13,339**	**12,008**	**2,367**	**44,142**
— pledged loans	**2,457**	**1,959**	**1,752**	**114**	**6,282**
Total	**37,390**	**33,192**	**22,376**	**3,601**	**96,559**

	31 December 2017				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	6,739	7,624	767	424	15,554
Guaranteed loans	8,543	9,741	8,814	1,466	28,564
Loans with pledged assets					
— loans secured by collateral	14,168	13,614	11,886	363	40,031
— pledged loans	3,392	2,201	1,620	162	7,375
Total	32,842	33,180	23,087	2,415	91,524

Overdue loans represent loans of which the principal or interest are overdue one day or more.

(d) Finance lease receivables

Finance lease receivables transactions are attributable to the Group's subsidiaries, CITIC Financial Leasing Limited ("CFLL") and CITIC International Finance Holdings Limited ("CIFH"), include net investment in machines and equipment leased to customers under finance lease and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period from 1 to 25 years. The total minimum finance lease receivables under finance lease and hire purchase contracts and their present values are as follows:

	31 December 2018		31 December 2017	
	Present value of minimum finance leases receivables	**Minimum finance leases receivables**	Present value of minimum finance leases receivables	Minimum finance leases receivables
Within one year (including one year)	**11,826**	**14,182**	6,920	9,952
One year to two years (including two years)	**9,866**	**11,626**	10,233	11,371
Two years to three years (including three years)	**7,863**	**9,140**	8,365	9,066
Over three years	**18,262**	**20,606**	19,740	22,501
Gross balance	**47,817**	**55,554**	45,258	52,890
Allowance for expected credit losses				
— stage one	**(1,001)**		—	
— stage two	**(429)**		—	
— stage three	**(100)**		—	
— individually assessed	**—**		(1)	
— collectively assessed	**—**		(1,003)	
Net balance	**46,287**		44,254	

(Amounts in millions of Renminbi unless otherwise stated)

26 Financial investments

(a) Analysed by types

	Note	31 December 2018
Financial assets at fair value through profit or loss		
Investment funds		**189,176**
Debt securities		**71,920**
— designated at fair value through profit or loss		**52**
Trust investment plans (Note (i))		**26,486**
Certificates of deposit		**16,713**
Wealth management products		**116**
Equity instruments		**4,461**
Net balance		**308,872**
Financial assets at amortised cost		
Debt securities		**381,688**
Investment management products managed by securities companies (Note (i))		**228,502**
Trust investment plans (Note (i))		**151,582**
Certificates of deposit		**11,406**
Subtotal		**773,178**
Accrued interest		**8,430**
Less: Allowance for impairment losses	37	**(3,370)**
Net balance		**778,238**
Financial assets at fair value through other comprehensive income (Note (ii))		
Debt securities		**491,015**
Certificates of deposit		**12,644**
Subtotal		**503,659**
Accrued interest		**6,687**
Net balance		**510,346**
Allowances for impairment losses on financial investments at fair value through other comprehensive income	37	**(1,039)**
Financial assets designated at fair value through other comprehensive income (Note (ii))		**2,707**
Total		**1,600,163**

(i) As of 31 December 2018, RMB99,095 million (31 December 2017: RMB91,976 million) of Trust investment plans and Investment management products managed by securities companies listed above were managed by the subsidiaries and related companies of CITIC Corporation Limited, the Bank's immediate parent company.

The underlying assets of Trust investment plans and Investment management products managed by securities companies primarily include credit assets, interbank assets and rediscounted bills (Note 61(a)(viii)).

(ii) Financial investments at fair value through other comprehensive income

	Note	31 December 2018 Equity instruments	Debt security instruments	Total
Costs/Amortised cost		**2,630**	**498,130**	**500,760**
Fair value change on accumulated into other comprehensive income		**77**	**5,529**	**5,606**
Fair value		**2,707**	**503,659**	**506,366**
Allowance for impairment losses	37		**(1,039)**	**(1,039)**

(Amounts in millions of Renminbi unless otherwise stated)

26 Financial investments (Continued)

(b) Analysed by location of counterparties

	Note	31 December 2018
In Mainland China		
— governments		**475,246**
— policy banks		**122,411**
— banks and non-bank financial institutions		**400,793**
— corporates		**126,144**
Subtotal		**1,124,594**
Outside Mainland China		
— governments		**16,121**
— banks and non-bank financial institutions		**433,910**
— public entities		**2,084**
— corporates		**11,707**
Subtotal		**463,822**
Accrued interest		**15,117**
Total		**1,603,533**
Less: Impairment allowance for financial assets at amotised cost	37	**(3,370)**
Net balance		**1,600,163**
Listed in Hong Kong		**39,541**
Listed outside Hong Kong		**1,104,876**
Unlisted		**455,746**
Total		**1,600,163**

Bonds traded in China's inter-bank bond market are listed outside Hong Kong.

(c) Analysed by assessment method of allowance for impairment losses

	Notes	31 December 2018			
		Stage one	Stage two	Stage three	Total
Financial assets at amortised costs		**768,136**	**3,882**	**1,160**	**773,178**
Accrued interest		**8,422**	**8**	**—**	**8,430**
Less: Allowance for impairment losses	37	**(2,680)**	**(152)**	**(538)**	**(3,370)**
Net Balance		**773,878**	**3,738**	**622**	**778,238**
Financial assets at fair value through other comprehensive income		**503,334**	**104**	**221**	**503,659**
Accrued interest		**6,686**	**1**	**—**	**6,687**
Net Balance		**510,020**	**105**	**221**	**510,346**
Total carrying amount of financial assets affected by credit risk		**1,283,898**	**3,843**	**843**	**1,288,584**
Allowance for impairment losses of other debt instruments included in other comprehensive income		**(727)**	**(2)**	**(310)**	**(1,039)**

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

27 Available-for-sale financial assets

	Notes	31 December 2017
Debt securities	(a)	469,843
Certificates of deposit	(b)	40,947
Equity investments		1,356
— measured at fair value	(c)	744
— measured at cost	(c)	612
Investment funds	(d)	119,518
Wealth management products		26
Total		631,690

(a) Debt securities analysed by location of counterparties

	31 December 2017
In Mainland China	
— governments	245,368
— policy banks	72,171
— banks and non-bank financial institutions	31,985
— corporates	78,084
Subtotal	427,608
Outside Mainland China	
— governments	13,635
— banks and non-bank financial institutions	18,535
— public entities	1,151
— corporates	8,914
Subtotal	42,235
Total	469,843
Listed in Hong Kong	23,590
Listed outside Hong Kong	429,769
Unlisted	16,484
Total	469,843

(b) Certificates of deposit analysed by location of counterparties

	31 December 2017
In Mainland China	
— banks	38,391
— policy banks	1,436
Outside Mainland China	
— banks	1,120
Total	40,947
Listed outside Hong Kong	40,947

(Amounts in millions of Renminbi unless otherwise stated)

27 Available-for-sale financial assets (Continued)

(c) Equity investments analysed by location of counterparties

	31 December 2017
In Mainland China	
— corporates	927
Outside Mainland China	
— banks and non-bank financial institutions	145
— corporates	284
Total	1,356
Listed in Hong Kong	284
Listed outside Hong Kong	70
Unlisted	1,002
Total	1,356

(d) Investment funds analysed by location of counterparties

	31 December 2017
In Mainland China	
— banks and non-bank financial institutions	118,925
Outside Mainland China	
— banks and non-bank financial institutions	263
— corporates	330
Total	119,518
Listed outside Hong Kong	118,925
Unlisted	593
Total	119,518

Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

28 Held-to-maturity investments

Debt securities analysed by location of counterparties

	Note	31 December 2017
In Mainland China		
— governments		55,105
— policy banks		54,246
— banks and non-bank financial institutions		88,774
— corporates		18,133
Subtotal		216,258
Outside Mainland China		
— banks and non-bank financial institutions		325
— public entities		3
Subtotal		328
Gross balance		216,586
Less: Allowance for impairment losses	37	—
Total		216,586
Listed in Hong Kong		273
Listed outside Hong Kong		209,985
Unlisted		6,328
Total		216,586
Fair value		212,530
Of which: listed securities		206,202

Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

29 Investments classified as receivables

	Note	31 December 2017
Investment management products managed by securities companies		268,247
Wealth management products		139,020
Trust investment plans		126,794
Gross balance		534,061
Less: Allowance for impairment losses	37	(2,943)
Net balance		531,118

The underlying assets of investments classified as receivables primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills (Note 61 (a)(viii)).

30 Investments in associates and joint ventures

	Note	**31 December 2018**	31 December 2017
Investments in joint ventures	(a)	**2,759**	1,196
Investments in associates	(b)	**1,122**	1,145
Total		**3,881**	2,341

(Amounts in millions of Renminbi unless otherwise stated)

30 Investments in associates and joint ventures (Continued)

(a) Investment in joint ventures

The details of the joint ventures as at 31 December 2018 were as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares	Principal activities	Nominal value of issued shares
CITIC aiBank Corporation Limited ("CITIC Baixin") (Note (i))	Corporation	Mainland China	70.0%	Financial services	RMB4.0 billion
JSC Altyn Bank (Note (ii))	Corporation	Kazakhstan	50.1%	Financial services	KZT7.05 billion

Notes:

(i) CITIC Baixin opened on 18 November 2017 with initial capital of RMB2 billion. According to the Articles of Association, the Bank and Fujian BoRui Network Technology Co.,Ltd. ("Fujian BoRui") shall jointly approve major decisions before further development. Approved by the CBIRC, capital increase of CITIC Baixin was completed in 2018, which the Bank contributed RMB1.4 billion for subscription of 1.4 billion shares, and Fujian BoRui contributed RMB0.6 billion for subscription of 0.6 billion shares. After capital increase, their proportion of shareholding remains the same.

(ii) The bank completed 50.1% share acquisition of JSC Altyn Bank in 2018. According to the Articles of Association, the Bank and the other shareholder, the National Bank of Kazakhstan, shall jointly approve major decisions before further development.

Financial statements of the joint ventures are as follow:

	As at or for the year ended 2018				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net gain/(loss)**
CITIC Baixin	**35,924**	**32,701**	**3,223**	**1,295**	**(484)**
JSC Altyn Bank	**7,928**	**7,191**	**734**	**349**	**195**

	As at or for the year ended 2017				
Name of Enterprise	Total assets	Total liabilities	Total net assets	Operating income	Net loss
CITIC Baixin	9,970	8,262	1,708	30	(291)

Movement of the Group's interests in the joint venture:

	Year ended 31 December 2018	Year ended 31 December 2017
Initial investment cost	**3,229**	1,400
As at 1 January	**1,196**	—
Additions	**1,829**	1,400
Share of net loss of the joint ventures for the year	**(274)**	(204)
Exchange difference	**8**	—
As at 31 December	**2,759**	1,196

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

30 Investments in associates and joint ventures (Continued)

(b) Investment in associates

The Group holds its investment in associates through subsidiaries and details of the associates as at 31 December 2018 was as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares and voting right held by the Group	Principal activities	Nominal value of issued shares
CITIC International Assets Management Limited ("CIAM")	Corporation	Hong Kong	46%	Investment holding and assets management	HKD2,218 million
ZhongAn Financial Services Limited ("ZAFS")	Corporation	Hong Kong	26.25%	Investment holding	HKD1,000 million
Binhai (Tianjin) Financial Assets Exchange Company Limited ("BFAE")	Corporation	Mainland China	20%	Services and investment	RMB500 million

Financial statements of the associates are as follow:

	As at or for the year ended 2018				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total netassets**	**Operating income**	**Net profit/(loss)**
CIAM	**1,631**	**149**	**1,482**	**(718)**	**(768)**
ZAFS	**884**	**—**	**884**	**5**	**5**
BFAE	**499**	**47**	**452**	**3**	**(30)**

	As at or for the year ended 2017				
Name of Enterprise	Total assets	Total liabilities	Total netassets	Operating income	Netloss
CIAM	2,412	236	2,176	181	(251)
BFAE	581	98	483	1	(14)

Movement of the Group's interests in associates:

	Year ended 31 December 2018	Year ended 31 December 2017
Initial investment cost	**1,489**	1,183
As at 1 January	**1,145**	1,111
Additions	**306**	190
Share of net loss of associates for the year	**(368)**	(81)
Share of other comprehensive income of associates for the year	**(10)**	8
Dividend received	**—**	(11)
Exchange difference	**49**	(72)
As at 31 December	**1,122**	1,145

(Amounts in millions of Renminbi unless otherwise stated)

31 Investment in subsidiaries

	Notes	31 December 2018	31 December 2017
Investment in subsidiaries			
— CIFH	(i)	**16,570**	16,570
— CNCB (Hong Kong) Investment Limited ("CNCB Investment")	(ii)	**1,577**	1,577
— Zhejiang Lin'an CITIC Rural Bank Corporation Limited ("Lin'an Rural Bank")	(iii)	**102**	102
— CFLL	(iv)	**4,000**	4,000
Total		**22,249**	22,249

Major subsidiaries of the Bank as at 31 December 2018 are as follows:

Name of entity	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership held by subsidiaries of the Bank	The Group's effective interest
CIFH (Note (i))	Hong Kong	HKD7,503 million	Commercial banking and other financial services	100%	—	100%
CNCB Investment (Note (ii))	Hong Kong	HKD1,889 million	Lending services	99.05%	0.71%	99.76%
Lin'an Rural Bank (Note (iii))	Mainland China	RMB200 million	Commercial banking	51%	—	51%
CFLL (Note (iv))	Mainland China	RMB4,000 million	Financial lease operations	100%	—	100%

Notes:

(i) CIFH is an investment holding company registered and headquartered in Hong Kong. Its business scope through its subsidiaries covers commercial banking and other financial services. The Bank holds 100% shareholding in CIFH. CIFH holds 75% shareholding in CITIC Bank International Limited ("CBI").

(ii) CNCB Investment was founded in Hong Kong in 1984. Holding a money lending licence issued by the Hong Kong Company Registry, CNCB Investment's business scope includes capital market investment, lending and other related services. The Bank holds 99.05% shareholding in CNCB Investment, and CIFH holds the remaining 0.71% shareholding in CNCB Investment. The Bank effectively held 99.76% shareholding in CNCB Investment.

(iii) Lin'an Rural Bank was founded in Zhejiang Province of Mainland China in 2011 with a registered capital of RMB200 million. Its principal activities are commercial banking related businesses. The Bank holds 51% of Lin'an Rural Bank's shares and voting rights.

(iv) The Bank established CFLL in 2015 with a registered capital of RMB4 billion. Its principal business activities are financial leasing. The Bank holds 100% of its shares and voting rights.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

32 Investment properties

	31 December 2018	31 December 2017
Fair value as at 1 January	**295**	305
Change in fair value	**35**	30
Transfers in/(out)	**93**	(18)
Exchange difference	**20**	(22)
Fair value as at 31 December	**443**	295

Investment properties of the Group are buildings held by subsidiaries and mainly located in Hong Kong and leased to third parties through operating leases. There are active real estate markets where the investment properties are located and the Group is able to obtain market price and related information of similar properties, and therefore makes estimation about the fair value of the investment properties as at 31 December 2018.

All investment properties of the Group were revalued at 31 December 2018 by an independent firm of surveyors, Prudential Surveyors (Hong Kong) Limited, on an open market value basis. The fair value is in line with the definition of "IFRS13 – Fair value measurement". The revaluation surplus has been recognised in the profit or loss for the current year. Prudential Surveyors (Hong Kong) Limited has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

The investment properties of the Group are categorised into Level 3.

33 Property, plant and equipment

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2018	**21,313**	**1,078**	**11,018**	**33,409**
Additions	**1,157**	**210**	**1,466**	**2,833**
Disposals	**(514)**	**—**	**(663)**	**(1,177)**
Transfer out	**(102)**	**—**	**(1,041)**	**(1,143)**
Exchange differences	**31**	**—**	**59**	**90**
As at 31 December 2018	**21,885**	**1,288**	**10,839**	**34,012**
Accumulated depreciation:				
As at 1 January 2018	**(4,497)**	**—**	**(7,582)**	**(12,079)**
Depreciation charges	**(674)**	**—**	**(1,156)**	**(1,830)**
Transfer out	**9**	**—**	**492**	**501**
Disposals	**229**	**—**	**610**	**839**
Exchange differences	**(16)**	**—**	**(42)**	**(58)**
As at 31 December 2018	**(4,949)**	**—**	**(7,678)**	**(12,627)**
Net carrying value:				
As at 1 January 2018	**16,816**	**1,078**	**3,436**	**21,330**
As at 31 December 2018 (Note (i))	**16,936**	**1,288**	**3,161**	**21,385**

(Amounts in millions of Renminbi unless otherwise stated)

33 Property, plant and equipment (Continued)

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2017	17,468	470	10,359	28,297
Additions	3,933	608	877	5,418
Disposals	(47)	—	(130)	(177)
Exchange difference	(41)	—	(88)	(129)
As at 31 December 2017	21,313	1,078	11,018	33,409
Accumulated depreciation:				
As at 1 January 2017	(3,949)	—	(6,514)	(10,463)
Depreciation charges	(568)	—	(1,250)	(1,818)
Disposals	—	—	115	115
Exchange difference	20	—	67	87
As at 31 December 2017	(4,497)	—	(7,582)	(12,079)
Net carrying value:				
As at 1 January 2017	13,519	470	3,845	17,834
As at 31 December 2017 (Note (i))	16,816	1,078	3,436	21,330

Notes:

(i). As at 31 December 2018, the registration transfer process of certain buildings acquired has not been completed, and the net book value of such buildings was approximately RMB1,078 million (as at 31 December 2017: RMB2,859 million). The Group believes the incomplete registration procedure does not affect the rights of the Group as the legal successor to these buildings.

34 Goodwill

	31 December 2018	31 December 2017
As at 1 January	**849**	914
Exchange difference	**47**	(65)
As at 31 December	**896**	849

Based on the result of impairment test, no impairment losses on goodwill were recognised as at 31 December 2018 (as at 31 December 2017: Nil).

35 Deferred tax assets/(liabilities)

	31 December 2018	31 December 2017
Deferred tax assets	**23,174**	21,825
Deferred tax liabilities	**(16)**	(8)
Net	**23,158**	21,817

(Amounts in millions of Renminbi unless otherwise stated)

35 Deferred tax assets/(liabilities) (Continued)

(a) Analysed by nature and jurisdiction

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
— allowance for impairment losses	**95,710**	**23,729**	68,409	17,060
— fair value adjustments	**(9,944)**	**(2,526)**	12,357	3,078
— employee retirement benefits and salaries payable	**7,430**	**1,857**	6,248	1,562
— others	**238**	**114**	402	125
Subtotal	**93,434**	**23,174**	87,416	21,825
Deferred tax liabilities				
— fair value adjustments	**(86)**	**(16)**	(48)	(8)
Net	**93,348**	**23,158**	87,368	21,817

(b) Offsetting of deferred tax assets and deferred tax liabilities

As at 31 December 2018, the deferred tax assets/liabilities offset by the Group were RMB2,720 million (31 December 2017: RMB262 million).

(c) Movement of deferred tax

	Allowance for impairment losses	**Fair value adjustments**	**Employee retirement benefits and accrued staff cost**	**Others**	**Total deferred tax**
As at 31 December 2017	**17,060**	**3,070**	**1,562**	**125**	**21,817**
Change in accounting policy	**3,020**	**(2,588)**	**—**	**(10)**	**422**
Recognised in profit or loss	**3,633**	**404**	**298**	**2**	**4,337**
Recognised in other comprehensive income	**—**	**(3,430)**	**(3)**	**—**	**(3,433)**
Exchange differences	**16**	**2**	**—**	**(3)**	**15**
As at 31 December 2018	**23,729**	**(2,542)**	**1,857**	**114**	**23,158**
As at 1 January 2017	13,165	(261)	721	(939)	12,686
Recognised in profit or loss	3,899	645	838	1,060	6,442
Recognised in other comprehensive income	—	2,686	3	—	2,689
Exchange differences	(4)	—	—	4	—
As at 31 December 2017	17,060	3,070	1,562	125	21,817

(Amounts in millions of Renminbi unless otherwise stated)

36 Other assets

	Notes	31 December 2018	31 December 2017
Prepayments for properties and equipment	(a)	**10,833**	10,521
Interest receivables	(b)	**2,205**	—
Fee and commission receivables		**3,534**	4,740
Advanced payments and settlement accounts		**2,356**	2,030
Repossessed assets	(c)	**2,203**	2,049
Prepayments for assets acquired for finance leases		**1,679**	1,546
Precious metal leasing		**1,632**	26,313
Prepaid rent		**985**	1,023
Leasehold improvements		**871**	1,315
Land use rights		**993**	1,024
Others	(d)	**10,162**	7,282
Total		**37,453**	57,843

Notes:

(a) Prepayments for properties and equipment

Prepayments for properties and equipment are mainly payments the Group made for office premises being constructed.

(b) Interest Receivables

Interest receivable represents the interest which is matured but not yet collected at the reporting date, net of corresponding allowance for impairment losses. The allowance for impairment losses in relation to interest receivables of the Group is 4,436 million.

(c) Repossessed assets

	Notes	31 December 2018	31 December 2017
Premises		**2,429**	1,931
Others		**499**	518
Gross balance		**2,928**	2,449
Less: Allowance for impairment losses	37	**(725)**	(400)
Net balance		**2,203**	2,049

As at 31 December 2018, the Group intended to dispose all of the repossessed assets, and had no plan to transfer the repossessed assets for own use (as at 31 December 2017: Nil).

(d) Others

Others include continuing involvement in assets, provisional legal costs for lawyers, other long-term deferred expenses, other receivables, etc.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

37 Movements of allowance for impairment losses

	Notes	Year ended 31 December 2018 As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	19	**60**	**11**	**—**	**3**	**74**
Placements with and loans to banks and non-bank financial institutions	20	**165**	**(1)**	**—**	**1**	**165**
Financial assets held under resale agreements	23	**37**	**(33)**	**—**	**—**	**4**
Interest receivables		**4,970**	**3,034**	**(3,606)**	**(4,398)**	**—**
Loans and advances to customers	25	**97,905**	**47,753**	**(46,938)**	**2,512**	**101,232**
Financial investments at amortised cost	26	**3,044**	**999**	**(689)**	**16**	**3,370**
at fair value through other comprehensive income		**950**	**75**	**—**	**14**	**1,039**
Other assets – financial assets		**2,334**	**6,098**	**(1,182)**	**4,729**	**11,979**
Off balance sheet credit assets	45	**4,557**	**(50)**	**—**	**36**	**4,543**
Subtotal		**114,022**	**57,886**	**(52,415)**	**2,913**	**122,406**
Allowance for impairment losses on other assets						
Other assets – repossessed assets		**400**	**347**	**(7)**	**(15)**	**725**
Total		**400**	**347**	**(7)**	**(15)**	**725**

	Notes	Year ended 31 December 2017 As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Deposits with bank and non-bank financial institutions	19	34	(32)	—	(2)	—
Placements with and loans to banks and non-bank financial institutions	20	9	—	—	(8)	1
Interest receivables	24	3,906	4,212	(3,977)	(195)	3,946
Loans and advances to customers	25	75,543	50,170	(35,691)	881	90,903
Available-for-sale financial assets	27	162	(69)	—	(15)	78
Held-to-maturity investments	28	2	(2)	—	—	—
Investments classified as receivables	29	1,756	1,018	—	169	2,943
Other assets		2,360	567	(364)	38	2,601
Total (Note (ii))		83,772	55,864	(40,032)	868	100,472

Note:

(i) Others include unwinding of interest on impaired financial assets, reclassification of interest receivables, and effect of exchange differences during the year.

(ii) In addition to the allowance for impairment losses above, the Group also charged impairment losses against off-balance sheet items (Note 12).

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

38 Deposits from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— banks	**208,427**	170,801
— non-bank financial institutions	**565,387**	611,011
Subtotal	**773,814**	781,812
Outside Mainland China		
— banks	**4,242**	16,142
— non-bank financial institutions	**57**	53
Subtotal	**4,299**	16,195
Accrued interest	**4,151**	—
Total	**782,264**	798,007

39 Placements from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— banks	**58,681**	43,172
— non-bank financial institutions	**47,239**	28,733
Subtotal	**105,920**	71,905
Outside Mainland China		
— banks	**9,197**	5,690
Accrued interest	**241**	—
Total	**115,358**	77,595

40 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— PBOC	**93,151**	88,063
— banks	**25,911**	46,321
— non-bank financial institutions	**1,000**	—
Subtotal	**120,062**	134,384
Outside Mainland China		
— banks	**218**	116
Subtotal	**218**	116
Accrued interest	**35**	—
Total	**120,315**	134,500

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

40 Financial assets sold under repurchase agreements (Continued)

(b) Analysed by type of collateral

	31 December 2018	31 December 2017
Discounted bills	**33,809**	52,415
Debt securities	**86,471**	82,085
Accrued interest	**35**	—
Total	**120,315**	134,500

The Group did not derecognise financial assets transferred as collateral in connection with financial assets sold under repurchase agreements. As at 31 December 2018, non of the legal title of the collateral pledged disclosed in Note 58 has been transferred to counterparties.

41 Deposits from customers

Analysed by nature:

	31 December 2018	31 December 2017
Demand deposits		
— corporate customers	**1,516,861**	1,645,002
— personal customers	**262,960**	234,961
Subtotal	**1,779,821**	1,879,963
Time and call deposits		
— corporate customers	**1,382,230**	1,223,018
— personal customers	**449,549**	298,477
Subtotal	**1,831,779**	1,521,495
Outward remittance and remittance payables	**4,823**	6,178
Accrued interest	**33,188**	—
Total	**3,649,611**	3,407,636

Guarantee deposits included in above deposits:

	31 December 2018	31 December 2017
Bank acceptances	**163,066**	195,308
Guarantees	**21,757**	24,941
Letters of credit	**6,234**	9,289
Others	**109,627**	108,830
Total	**300,684**	338,368

(Amounts in millions of Renminbi unless otherwise stated)

42 Accrued staff costs

		Year ended 31 December 2018			
	Notes	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	**8,635**	**22,660**	**(20,909)**	**10,386**
Post-employment benefits — defined contribution plans	(b)	**34**	**2,453**	**(2,456)**	**31**
Post-employment benefits — defined benefit plans	(c)	**44**	**102**	**(111)**	**35**
Other long-term benefits		**125**	**6**	**(34)**	**97**
Total		**8,838**	**25,221**	**(23,510)**	**10,549**

		Year ended 31 December 2017			
	Notes	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	8,673	23,253	(23,291)	8,635
Post-employment benefits — defined contribution plans	(b)	32	2,377	(2,375)	34
Post-employment benefits — defined benefit plans	(c)	35	11	(2)	44
Other long-term benefits		79	89	(43)	125
Total		8,819	25,730	(25,711)	8,838

(a) Short-term employee benefits

	Year ended 31 December 2018			
	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	**7,553**	**17,818**	**(15,915)**	**9,456**
Social insurance	**28**	**1,469**	**(1,452)**	**45**
Welfare expenses	**—**	**1,400**	**(1,398)**	**2**
Housing fund	**10**	**1,300**	**(1,302)**	**8**
Labour union expenses and employee education expenses	**955**	**416**	**(566)**	**805**
Housing allowance	**75**	**196**	**(217)**	**54**
Others	**14**	**61**	**(59)**	**16**
Total	**8,635**	**22,660**	**(20,909)**	**10,386**

	Year ended 31 December 2017			
	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	7,483	18,594	(18,524)	7,553
Social insurance	49	1,324	(1,345)	28
Welfare expenses	—	1,121	(1,121)	—
Housing fund	19	1,291	(1,300)	10
Labour union expenses and employee education expenses	1,060	378	(483)	955
Housing allowance	48	497	(470)	75
Others	14	48	(48)	14
Total	8,673	23,253	(23,291)	8,635

(Amounts in millions of Renminbi unless otherwise stated)

42 Accrued staff costs (Continued)

(b) Post-employment benefits – defined contribution plans

Post-employment benefits defined contribution plans include contributions to statutory retirement plan. Pursuant to the relevant laws and regulations in the PRC governing labor and social security, the Group joins statutory retirement plan for the employees as set out by city and provincial governments. The Group is required to make contributions based on defined ratios of the salaries, bonuses and certain allowance of the employees to the statutory retirement plan under the administration of the government.

In addition to the above statutory retirement plan, the Bank's qualified employees have joined a defined contribution retirement scheme (the "Scheme") which was established by the Group and managed by the CITIC Group. For the year ended 31 December 2018,The Bank has made annuity contributions at 5% (31 December 2017: 5%) of its employee's gross wages. For the year ended 31 December 2018, the Bank made annuity contribution amounting to RMB757 million (year ended 31 December 2017: RMB662 million).

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss when the contribution fall due.

(c) Post-employment benefits – defined benefit plans

The Group offers supplementary retirement benefits for certain of its qualified employees in Mainland China. Retired employees are eligible to join this supplementary retirement benefit plan. The amount that is recognised as at reporting date presents the discounted value of benefit obligation in the future.

The Group's obligations in respect of the supplementary retirement benefit plan as at the reporting date are based on the projected unit credit actuarial cost method and computed by a qualified professional actuary firm (a member of Society of Actuaries in the United States of America).

Save for the disclosed above, the Group has no other material obligation for payment of retirement benefits.

43 Taxes payable

	31 December 2018	31 December 2017
VAT and surcharges	**3,342**	4,175
Income tax	**1,570**	4,668
Others	**8**	15
Total	**4,920**	8,858

44 Interest payable

	31 December 2017
Deposits from customers	28,097
Borrowings from central banks and deposits from banks and non-bank financial institutions	7,311
Debt securities issued	3,551
Others	364
Total	39,323

The accrued interests of 2018 derived from respective financial liabilities are disclosed in Note 38, Note 39, Note 40, Note 41 and Note 46 to conform the presentation in current year.

(Amounts in millions of Renminbi unless otherwise stated)

45 Provisions

	31 December 2018	31 December 2017
Allowance for impairment losses on off-balance sheet items	**4,543**	402
Litigation provisions	**470**	394
Total	**5,013**	796

The movement of off-balance sheet allowance for impairment losses is included in the Note 37.

Movement of provisions:

	31 December 2018	31 December 2017
As at 1 January	**394**	244
Accruals	**220**	152
Reversals	**—**	(2)
Payments	**(144)**	—
As at 31 December	**470**	394

46 Debt securities issued

	Notes	31 December 2018	31 December 2017
Long-term debt securities issued	(a)	**80,296**	94,571
Subordinated bonds issued:			
— by the Bank	(b)	**118,450**	68,448
— by CBI	(c)	**5,520**	5,280
Certificates of deposit issued	(d)	**2,752**	2,849
Certificates of interbank deposit issued	(e)	**341,310**	270,096
Accrued interest		**4,155**	—
Total		**552,483**	441,244

(a) Long-term debt securities issued by the Group as at 31 December 2018:

Bond Type	Issue Date	Maturity Date	Annual Interest Rate	31 December 2018 Nominal Value RMB	31 December 2017 Nominal Value RMB
Fixed rate bond	8 November 2013	12 November 2018	5.20%	**—**	15,000
Fixed rate bond	17 April 2017	17 April 2020	4.20%	**50,000**	50,000
Fixed rate bond	24 May 2017	24 May 2020	4.40%	**2,993**	2,993
Fixed rate bond	21 May 2015	25 May 2020	3.98%	**7,000**	7,000
Fixed rate bond	17 November 2015	17 November 2020	3.61%	**8,000**	8,000
Floating rate bond	14 December 2017	14 December 2020	3.24%	**4,814**	4,555
Fixed rate bond	14 December 2017	14 December 2020	2.88%	**2,063**	1,952
Floating rate bond	14 December 2017	15 December 2022	3.34%	**3,783**	3,579
Fixed rate bond	14 December 2017	15 December 2022	3.13%	**1,719**	1,627
Total nominal value				**80,372**	94,706
Less: Unamortised issuance cost and discount				**(76)**	(90)
Elimination of positions held by a subsidiary				**—**	(45)
Carrying value				**80,296**	94,571

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

46 Debt securities issued (Continued)

(b) The carrying value of the Bank's subordinated bonds issued as at 31 December:

	Notes	**31 December 2018**	31 December 2017
Subordinated fixed rate bonds maturing:			
— in May 2025	(i)	**11,500**	11,500
— in June 2027	(ii)	**19,983**	19,981
— in August 2024	(iii)	**36,972**	36,967
— in September 2028	(iv)	**30,000**	—
— in October 2028	(v)	**19,995**	—
Total		**118,450**	68,448

Notes:

(i) The interest rate on the subordinated fixed rate bonds issued on 28 May 2010 is 4.30% per annum. The Bank has an option to redeem the bonds on 28 May 2020. If they are not redeemed, the interest rate of the bonds will remain at 4.30% per annum for the next five years.

(ii) The interest rate on the subordinated fixed rate bonds issued on 21 June 2012 is 5.15% per annum. The Bank has an option to redeem the bonds on 21 June 2022. If they are not redeemed, the interest rate of the bonds will remain at 5.15% per annum for the next five years.

(iii) The interest rate on the subordinated fixed rate bonds issued on 26 August 2014 is 6.13% per annum. The Bank has an option to redeem the bonds on 26 August 2019. If they are not redeemed, the interest rate of the bonds will remain 6.13% per annum for the next five years.

(iv) The interest rate on the subordinated fixed rate bonds issued on 13 September 2018 is 4.96% per annum. The Bank has an option to redeem the bonds on 13 September 2023. If they are not redeemed, the interest rate of the bonds will remain 4.96% per annum for the next five years

(v) The interest rate on the subordinated fixed rate bonds issued on 22 October 2018 is 4.8% per annum. The Bank has an option to redeem the bonds on 22 October 2023. If they are not redeemed, the interest rate of the bonds will remain 4.8% per annum for the next five years.

(c) The carrying value of CBI's subordinated bonds issued as at 31 December:

	Notes	**31 December 2018**	31 December 2017
Subordinated fixed rate notes maturing:			
— in June 2020	(i)	**3,465**	3,341
— in May 2024	(ii)	**2,055**	1,939
Total		**5,520**	5,280

Notes:

(i) Subordinated notes with nominal value of USD500 million bear an interest rate of 6.875% per annum were issued on 24 June 2010 by CBI, payable semi-annually. The notes are listed on Singapore Exchange Securities Trading Limited.

(ii) Subordinated notes with nominal value of USD300 million bear interest at a fixed rate of 6.00% per annum were issued on 7 November 2013 by CBI, payable semi-annually until 7 May 2019, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 4.718% per annum if the notes are not redeemed on the call date or any interest payment date thereafter. The notes are listed on the Hong Kong Stock Exchange.

(d) These certificates of deposit were issued by CBI with interest rate ranging from 2.05% to 2.26% per annum.

(e) As at 31 December 2018, the Bank had issued certain certificates of interbank deposits, totaling RMB341,310 million (as at 31 December 2017: RMB270,096 million), with yield ranging from 2.80% to 4.86% (as at 31 December 2017: 4.00% to 5.35%) per annum. The original expiry terms are between one months to one year.

(Amounts in millions of Renminbi unless otherwise stated)

47 Other liabilities

	Note	31 December 2018	31 December 2017
Payment and collection accounts		**13,829**	13,545
Settlement and clearing accounts		**11,010**	6,667
Deferred emoluments payable	(i)	**9,162**	6,306
Advances and deferred expenses		**5,818**	4,278
Leasing deposits		**1,579**	1,616
Precious metal contracts		**1,383**	4,872
Accrued expenses		**741**	636
Others		**10,539**	7,996
Total		**54,061**	45,916

Note:

(i) As at 31 December 2018, the deferred emolument payable amounted to RMB9,162 million (31 December 2017: RMB6,306 million). This represents deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans.

48 Share capital

	31 December 2018 and 31 December 2017 Number of shares (millions)	Nominal Value
Ordinary shares		
Registered, issued and fully paid:		
A-Share	**34,053**	**34,053**
H-Share	**14,882**	**14,882**
Total	**48,935**	**48,935**

	31 December 2018	31 December 2017
As at 1 January	**48,935**	48,935
Additions	**—**	—
As at 31 December	**48,935**	48,935

49 Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB)	Issued number of shares (RMB millions)	Issued nominal value (RMB millions)	Maturity Date	Conversions
Preference shares	3.80%	100	350	35,000	No maturity date	No conversion during the year

35,000 million preference shares of RMB100 each were issued in October 2016, with a dividend rate of 3.80% per annum for the first five years from issuance, to no more than 200 qualified investors, pursuant to the approval by its ordinary shareholders' meeting and relevant regulatory authorities.

The carrying amount of preference shares, net of direct issuance expenses, was RMB34,955 millions as at 31 December 2018. All the proceeds received is used to replenish Other Tier-One capital in order to increase the Bank's Tier-One capital adequacy ratio (Note 62). Dividends are non-cumulative and where payable are paid annually. Divident rate at the time of issue is 3.8% per annum and will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 1.30%.

(Amounts in millions of Renminbi unless otherwise stated)

49 Preference shares (Continued)

As authorised by the ordinary shareholders' Annual General Meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents of preference shares are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No.56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB7.07 per share, partially or entirely. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalisation of reserves and new issuances of ordinary shares, subject to terms and formulae provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary shareholders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position; and are qualified as Additional Tier-One Capital Instruments in accordance with the CBIRC requirements.

Interests attributable to equity instruments' holder:

	31 December 2018	31 December 2017
Total equity attribute to equity holders of the parent company	**436,661**	388,002
Equity attribute to ordinary equity holders of the parent company	**401,706**	353,047
Equity attribute to other equity holders of the parent company	**34,955**	34,955
— Dividend paid	**1,330**	1,330

For the year ended 31 December 2018, the Bank paid RMB1,330 million dividend to the preference shareholders (for the year ended 31 December 2017: RMB1,330 million).

On 13 December 2018, a private issuance of preference shares is approved the by the Board of Directors. The issuance of preference shares is with no more that RMB40 billion in domestic market, the par value is RMB100 per share. On 30 January 2019, The issuance is approved in the shareholder's meeting.

50 Capital reserves

	31 December 2018	31 December 2017
Share premium	**58,896**	58,896
Other reserves	**81**	81
Total	**58,977**	58,977

	Notes	**31 December 2018**	31 December 2017
As at 1 January		**58,977**	58,636
Contribution by non-controlling shareholders	55	**—**	341
As at 31 December		**58,977**	58,977

(Amounts in millions of Renminbi unless otherwise stated)

51 Other comprehensive income

Other comprehensive income comprises items that will not be reclassified subsequently to profit or loss, such as net changes on the measurement of defined benefit plan (Note 42) and fair value changes on financial investments designated at fair value through other comprehensive income, and items that may be reclassified subsequently to profit or loss, such as fair value changes on financial assets at fair value through other comprehensive income, credit impairment allowance on financial assets at fair value through other comprehensive income and exchange differences on translation.

52 Surplus reserve

	31 December 2018	31 December 2017
As at 1 January	**30,244**	27,263
Appropriations	**4,206**	3,920
As at 31 December	**34,450**	31,183

Under the relevant PRC Laws, the Bank and the Bank's subsidiaries in Mainland China are required to appropriate 10% of its profit for the year, as determined under regulations issued by the regulatory bodies of the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year to the discretionary surplus reserve upon approval by ordinary shareholders at the Annual General Meeting. The Bank makes its appropriation on an annual basis.

Subject to the approval of ordinary shareholders, statutory surplus reserves may be used for replenishing accumulated losses, if any, and may be converted into share capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before the process.

53 General reserve

	31 December 2018	31 December 2017
As at 1 January	**74,251**	73,911
Appropriations	**4**	340
As at 31 December	**74,255**	74,251

Pursuant to relevant Ministry of Finance ("MOF") notices, the Bank and the Group's banking subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The Bank and the Group make its appropriation on an annual basis. As at 31 December 2018, the General Reserve of the Bank has reached 1.5% of the ending balance of gross risk-bearing assets and thus no appropriations in the general reserve have been made by the bank for the year end at 31 December 2018.

54 Profit appropriations and retained earnings

(a) Profit appropriations and distributions other than dividends declared during the year

	Notes	**31 December 2018**	31 December 2017
Appropriations to			
— surplus reserve	52	**4,206**	3,920
— general reserve	53	**4**	340
As at 31 December		**4,210**	4,260

In accordance with the approval from the Board of Directors dated 26 March 2019, the Bank appropriated RMB4,206 million to statutory surplus reserve fund for the year of 2018. General Reserve of the Bank has reached 1.5% of the ending balance of gross risk-bearing assets and thus no appropriations is required by the Bank for the year of 2018. The Group's subsidiary, Lin'an rural bank, made appropriations to general reserve in accordance with relevant regulatory requirements.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

54 Profit appropriations and retained earnings (Continued)

(b) In accordance with the resolution approved in the Annual General Meeting of the Bank on 25 May 2018, a total amount of approximately RMB12,772 million (RMB2.61 per 10 shares) were distributed in the form of cash dividend to the ordinary shareholders on 2 July 2018.

(c) In accordance with the resolution approved in the Annual General Meeting of the Bank on 27 August 2018, a total amount of approximately RMB1,330 million (calculated by the bank using the agreed dividend rate of 3.8% with RMB3.80 per share) were distributed in the form of cash dividend to the preference shareholders on 26 October 2018.

(d) On 26 March 2019, the Board of Directors proposed a cash dividend of RMB2.30 per 10 shares in respect of the year ended 31 December 2018. Subject to the approval of the ordinary shareholders at the Annual General Meeting, approximately RMB11,255 million will be payable to those on the register of ordinary shareholders as at the relevant record date. This proposal is a non-adjusting event after the reporting period and has not been recognised as liability as at 31 December 2018.

(e) As at 31 December 2018, the retained earnings included the statutory surplus reserves of certain subsidiaries of RMB200 million(as at 31 December 2017: RMB141 million), of which RMB56 million (as at 31 December 2017: RMB53 million) was the appropriation made by the subsidiaries for the year ended 31 December 2018. Such statutory surplus reserves in the retained earnings cannot be distributed.

55 Non-controlling interests

Non-controlling interests included ordinary shareholders held by non-controlling interest in subsidaries and other equity instrument holders' interests. As at 31 December 2018, other equity instrument holders' interest amounted to RMB8,492 million representing other equity instruments issued by CBI on 22 April 2014, 29 September 2016, and 6 November 2018, an entity ultimately controlled by the Group. Such instruments are perpetual non-cumulative subordinated additional Tier- One capital securities (the "Capital Securities").

Financial instruments in issue	Issue Date	Nominal Value	First Call Date	Coupon Rate	Payment Frequency
Capital Securities	22 April 2014	USD300 millions	22 April 2019	7.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 5.627% per annum	Semi-annually
Capital Securities	11 October 2016	USD500 millions	11 October 2021	4.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 3.107% per annum	Semi-annually
Capital Securities	6 November 2018	USD500 millions	6 November 2023	7.10% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 4.151% per annum	Semi-annually

CBI may, at its sole discretion, elect to cancel any payment of coupon, in whole or in part, or redeem Capital Securities in whole on the first call date and any subsequent coupon distribution date, where the holders of these Capital Securities have no right to require CBI to redeem. These Capital Securities listed above are classified as other equity instruments.

A distribution payment of RMB289 million was paid to the holders of the Capital Securities during the year ended 31 December 2018 (year ended 31 December 2017: RMB290 million).

(Amounts in millions of Renminbi unless otherwise stated)

55 Non-controlling interests (Continued)

On 29 September 2017, by the approval of the board of directors, the Bank injected capital to CBI, the 100% owned subsidiary of CIFH which is a subsidiary of the Bank. CBI was the second tier wholly-owned subsidiary of the Bank before the capital injection. After the capital injection, CIFH holds 75% equity interests of CBI.

56 Notes to consolidated statement of cash flows

Cash and cash equivalents

	31 December 2018	31 December 2017
Cash	**6,188**	6,740
Cash equivalents		
— Surplus deposit reserve funds	**128,423**	89,288
— Deposits with banks and non-bank financial institutions due within three months when acquired	**88,801**	110,898
— Placements with and loans to banks and non-bank financial institutions due within three months when acquired	**124,923**	79,078
— Investment securities due within three months when acquired	**27,674**	51,911
Subtotal	**369,821**	331,175
Total	**376,009**	337,915

57 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and bank acceptances.

Loan commitments and credit card commitments represent the undrawn amount of approved loans with signed contracts and credit card limits. Financial guarantees and letters of credit represent guarantees provided by the Group to guarantee the performance of customers to third parties. Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects the majority acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by categories are set out below. The amounts disclosed in respect of loan commitments and credit card commitments assume that amounts are fully drawn down. The amounts of guarantees, letters of credit and acceptances represent the maximum potential loss that would be recognised at the reporting date if counterparties failed to perform as contracted.

	31 December 2018	31 December 2017
Contractual amount		
Loan commitments		
— with an original maturity within one year	**4,521**	14,926
— with an original maturity of one year or above	**35,508**	57,434
Subtotal	**40,029**	72,360
Guarantees	**393,851**	427,561
Letters of credit	**434,590**	310,315
Bank acceptances	**158,813**	195,746
Credit card commitments	**92,924**	88,772
Total	**1,120,207**	1,094,754

(Amounts in millions of Renminbi unless otherwise stated)

57 Commitments and contingent liabilities (Continued)

(b) Credit commitments analysed by credit risk weighted amount

	31 December 2018	31 December 2017
Credit risk weighted amount of credit commitments	**370,529**	351,475

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of counterparties and the maturity characteristics. The risk weighting used range from 0% to 150%.

(c) Capital commitments

(i) The Group had the following authorised capital commitments in respect of property, plant and equipment at the reporting date:

	31 December 2018	31 December 2017
For the purchase of property and equipment		
Contracted for	**5,356**	7,385

(ii) On 13 December 2018, the Group announced and approved the establishment of a wealth management subsidiary by the Board of Directors. The proposed registered capital of the subsidiary was no more than RMB5 billion, which the bank hold all the shares. As at 31 December 2018, the matters are subject to the approval of relevant regulatory authorities.

(d) Operating lease commitments

The Group leases certain property, plant and equipment under operating leases, which typically run for an initial period from one to five years and may include an option to renew the leases when all terms are renegotiated. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Within one year	**3,489**	2,876
After one year but within two years	**2,776**	2,892
After two years but within three years	**2,340**	2,306
After three years but within five years	**3,063**	3,418
After five years	**1,266**	2,122
Total	**12,934**	13,614

(e) Outstanding contingencies including litigation and disputes

The Group has assessed and has made provisions for any probable outflow of economic benefits in relation to commitments and contingent liabilities at the reporting date in accordance with its accounting policies including litigation and disputes.

As at 31 December 2018, the Group was involved in certain potential and pending litigation as defendant with gross claims of RMB271 million (as at 31 December 2017: RMB748 million). Based on the opinion of internal and external legal counsels, the Group had made litigation provisions of RMB220 million for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB152 million) against these litigation (Note 45). Such contingencies, including litigation and disputes, will not have material impact on financial position and operations of the Bank.

(Amounts in millions of Renminbi unless otherwise stated)

57 Commitments and contingent liabilities (Continued)

(f) Bonds redemption obligations

As an underwriting agent of PRC treasury bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by the Group, but not yet matured at the reporting date:

	31 December 2018	31 December 2017
Redemption commitment for PRC treasury bonds	**11,101**	11,492

The original maturities of these bonds vary from one to five years. Management of the Group expects the amount of redemption before maturity dates of these bonds will not be material. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

(g) Underwriting obligations

As at 31 December 2018 and 31 December 2017, the Group did not have unfulfilled commitment in respect of securities underwriting business. (as at 31December 2017: Nil)

58 Collateral

(a) Assets pledged

(i) The carrying amount of financial assets pledged as collateral in the Group's ordinary course of businesses, including repurchase agreements and borrowings from central banks, are disclosed as below:

	31 December 2018	31 December 2017
Debt securities	**439,272**	407,755
Discounted bills	**33,955**	52,780
Others	**172**	111
Total	**473,399**	460,646

As at 31 December 2018 and 31 December 2017, the Group's liabilities related to the above collateral were due within 12 months from the effective dates of these agreements and title of these collateral was not transferred to counterparties.

(ii) In addition, as at 31 December 2018, the Group pledged debt securities and deposits with banks and other financial institutions with carrying amount totalling RMB1,335 million (as at 31 December 2017: RMB1,668 million) as collateral for derivative transactions and guarantee funds to exchanges. Title of these pledged assets was not transferred to counterparties.

(b) Collateral accepted

The Group received debt securities as collateral for financial assets held under resale agreements as set out in Note 23. Under the terms of theses agreements, the Group could not resell or re-pledge certain parts of these collateral unless in the event of default by the counterparties. As at 31 December 2018, there was no collateral that can be resold or re-pledged by the Group (as at 31 December 2017: Nil). During the year ended 31 December 2018, the Group did not resell or re-pledge any of these collateral (year ended 31 December 2017: Nil).

(Amounts in millions of Renminbi unless otherwise stated)

59 Transactions on behalf of customers

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals, as well as entrusted provident housing fund mortgage business services. All entrusted loans are made under the instruction or at the direction of these corporations, individuals or provident housing fund centre and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group does not expose to credit risk in relation to these transactions, but acts as an agent to hold and manage these assets and liabilities at the instruction of the entrusting parties and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised on the consolidated statement of financial position. Income received and receivable for providing these services is included in the consolidated statement of profit or loss as fee income.

At the reporting date, the entrusted assets and liabilities were as follows:

	31 December 2018	31 December 2017
Entrusted loans	**640,227**	791,555
Entrusted funds	**640,229**	791,556

(b) Wealth management services

The Group's wealth management services to customers mainly represent sale of wealth management products, including principal guaranteed (Note 65(c)) and non-principal or interest guaranteed wealth management products (Note 65(b)), to corporate and personal banking customers.

The funds raised by non-principal guaranteed wealth management products from investors are invested in various investments, including debt securities and money market instruments, credit assets and other debt instruments, equity instruments etc. Credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers. The Group only earns commission which represents the charges on customers in relation to the provision of custodian, sale and management services. Income is recognised in the consolidated statement of profit or loss as commission income. The Group has entered into placements transactions at market interest rates with the wealth management products vehicles (Note 65(b)).

The assets and liabilities of these wealth management products are not assets and liabilities of the Group and are not recognised on the consolidated statement of financial position.

As at 31 December 2018, the amount of total assets invested by these non-principal guaranteed wealth management products issued by the Group was disclosed in Note 65(b).

60 Segment reporting

Measurement of segment assets and liabilities, and segment income and expenses are based on the Group's accounting policies.

Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "External net interest income/expenses".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities do not include deferred tax assets and liabilities. 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 costs incurred during the year to acquire assets (including both tangible assets and intangible assets) whose estimated useful lives are over one year.

(a) Business segments

The Group has the following main business segments for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and non-financial institutions, as well as conducts investment banking businesses and international businesses. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers and small enterprises. The products and services comprise loans, deposit services, securities agency services, remittance and settlement services and guarantee services.

Treasury operations

This segment conducts capital markets operations, inter-bank operations, which, specifically, includes inter-bank money market transactions, repurchase transactions, and investments and trading in debt instruments. Furthermore, treasury operations segment also carries out derivatives and forex trading both for the group and for customers.

Others and unallocated

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis. This segment also manages the Group's liquidity position.

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
External net interest income/(expense)	53,087	52,250	27,170	(27,735)	104,772
Internal net interest income/(expense)	19,982	(32,360)	(18,247)	30,625	—
Net interest income	73,069	19,890	8,923	2,890	104,772
Net fee and commission income/(expense)	11,609	32,999	618	(78)	45,148
Other net income (Note (i))	2,506	4,250	8,516	574	15,846
Operating income	87,184	57,139	18,057	3,386	165,766
Operating expenses					
— depreciation and amortisation	(1,049)	(552)	(640)	(701)	(2,942)
— others	(19,675)	(25,560)	(3,486)	(937)	(49,658)
Credit impairment losses	(42,216)	(15,295)	(187)	(188)	(57,886)
Impairment losses on other assets	—	—	—	(347)	(347)
Revaluation gain on investment properties	—	—	—	35	35
Share of loss from associates and joint ventures	—	—	—	(642)	(642)
Profit before tax	24,244	15,732	13,744	606	54,326
Income tax					(8,950)
Net profit					45,376
Capital expenditure	1,394	769	851	1,089	4,103

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,328,330	1,155,488	1,488,115	1,067,726	6,039,659
Interest in associates and joint ventures	—	—	118	3,763	3,881
Deferred tax assets					23,174
Total asset					6,066,714
Segment liabilities	3,046,177	1,538,976	716,638	311,821	5,613,612
Deferred tax liabilities					16
Total liabilities					5,613,628
Off-balance sheet credit commitments	1,027,283	92,924	—	—	1,120,207

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2017				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
External net interest income/(expense)	56,534	43,899	20,671	(21,459)	99,645
Internal net interest income/(expense)	16,442	(23,724)	(17,572)	24,854	—
Net interest income	72,976	20,175	3,099	3,395	99,645
Net fee and commission income	13,285	32,866	702	5	46,858
Other net income (Note (i))	819	1,312	7,279	1,318	10,728
Operating income	87,080	54,353	11,080	4,718	157,231
Operating expenses					
— depreciation and amortisation	(995)	(432)	(554)	(830)	(2,811)
— others	(20,691)	(23,747)	(1,552)	(112)	(46,102)
Impairment losses	(44,651)	(9,891)	(210)	(1,035)	(55,787)
Revaluation gain on investment properties	—	—	—	30	30
Share of loss from associates and joint ventures	—	—	—	(285)	(285)
Profit before tax	20,743	20,283	8,764	2,486	52,276
Income tax					(9,398)
Net profit					42,878
Capital expenditure	3,309	1,981	1,953	1,157	8,400

	31 December 2017				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,447,930	1,022,133	1,292,692	890,770	5,653,525
Interest in associates and joint ventures	—	—	131	2,210	2,341
Deferred tax assets					21,825
Total asset					5,677,691
Segment liabilities	3,075,264	1,272,327	784,837	132,822	5,265,250
Deferred tax liabilities					8
Total liabilities					5,265,258
Off-balance sheet credit commitments	784,439	310,315	—	—	1,094,754

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

60 Segment reporting (Continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities. The Bank's principal subsidiaries, CNCB Investment and CIFH are registered and operating in Hong Kong. The other subsidiaries, Lin'an Rural Bank and CFLL are registered in Mainland China.

In presenting information by geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where tier-1 branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo, as well as Lin'an Rural Bank;

— "Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou, Xiamen, and Haikou;

— "Bohai Rim" refers to the following areas where tier-1 branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang, Jinan and CFLL;

— "Central" region refers to the following areas where tier-1 branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

— "Western" region refers to the following areas where tier-1 branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

— "Northeastern" region refers to the following areas where tier-1 branches of the Group is located: Shenyang, Changchun and Harbin;

— "Head Office" refers to the headquarter of the Bank and the Credit Card Center; and

— "Overseas" includes all the operations of CNCB Investment, CIFH and its subsidiaries.

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Year ended 31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	26,679	17,920	14,234	16,865	17,332	2,334	3,504	5,904	–	104,772
Internal net interest income/(expense)	(3,327)	(300)	6,477	(2,907)	(5,703)	(489)	6,578	(329)	–	–
Net interest income	23,352	17,620	20,711	13,958	11,629	1,845	10,082	5,575	–	104,772
Net fee and commission income	3,047	2,756	4,571	1,603	1,603	341	29,788	1,439	–	45,148
Other net income (Note (i))	991	216	638	112	103	26	12,979	781	–	15,846
Operating income	27,390	20,592	25,920	15,673	13,335	2,212	52,849	7,795	–	165,766
Operating expense										
— depreciation and amortisation	(515)	(266)	(375)	(342)	(419)	(127)	(704)	(194)	–	(2,942)
— others	(7,404)	(5,628)	(7,581)	(5,066)	(5,062)	(1,194)	(14,892)	(2,831)	–	(49,658)
Credit impairment losses	(8,378)	(6,669)	(11,366)	(6,131)	(8,000)	(4,419)	(11,821)	(1,102)		(57,886)
Impairment losses on other assets	(113)	(9)	(66)	–	(83)	(9)	–	(67)	–	(347)
Revaluation gain on investment properties	–	–	–	–	–	–	–	35	–	35
Share of loss of associates and joint ventures	–	–	–	–	–	–	(288)	(354)	–	(642)
Profit before tax	10,980	8,020	6,532	4,134	(229)	(3,537)	25,144	3,282	–	54,326
Income tax										(8,950)
Profit for the year									–	45,376
Capital expenditure	331	1,017	171	144	311	42	1,641	446	–	4,103

	31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,184,230	812,520	1,255,616	594,775	539,071	97,329	2,442,818	337,570	(1,224,270)	6,039,659
Interest in associates and joint ventures	–	–	–	–	–	–	2,878	1,003	–	3,881
Deferred tax assets										23,174
Total assets										6,066,714
Segment liabilities	1,191,150	800,478	1,228,822	596,075	524,880	106,680	2,084,629	282,868	(1,201,970)	5,613,612
Deferred tax liabilities										16
Total liabilities										5,613,628
Off-balance sheet credit commitments	189,531	133,112	125,076	140,766	77,284	10,914	427,397	16,127	–	1,120,207

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Year ended 31 December 2017									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	16,386	14,398	7,764	14,662	14,345	2,375	24,542	5,173	—	99,645
Internal net interest income/(expense)	4,129	2,191	12,649	(158)	(2,061)	(576)	(15,987)	(187)	—	—
Net interest income	20,515	16,589	20,413	14,504	12,284	1,799	8,555	4,986	—	99,645
Net fee and commission income	4,150	3,689	5,724	1,940	1,945	302	27,564	1,544	—	46,858
Other net income (Note (i))	647	372	702	204	99	25	7,108	1,571	—	10,728
Operating income	25,312	20,650	26,839	16,648	14,328	2,126	43,227	8,101	—	157,231
Operating expense										
— depreciation and amortisation	(472)	(289)	(412)	(333)	(386)	(104)	(640)	(175)	—	(2,811)
— others	(7,555)	(5,379)	(7,717)	(5,067)	(4,996)	(1,233)	(11,288)	(2,867)	—	(46,102)
Impairment losses	(13,962)	(10,580)	(9,826)	(7,792)	(7,550)	(742)	(4,103)	(1,232)	—	(55,787)
Revaluation gain on investment properties	—	—	—	—	—	—	30	—	—	30
Share of loss from associates and joint ventures	—	—	—	—	—	—	(204)	(81)	—	(285)
Profit before tax	3,323	4,402	8,884	3,456	1,396	47	27,022	3,746	—	52,276
Income tax										(9,398)
Profit for the year										42,878
Capital expenditure	3,193	198	347	1,161	301	38	2,987	175	—	8,400

	31 December 2017									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,288,981	916,081	1,228,113	626,587	574,942	94,618	2,298,905	306,651	(1,681,353)	5,653,525
Interest in associate and joint ventures	—	—	—	—	—	—	1,196	1,145	—	2,341
Deferred tax assets										21,825
Total assets										5,677,691
Segment liabilities	1,135,639	820,311	1,079,757	565,919	483,560	86,047	2,466,613	266,293	(1,638,889)	5,265,250
Deferred tax liabilities										8
Total liabilities										5,265,258
Off-balance sheet credit commitment	198,104	158,719	154,949	161,686	85,618	13,277	304,020	18,381	—	1,094,754

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

61 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

— **Credit risk** Credit risk represents the potential loss that may arise from the failure of a customer or counterparty to meet its contractual obligations or commitments to the Group.

— **Market risk** Market risk arises from unfavourable changes in market prices (interest rate, exchange rate, stock price or commodity price) that lead to a loss of on-balance sheet or off-balance sheet business in the Group.

— **Liquidity risk** Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds.

— **Operational risk** Operational risk arises from inappropriate or problematic internal procedures, personnel, IT systems, or external events, such risk includes legal risk, but excluding strategy risk and reputational risk.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with relevant policies and procedures.

(a) Credit risk

Credit risk management

Credit risk refers to the risk of loss caused by default of debtor or counterparty. Credit risk also occurs when the Group makes unauthorised or inappropriate loans and advances to customers, financial commitments or investments. The credit risk exposure of the Group mainly arises from the Group's loan and advance to customers, treasury businesses and off-balance sheet items.

The Group has standardised management on the entire credit business process including loan application and its investigation, approval and granting of loan, and monitoring of non-performing loans. Through strictly standardising the credit business process, strengthening the whole process management of pre-loan investigation, credit rating and credit granting, examination and approval, loan review and post-loan monitoring, improving the risk of slow-release of collateral, accelerating the disposal of non-performing loans, and promoting the upgrading and transformation of credit management system, the credit risk management of the Group has been comprehensively improved.

The Group writes off the recoverable financial asset when it cannot reasonably expect to recover all or part of the asset. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the Group's recovery method is to confiscate and dispose of the collateral, but the expected value of the collateral cannot cover the entire principal and interest.

In addition to the credit risk to the Group arising credit assets, the Group manages the credit risk for treasury businesses through prudently selecting peers and other financial institutions with comparable credit levels as counterparties, balancing credit risk with returns on investment, comprehensively considering internal and external credit rating information, granting credit hierarchy, and using credit management system to review and adjust credit commitments on a timely basis, etc. In addition, the Group provides off-balance sheet commitment and guarantee businesses to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

61 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses

Since 1 January 2018, the Group adapts, the "expected credit loss model" on its debt instruments which are classified as financial assets measured at amortised cost and at fair value through other comprehensive income in accordance with the provisions of IFRS 9.

For financial assets that are included in the measurement of ECL, the Group evaluates whether the credit risks of related financial assets have increased significantly since the initial recognition. The "three-stage" impairment model is used to measure their allowances for impairment losses respectively to recognise ECL and their movements:

Stage 1: Financial instruments with no significant increase in credit risk since initial recognition will be classified as "stage 1" and the Group continuously monitors their credit risk. The allowance of impairment losses of financial instruments in Stage 1 is measured based on the ECL in the next 12 months, which represents the proportion of the ECL in the lifetime due to possible default events in the next 12 months.

Stage 2: If there is a significant increase in credit risk from initial recognition, the Group transfers the related financial instruments to Stage 2, but it will not be considered as credit-impaired instruments. The ECL of financial instruments in Stage 2 is measured based on the lifetime ECL.

Stage 3: If there is a significant impairment in financial instruments, it will be moved to Stage 3. The ECL of financial instruments in Stage 3 is measured based on the lifetime ECL.

POCI financial assets refers to financial assets that are credit-impaired at initial recognition. Allowance for impairment losses on these assets are the lifetime ECL.

The Group measures the ECL for financial assets through testing models, which includes expected loss model and discounted cash flows model. The expected loss model method is applicable to assets related to personal client, assets related to corporate client in stage 1 and 2, interbank investments and off-balance sheet credit assets. Discounted cash flows model is applicable to assets related to corporate client in stage 3.

The Group estimate the ECL in accordance with the IFRS 9, the key judgments and assumptions adopted by the Group are as follows:

(i) Significant increase in credit risk

On each reporting date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. When one or more on quantitative or qualitative threshold, or upper limit are triggered, the credit risk of financial instruments would be considered as increased significantly.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes (1) credit risk of borrowers declining to Grade 15 or below since initial recognition; (2) significant adverse changes in business, financial or operating conditions of borrowers and in economic conditions; (3) significant increase in other credit risk. For the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies them to stage 2.

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Definition of credit-impaired assets

When credit impairment occurred, the Group defines that the financial asset is in default. In general, a financial asset that is overdue for more than 90 days is considered to be in default.

When one or more events that adversely affect the expected future cash flow of a financial asset occurs, the financial asset becomes a credit-impaired financial asset. Evidence of credit-impaired financial assets includes the following observable information:

- The issuer or borrower is in significant financial difficulties;
- The borrower is in breach of financial covenant(s) such as default or overdue in repayment of interests or principle, etc;
- The creditor gives the debtor no concession under any other circumstances, for economic or contractual reasons relating to the debtor's financial difficulties;
- It is becoming probably that the borrower will enter bankruptcy or other debt restructuring;
- An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Group's default definition has been consistently applied to the modeling of default probability, default risk exposure and default loss rate in the Group's ECL calculation process.

(iii) Inputs for measurement of expected credit losses

The expected credit loss is measured on either a 12 months or lifetime basis depending on whether a significant increase in credit risk has occurred or whether an asset is considered to be credit-impaired. Related definitions are as follows:

- The probability of default ("PD") represents the likelihood of a borrower defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.
- Loss given default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.
- Exposure at default ("EAD") is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

The Group regularly monitors and reviews the assumptions related to the calculation of ECL, including the PD and the change in the value of collateral over time.

The Group categorises exposures with similar risk characteristics and estimates the PD, LGD, EAD by the exposures respectively. The Group has obtained sufficient information to ensure its statistical reliability. ECL of the Group is measured based on the continous asessment and follow-up of individuals and their financial status.

During the reporting period, there were no significant changes in the estimated technology or key assumptions.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(iv) Forward-looking information

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each asset portfolio.

These economic variables and their associated impact on the PD vary by financial instruments. Expert judgment has been applied in this process, forecasts of these economic variables are estimated by the experts of the Group on a quarterly basis, and the impact of these economic variables on the PD and the exposure at default was determined by statistical regression analysis.

In addition to the neutral economic scenario, the Group determine the possible scenarios and their weightings by a combination of statistical analysis and expert judgment. The Group measures ECL as either a probability weighted 12 months ECL (stage 1) or a probability weighted lifetime ECL (stage 2 and stage 3). These probability-weighted ECL are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

Macroeconomic scenario and weighting information

The Group has built a macro forecast model, and performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio, such as domestic Gross Domestic Product ("GDP"), electricity production and registered urban unemployment rate, etc.

In 2018, the Group has considered different macroeconomic scenarios, and the key macroeconomic scenario assumptions in estimating ECL are set out below:

Variables	Range
Growth rate of domestic GDP, year on year	5.70%-6.82%
Acumulated electricity production, year on year	2.78%-16.69%
Registered urban unemployment rate	3.70%-3.85%

Adopt top-down development approach, the Group has established models including different key economic indicators is established with the new actual default rate of regression model, and use the prediction results and historic default information adjustment coefficient calculation, then realise the provisions for forward-looking adjustment.

The Group considers internal and external data, experts predict, and the best estimate of future, to determine the weightings in positive, neutral and negative scenarios. Neutral is defined as the most likely to happen in the future, as compare to other scenarios. Optimistic scenario and pessimistic scenario represents the possible scenario that is better off or worse off scenario compared to neutral scenario respectively. Currently, the weighting of neutral scenario is equal to the sum of the weightings of other scenarios. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

For portfolio cannot establish regression model, such as customer default rate is extremely low, or no suitable internal rating data portfolio, etc., the Group mainly uses the regression model has been established a similar combination than expected losses, in order to increase the coverage of existing impairment model.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information

The change of the inputs for measurement of ECL and forward-looking information impact the assessment of significant increase in credit risk and measurement of credit loss.

As at 31 December 2018, assuming the weighting of optimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be decreased by 2.868 billion; assuming the weighting of pessimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be increased by 2.166 billion;

Allowance for impairment losses of performing loans and advances to customers consists of ECL from Stage 1 and Stage 2 which is measured based on 12 months ECL and lifetime ECL respectively. Loans and advances to customers in Stage 1 transfer to Stage 2 when there is a significant increase in credit risk. The following table presents the estimated impact as if the ECL of all performing loans and advancs to customers are measured based on 12 months ECL, holding all other risk profile constant.

	Year ended 31 December 2018		
	Allowance of impairment losses assuming performing loans and advances to customers are in Stage 1	Impact of stage transfers	Current allowance for impairment losses
Performing loans and advances to customers	53,070	1,790	54,860

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancement is represented by the net balance of each type of financial assets in the consolidated statement of financial position after deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	31 December 2018					
	Stage 1	Stage 2	Stage 3	Not applicable	Total	31 December 2017
Balances with central banks	532,520	—	—	—	532,520	561,560
Deposits with bank and non-bank financial institutions	99,153	—	—	—	99,153	124,350
Placements with and loans to banks and non-bank financial institutions	176,159	—	1	—	176,160	172,069
Financial assets at fair value through profit or loss	—	—	—	—	—	61,380
Derivative financial assets	—	—	—	31,991	31,991	65,451
Financial assets held under resale agreements	10,790	—	—	—	10,790	54,626
Interest receivables	—	—	—	—	—	32,643
Loans and advances to customers	3,425,701	70,888	19,061	—	3,515,650	3,105,984
Financial investments						
— at fair value through profit or loss	—	—	—	308,872	308,872	—
— at amortised cost	773,878	3,738	622	—	778,238	—
— at fair value through other comprehensive income	510,020	105	221	—	510,346	—
— designated at fair value through other comprehensive income	—	—	—	2,707	2,707	—
Available-for-sale financial assets	—	—	—	—	—	510,790
Held-to-maturity investments	—	—	—	—	—	216,586
Investments classified as receivables	—	—	—	—	—	531,118
Other financial assets	17,440	2,191	4,667	—	24,298	47,972
Subtotal	5,545,661	76,922	24,572	343,570	5,990,725	5,484,529
Credit commitments	1,114,830	5,257	120	—	1,120,207	1,094,754
Maximum credit risk exposure	6,660,491	82,179	24,692	343,570	7,110,932	6,579,283

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(i) Maximum credit risk exposure (Continued)

According to the quality of assets, the Group classified the credit rating of the financial assets as risk level 1, risk level 2, risk level 3 and default. "Risk level 1" refers to customers who have competitive advantages among local peers with good foundations, outstanding operation results, strong operational and financial strength, and/or good corporate governance structure. "Risk level 2" refers to customers who are in the middle tier among local peers with fair foundations, fair operation results, fair operational and financial strength, and/or fair corporate governance structure. "Risk level 3" refers to customers who are in the lower-tier among local peers, with weak foundations, poor operation results, poor operational and financial strength, and/or deficiency in corporate governance structure. The definition of "Default" is same as the definition of credit-impaired. The credit rating is used for internal risk management.

The following table provides an analysis of loans and advances to customers and financial investments that are included in the ECL assessment according to the credit risk level. The book value of the following financial assets is the Group's maximum exposure to credit risk for these assets.

	31 December 2018						
	Risk level 1	Risk level 2	Risk level 3	Default	Subtotal	Allowance for impairment losses	Net balance
Loans and advances to customers							
Stage 1 (Note (i))	2,713,135	683,890	60,616	–	3,457,641	(31,940)	3,425,701
Stage 2	414	9,373	83,889	–	93,676	(22,788)	70,888
Stage 3	–	–	–	65,433	65,433	(46,372)	19,061
Financial investments at amortised cost							
Stage 1	671,939	104,619	–	–	776,558	(2,680)	773,878
Stage 2	–	3,890	–	–	3,890	(152)	3,738
Stage 3	–	–	–	1,160	1,160	(538)	622
Financial investments at fair value through other comprehensive income							
Stage 1	493,858	16,162	–	–	510,020	(727)	510,020
Stage 2	–	105	–	–	105	(2)	105
Stage 3	–	–	–	221	221	(310)	221
Maximum credit risk exposure	3,879,346	818,039	144,505	66,814	4,908,704	(105,509)	4,804,234

Note:

Stage 1 includes loans and advances to customers measured at fair value through other comprehensive income, and its corresponding impairment does not include in the "Allowance for impairment losses" as shown in the table.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(ii) Measurement of expected credit losses

The following table shows the movement in carrying value of loans and advances to customers in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	3,036,736	92,227	67,933
Movements			
Net transfers out from Stage 1	(84,271)	—	—
Net transfers in to Stage 2	—	11,115	—
Net transfers in to Stage 3	—	—	73,156
Net transactions incurred during the year (Note (i))	495,119	(10,215)	(28,961)
Write-off	—	—	(46,937)
Others (Note (ii))	10,057	549	242
As at 31 December 2018	3,457,641	93,676	65,433

The following table shows the movement in carrying value of financial investment in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	1,064,552	347	45
Movements			
Net transfers out from Stage 1	(8,430)	—	—
Net transfers in to Stage 2	—	3,875	—
Net transfers in to Stage 3	—	—	4,555
Net transactions incurred during the year (Note (i))	227,172	(236)	(2,528)
Write-off	—	—	(689)
Others (Note (ii))	3,280	9	2
As at 31 December 2018	1,286,574	3,995	1,385

Notes:

(i) Net transactions incurred mainly includes changes in carrying amount due to purchased, originated or de-recognition excepting for write-off.

(ii) Others include reclassification of interest receivables, and effect of exchange differences during the year.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of loans and advances to customers in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	**30,664**	**24,674**	**42,565**
Movements (Note (i))			
Net transfers out from Stage 1	**(1,870)**	**—**	**—**
Net transfers in to Stage 2	**—**	**515**	**—**
Net transfers in to Stage 3	**—**	**—**	**48,640**
Net transactions incurred during the year (Note (ii))	**4,702**	**(1,838)**	**(1,337)**
Changes in parameters for the year (Note (iii))	**(1,540)**	**(625)**	**1,107**
Write-off	**—**	**—**	**(46,937)**
Others (Notes (iv))	**116**	**62**	**2,334**
As at 31 December 2018	**32,072**	**22,788**	**46,372**

The following table shows the movement in allowance for impairment of financial investment in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	**3,953**	**10**	**31**
Movements (Note (i))			
Net transfers out from Stage 1	**(239)**	**—**	**—**
Net transfers in to Stage 2	**—**	**144**	**—**
Net transfers in to Stage 3	**—**	**—**	**1,843**
Net transactions incurred during the year (Note (ii))	**370**	**—**	**—**
Changes in parameters for the year (Note (iii))	**(703)**	**—**	**(341)**
Write-off	**—**	**—**	**(689)**
Others (Notes (iv))	**26**	**—**	**4**
As at 31 December 2018	**3,407**	**154**	**848**

Notes:

(i) Movements mainly include the impacts to ECL due to changes in stages.

(ii) Net transactions incurred during mainly includes changes in allowance of impairment due to purchased, originated or de-recognition excepting for write-off.

(iii) Changes in parameters mainly include changes in risk exposure and the impacts to ECL due to changes in PD and LGD resulting from regular update on modeling parameters rather than stages movements,.

(iv) Others include unwinding interest on impaired financial assets, reclassification of interest receivables, and effect of exchange differences.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(iii) Loans and advances to customers analysed by industry sector:

	31 December 2018			31 December 2017		
	Gross balance	%	Loans and advances secured by collateral	Gross balance	%	Loans and advances secured by collateral
Corporate loans						
— real estate	312,923	8.7	273,640	333,055	10.4	272,486
— manufacturing	295,005	8.2	140,199	324,029	10.1	141,571
— rental and business services	282,699	7.8	177,013	221,786	6.9	134,207
— water, environment and public utility management	208,922	5.8	106,882	179,441	5.6	87,763
— wholesale and retail	151,391	4.2	89,064	193,818	6.1	103,102
— transportation, storage and postal services	151,038	4.2	76,331	152,851	4.8	79,120
— construction	79,086	2.2	31,980	77,878	2.4	31,442
— production and supply of electric power, gas and water	72,938	2.0	40,669	70,523	2.2	32,688
— public management and social organisations	13,366	0.4	2,721	18,566	0.6	5,399
— others	313,757	8.6	128,377	285,900	8.9	120,153
Subtotal	1,881,125	52.1	1,066,876	1,857,847	58.0	1,007,931
Personal loans	1,484,490	41.0	1,000,203	1,231,584	38.6	859,513
Discounted bills	242,797	6.7	—	107,456	3.4	—
Accrued interest	8,338	0.2	—	—	—	—
Gross loans and advances to customers	3,616,750	100.0	2,067,079	3,196,887	100.0	1,867,444

(iv) Loans and advances to customers analysed by geographical sector:

	31 December 2018			31 December 2017		
	Gross balance	%	Loans and advances secured by collateral	Gross balance	%	Loans and advances secured by collateral
Bohai Rim (including Head Office)	1,123,293	31.1	426,447	967,864	30.3	428,764
Yangtze River Delta	784,722	21.7	507,327	691,183	21.6	443,504
Pearl River Delta and West Strait	549,491	15.2	448,719	493,118	15.4	390,394
Central	463,100	12.8	296,286	421,810	13.2	265,898
Western	433,143	12.0	269,765	389,152	12.2	231,120
Northeastern	75,682	2.1	51,582	67,609	2.1	44,403
Outside Mainland China	178,981	4.9	66,953	166,151	5.2	63,361
Accrued interest	8,338	0.2	—	—	—	—
Total	3,616,750	100.0	2,067,079	3,196,887	100.0	1,867,444

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) *Sensitivity information (Continued)*

(v) Loans and advances to customers analysed by type of security

	31 December 2018	31 December 2017
Unsecured loans	**806,154**	708,164
Guaranteed loans	**492,382**	513,823
Secured loans	**2,067,079**	1,867,444
— loans secured by collateral	**1,658,484**	1,510,366
— pledged loans	**408,595**	357,078
Subtotal	**3,365,615**	3,089,431
Discounted bills	**242,797**	107,456
Accrued interest	**8,338**	—
Gross loans and advances to customers	**3,616,750**	3,196,887

(vi) Rescheduled loans and advances to customers

	31 December 2018		31 December 2017	
	Gross balance	**% of total loans and advances**	Gross balance	% of total loans and advances
Rescheduled loans and advances:	**21,588**	**0.60%**	23,245	0.73%
— rescheduled loans and advances overdue more than 3 months	**18,748**	**0.52%**	19,859	0.62%

Rescheduled loans and advances are those loans and advances to customers which have been rescheduled or renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule and for which the revised repayment terms are a concession that the Group would not otherwise consider. As at 31 December 2018, with borrowers' financial difficulty, the concession the Group considered resulted from economic or legal reasons is not significant.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(vii) Debt securities analysed by credit rating

The Group adopts a credit rating approach to manage credit risk of its debt instruments portfolio. The ratings are obtained from major rating agencies where the debt instruments are issued. The carrying amounts of debt instruments investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2018					
	Unrated (Note (i))	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities issued by:						
— governments	**371,368**	**114,370**	**11,693**	**265**	**—**	**497,696**
— policy banks	**108,816**	**8,664**	**—**	**7,016**	**—**	**124,496**
— public entities	**178**	**29**	**1,666**	**—**	**—**	**1,873**
— banks and non-bank financial institutions	**26,995**	**181,031**	**4,569**	**23,595**	**9,591**	**245,781**
— corporates	**55,240**	**48,675**	**10,047**	**7,230**	**6,254**	**127,446**
Investment management products managed by securities companies	**228,392**	**—**	**—**	**—**	**—**	**228,392**
Trust investment plans	**178,019**	**—**	**—**	**—**	**—**	**178,019**
Total	**969,008**	**352,769**	**27,975**	**38,106**	**15,845**	**1,403,703**

	31 December 2017					
	Unrated (Note (i))	AAA	AA	A	Below A	Total
Debt securities issued by:						
— governments	257,551	48,565	8,440	375	—	314,931
— policy banks	127,848	—	—	609	—	128,457
— public entities	3	—	1,151	—	—	1,154
— banks and non-bank financial institutions	8,506	160,311	3,986	15,953	6,734	195,490
— corporates	9,014	96,367	23,018	15,138	5,187	148,724
Total	402,922	305,243	36,595	32,075	11,921	788,756

Note:

(i) Unrated debt securities held by the Group are bonds issued primarily by the Chinese government, policy banks, banks, non-bank financial institutions, investment management products managed by securities companies and trust investment plans.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) *Sensitivity information (Continued)*

(viii) Investments classified as receivables analysed by type of underlying assets

	30 June 2018	31 December 2017
Investment management products managed by securities companies and trust investment plans		
— interbank assets products issued by other banks	**16,650**	—
— credit assets	**300,089**	—
— rediscounted bills	**89,831**	—
Investments classified as receivables		
— interbank assets and wealth management products issued by other banks	—	153,510
— credit assets	—	303,386
— rediscounted bills	—	77,165
Total	**406,570**	534,061

The Group divides investment management products managed by securities companies and trust investment plans into comprehensive credit management system, to manage its credit risk exposure in a holistic manner. The type of collateral of credit assets includes guarantee, security by collateral, and pledge.

(b) Market risk

Market risk refers to risks that may cause a loss of on-balance sheet and off-balance sheet businesses for the Group due to the adverse movement of market prices, including interest rates, foreign exchange rates, stock prices and commodity prices. The Group has established a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and limit management.

Risk and Internal Control Committee of the Group is responsible for approving market risk management policies, establishing appropriate organisational structure and information systems to effectively identify, measure, monitor and control market risks, and ensuring adequate resources to reinforce the market risk management. The Risk Management Department is responsible for independently managing and controlling market risks of the Group, including developing market risk management policies and authorisation limits, providing independent report of market risk to identify, measure and monitor the Group's market risk. Business departments are responsible for the day-to-day management of market risks, including effectively identifying, measuring, controlling market risk factors associated with the relevant operations, so as to ensure the dynamic balance between business development and risk undertaking.

The Group uses sensitivity analysis, foreign exchange exposure and interest rate re-pricing gap analysis as the primary instruments to monitor market risk.

Interest rate risk and currency risk are the major market risks that the Group is exposed to.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk

The Group's interest rate exposures mainly arise from the mismatching of assets and liabilities' re-pricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its re-pricing risk and adjust the ratio of floating and fixed rate exposures, the loan re-pricing cycle, as well as optimise the term structure of its deposits accordingly.

The Group implements various methods, such as duration analysis, sensitivity analysis, stress testing and scenario simulation, to measure, manage and report the interest rate risk on a regular basis.

The following tables summarise the average interest rates, and the next re-pricing dates or contractual maturity date whichever is earlier for the assets and liabilities as at the end of each reporting date.

	31 December 2018						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.54%	538,708	17,047	521,661	—	—	—
Deposits with banks and non-bank financial institutions	2.22%	99,153	114	94,039	5,000	—	—
Placements with and loans to banks and non-bank financial institutions	3.38%	176,160	873	129,236	46,051	—	—
Financial assets held under resale agreements	2.59%	10,790	—	10,790	—	—	—
Loans and advances to customers (Note (ii))	4.86%	3,515,650	8,635	1,577,525	918,215	996,066	15,209
Financial investments							
— at fair value through profit or loss		308,872	225,164	28,057	26,624	20,915	8,112
— at amortised cost	4.71%	778,238	8,541	67,972	181,186	388,840	131,699
— at fair value through other comprehensive income	3.80%	510,346	8,529	42,830	73,607	288,337	97,043
— designated at fair value through other comprehensive income		2,707	2,707	—	—	—	—
Others		126,090	124,208	1,711	171	—	—
Total assets		6,066,714	395,818	2,473,821	1,250,854	1,694,158	252,063
Liabilities							
Borrowing from central banks	3.29%	286,430	—	68,350	218,080	—	—
Deposits from banks and non-bank financial institutions	3.54%	782,264	4,151	553,283	224,660	170	—
Placements from banks and non-bank financial institutions	3.49%	115,358	241	83,859	31,224	—	34
Financial liabilities at fair value through profit or loss		962	962	—	—	—	—
Financial assets sold under repurchase agreements	2.84%	120,315	35	110,790	9,490	—	—
Deposits from customers	1.88%	3,649,611	20,940	2,605,686	647,223	375,730	32
Debt securities issued	4.52%	552,483	4,155	98,144	247,974	95,260	106,950
Others		106,205	104,823	1,382	—	—	—
Total liabilities		5,613,628	135,307	3,521,494	1,378,651	471,160	107,016
Interest rate gap		453,086	260,511	(1,047,673)	(127,797)	1,222,998	145,047

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

	31 December 2017						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.56%	568,300	23,810	544,490	—	—	—
Deposits with banks and non-bank financial institutions	2.21%	124,350	—	120,240	4,110	—	—
Placements with and loans to banks and non-bank financial institutions	3.07%	172,069	—	87,328	84,741	—	—
Financial assets held under resale agreements	2.89%	54,626	—	54,626	—	—	—
Investments classified as receivables	4.25%	531,118	38,907	196,646	86,330	141,352	67,883
Loans and advances to customers (Note (ii))	4.61%	3,105,984	370	1,391,782	799,622	900,054	14,156
Investments (Note (iii))	3.28%	916,521	123,246	138,729	117,223	386,946	150,377
Others		204,723	178,407	9,383	16,933	—	—
Total assets		5,677,691	364,740	2,543,224	1,108,959	1,428,352	232,416
Liabilities							
Borrowing from central banks	3.13%	237,600	—	41,500	196,100	—	—
Deposits from banks and non-bank financial institutions	3.75%	798,007	2,812	623,409	171,781	5	—
Placements from banks and non-bank financial institutions	2.85%	77,595	—	39,440	38,123	—	32
Financial assets sold under repurchase agreements	2.91%	134,500	—	121,677	12,823	—	—
Deposits from customers	1.59%	3,407,636	14,605	2,647,574	503,511	241,939	7
Debt securities issued	4.17%	441,244	—	199,063	88,880	116,353	36,948
Others		168,676	163,769	2,393	2,514	—	—
Total liabilities		5,265,258	181,186	3,675,056	1,013,732	358,297	36,987
Interest rate gap		412,433	183,554	(1,131,832)	95,227	1,070,055	195,429

Notes:

(i) Average interest rate represented the ratio of interest income/expense to average interest bearing assets/liabilities during the year.

(ii) For loans and advances to customers, the "Less than three months" category included overdue amounts (net of allowance for impairment losses) of RMB42,289 million as at 31 December 2018 (as at 31 December 2017: RMB43,660 million).

(iii) Investments included the financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments in associates and joint ventures.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis as at 31 December 2018 and 31 December 2017.

	31 December 2018		31 December 2017	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(11,435)**	**(1,409)**	(6,328)	(1,229)
-100 basis points	**11,435**	**1,409**	6,328	1,229

This sensitivity analysis is based on a static interest rate risk profile of the Group's non-derivative assets and liabilities and certain assumptions as discussed below. The analysis measures only the impact of changes in interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within the three months bracket, and the after three months but within one year bracket are both reprice or mature at the beginning of the respective periods, (ii) it does not reflect the potential impact of unparalleled yield curve movements, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income and other comprehensive income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Currency risk

Currency risk arises from the potential change of exchange rates that cause a loss to the on-balance sheet and off-balance sheet business of the Group. The Group measures its currency risk with foreign currency exposures, and manages its currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currency, as well as using derivative financial instruments, mainly foreign exchange swaps, to manage its exposure.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The exposures at the reporting date were as follows:

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	525,321	12,668	535	184	538,708
Deposits with banks and non-bank financial institutions	64,670	23,757	2,429	8,297	99,153
Placements with and loans to banks and non-bank financial institutions	123,262	41,291	9,137	2,470	176,160
Financial assets held under resale agreements	9,832	958	—	—	10,790
Loans and advances to customers	3,263,386	122,573	109,773	19,918	3,515,650
Financial investments					
— at fair value through profit or loss	287,997	18,146	2,729	—	308,872
— at amortised cost	775,749	2,489	—	—	778,238
— at fair value through other comprehensive income	429,671	50,766	23,970	5,939	510,346
— designated at fair value through other comprehensive income	2,340	155	212	—	2,707
Others	121,762	1,858	515	1,955	126,090
Total assets	5,603,990	274,661	149,300	38,763	6,066,714
Liabilities					
Borrowings from central banks	286,430	—	—	—	286,430
Deposits from banks and non-bank financial institutions	777,789	2,582	131	1,762	782,264
Placements from banks and non-bank financial institutions	101,094	14,139	125	—	115,358
Financial liabilities at fair value through profit or loss	—	962	—	—	962
Financial assets sold under repurchase agreements	120,097	218	—	—	120,315
Deposits from customers	3,283,244	205,993	138,905	21,469	3,649,611
Debt securities issued	531,768	20,715	—	—	552,483
Others	93,020	3,626	7,625	1,934	106,205
Total liabilities	5,193,442	248,235	146,786	25,165	5,613,628
Net on-balance sheet position	410,548	26,426	2,514	13,598	453,086
Credit commitments	1,004,799	95,187	12,862	7,359	1,120,207
Derivatives (Note (i))	33,795	(38,861)	22,205	(14,261)	2,878

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	551,528	15,956	650	166	568,300
Deposits with banks and non-bank financial institutions	83,703	25,650	8,411	6,586	124,350
Placements with and loans to banks and non-bank financial institutions	133,686	28,356	6,703	3,324	172,069
Financial assets held under resale agreements	54,626	—	—	—	54,626
Investments classified as receivables	531,118	—	—	—	531,118
Loans and advances to customers	2,880,887	106,687	103,638	14,772	3,105,984
Investments	846,759	46,739	18,687	4,336	916,521
Others	199,761	1,904	1,618	1,440	204,723
Total assets	5,282,068	225,292	139,707	30,624	5,677,691
Liabilities					
Borrowings from central banks	237,600	—	—	—	237,600
Deposits from banks and non-bank financial institutions	769,690	15,103	349	12,865	798,007
Placements from banks and non-bank financial institutions	66,913	10,411	253	18	77,595
Financial assets sold under repurchase agreements	134,384	116	—	—	134,500
Deposits from customers	3,053,751	201,668	128,314	23,903	3,407,636
Debt securities issued	421,420	19,122	702	—	441,244
Others	159,456	1,966	3,381	3,873	168,676
Total liabilities	4,843,214	248,386	132,999	40,659	5,265,258
Net on-balance sheet position	438,854	(23,094)	6,708	(10,035)	412,433
Credit commitments	938,064	117,615	20,124	18,951	1,094,754
Derivatives (Note (i))	(20,790)	9,158	21,489	7,532	17,389

Note:

(i) Derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's profit or loss and other comprehensive income. The following table sets forth, as at 31 December 2018 and 31 December 2017, the results of the Group's foreign exchange rate sensitivity analysis.

	31 December 2018		31 December 2017	
	Profit before tax	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**582**	**(1)**	582	6
5% depreciation	**(582)**	**1**	(582)	(6)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain assumptions as follows: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 500 basis point fluctuation in the foreign currency exchange rates against RMB at the reporting date, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously and does not take into account the correlation effect of changes in different foreign currencies, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, foreign exchange derivative instruments, and; all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's profit and other comprehensive income resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis. Precious metal is included in foreign currency for the purpose of this sensitivity analysis.

(c) Liquidity risk

Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds. The Group's liquidity risk arises mainly from the mismatch of assets to liabilities and customers may concentrate their withdrawals.

The Group has implemented overall liquidity risk management on the entity level. The headquarters has the responsibility for developing the entire Group's liquidity risk policies, strategies, and implements centralised management of liquidity risk on the entity level. The domestic and foreign affiliates develop their own liquidity policies and procedures within the Group's liquidity strategy management framework, based on the requirements of relevant regulatory bodies.

The Group manages liquidity risk by setting various indicators and operational limits according to the overall position of the Group's assets and liabilities, with referencing to market condition. The Group holds assets with high liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The tools that the Group uses to measure and monitor liquidity risk mainly include:

— Liquidity gap analysis;

— Liquidity indicators (including but not limited to regulated and internal managed indicators, such as liquidity coverage ratio, net stable funding ratio, loan-to-deposit ratio, liquidity ratio, liquidity gap rate, excess reserves rate) monitoring;

— Scenario analysis;

— Stress testing.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

On this basis, the Group establishes regular reporting mechanisms for liquidity risk to report the latest situation of liquidity risk to the senior management on a timely basis.

Analysis of the remaining contractual maturity of assets and liabilities:

	31 December 2018						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Assets							
Cash and balances with central banks	134,917	–	1,288	–	–	402,503	538,708
Deposits with banks and non-bank financial institutions	65,701	28,245	5,207	–	–	–	99,153
Placements with and loans to banks and non-bank financial institutions	–	129,317	46,843	–	–	–	176,160
Financial assets held under resale agreements	–	10,790	–	–	–	–	10,790
Loans and advances to customers (Note (ii))	7,117	585,723	952,830	910,098	1,022,976	36,906	3,515,650
Financial investments							
— at fair value through profit or loss	–	30,418	43,589	29,476	8,115	197,274	308,872
— at amortised cost	–	68,375	182,641	394,010	132,878	334	778,238
— at fair value through other comprehensive income	31	39,437	75,556	295,308	99,920	94	510,346
— designated at fair value through other comprehensive income	–	–	–	–	–	2,707	2,707
Others	34,630	17,382	12,238	28,655	180	33,005	126,090
Total assets	242,396	909,687	1,320,192	1,657,547	1,264,069	672,823	6,066,714
Liabilities							
Borrowings from central banks	80	68,350	218,000	–	–	–	286,430
Deposits from banks and non-bank financial institutions	319,576	236,910	225,607	171	–	–	782,264
Placements from banks and non-bank financial institutions	–	84,099	31,225	–	34	–	115,358
Financial liabilities at fair value through profit or loss	962	–	–	–	–	–	962
Financial assets sold under repurchase agreements	–	110,823	9,492	–	–	–	120,315
Deposits from customers	1,880,088	746,341	647,718	375,432	32	–	3,649,611
Debt securities issued	–	98,205	247,992	97,354	108,932	–	552,483
Others	50,170	16,677	16,827	6,554	4,419	11,558	106,205
Total liabilities	2,250,876	1,361,405	1,396,861	479,511	113,417	11,558	5,613,628
(Short)/long position	(2,008,480)	(451,718)	(76,669)	1,178,036	1,150,652	661,265	453,086

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Analysis of the remaining contractual maturity of assets and liabilities: (Continued)

	31 December 2017						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note (i))	Total
Assets							
Cash and balances with central banks	96,481	3,523	1,923	—	—	466,373	568,300
Deposits with banks and non-bank financial institutions	69,392	50,819	4,139	—	—	—	124,350
Placements with and loans to banks and non-bank financial institutions	400	86,928	84,741	—	—	—	172,069
Financial assets held under resale agreements	—	54,626	—	—	—	—	54,626
Investments classified as receivables	504	196,142	91,944	174,645	67,883	—	531,118
Loans and advances to customers (Note (ii))	12,973	495,684	769,740	862,643	919,143	45,801	3,105,984
Investments (Note (iii))	1,114	96,202	124,076	417,814	155,248	122,067	916,521
Others	69,662	47,606	55,520	12,831	7,357	11,747	204,723
Total assets	250,526	1,031,530	1,132,083	1,467,933	1,149,631	645,988	5,677,691
Liabilities							
Borrowings from central banks	—	41,550	196,050	—	—	—	237,600
Deposits from banks and non-bank financial institutions	240,616	385,586	171,800	5	—	—	798,007
Placements from banks and non-bank financial institutions	—	39,440	38,123	—	32	—	77,595
Financial assets sold under repurchase agreements	—	121,677	12,823	—	—	—	134,500
Deposits from customers	1,982,218	670,433	513,039	241,939	7	—	3,407,636
Debt securities issued	—	199,063	88,880	116,353	36,948	—	441,244
Others	68,746	42,866	40,546	6,506	1,430	8,582	168,676
Total liabilities	2,291,580	1,500,615	1,061,261	364,803	38,417	8,582	5,265,258
(Short)/long position	(2,041,054)	(469,085)	70,822	1,103,130	1,111,214	637,406	412,433

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities.The amounts disclosed in the table are the contractual undiscounted cash flow:

	31 December 2018						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	134,721	1,621	6,608	–	–	402,503	545,453
Deposits with banks and non-bank financial institutions	67,502	29,625	5,326	–	–	–	102,453
Placements with and loans to banks and non-bank financial institutions	–	134,633	57,838	–	–	–	192,471
Financial assets held under resale agreements	–	10,795	–	–	–	–	10,795
Loans and advances to customers	8,797	620,238	1,042,464	1,197,180	1,536,250	40,738	4,445,667
Financial investments							
— at fair value through profit or loss	–	35,039	47,703	31,114	88,205	200,776	402,837
— at amortised cost	–	74,135	201,371	418,337	163,300	5,880	863,023
— at fair value through other comprehensive income	31	43,751	97,680	375,381	145,474	11,941	674,258
— designated at fair value through other comprehensive income	–	–	–	–	–	2,406	2,406
Others	34,630	17,381	12,239	28,655	180	33,275	126,360
Total assets	245,681	967,218	1,471,229	2,050,667	1,933,409	697,519	7,365,723
Liabilities							
Borrowings from central banks	80	64,769	226,130	–	–	–	290,979
Deposits from banks and non-bank financial institutions	573,392	662,179	485,918	31,575	–	–	1,753,064
Placements from banks and non-bank financial institutions	–	89,065	40,706	–	34	–	129,805
Financial liabilities at fair value through profit or loss	962	–	–	–	–	–	962
Financial assets sold under repurchase agreements	–	110,983	9,483	155	–	–	120,621
Deposits from customers	1,880,996	760,404	679,534	429,917	40	–	3,750,891
Debt securities issued	–	98,780	306,786	180,166	108,932	–	694,664
Others	50,171	16,677	16,827	6,554	4,419	11,558	106,206
Total liabilities	2,505,601	1,802,857	1,765,384	648,367	113,425	11,558	6,847,192
(Short)/long position	(2,259,920)	(835,639)	(294,155)	1,402,300	1,819,984	685,961	518,531
Derivative cash flow							
Derivative financial instrument settled on a net basis	–	(56)	44	128	23	–	139
Derivative financial instruments settled on a gross basis							
— cash inflow	–	1,194,286	1,244,844	48,220	–	–	2,487,350
— cash outflow	–	(802,726)	(1,243,629)	(48,151)	–	–	(2,094,506)

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow (Continued).

	31 December 2017						
	Repayable on demand	Within three months	Between Three months and one year	Between One and five years	More than five years	Undated (Note (i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	96,481	5,348	7,820	—	—	466,373	576,022
Deposits with banks and non-bank financial institutions	69,392	51,126	4,353	—	—	—	124,871
Placements with and loans to banks and non-bank financial institutions	400	87,275	88,704	—	—	—	176,379
Financial assets held under resale agreements	—	54,664	—	—	—	—	54,664
Investments classified as receivables	504	198,785	104,126	207,422	83,377	—	594,214
Loans and advances to customers	14,928	527,401	851,330	1,121,708	1,373,413	48,140	3,936,920
Investments	1,114	103,323	145,063	470,191	171,707	122,117	1,013,515
Others	69,662	47,606	55,520	12,831	7,357	11,747	204,723
Total assets	252,481	1,075,528	1,256,916	1,812,152	1,635,854	648,377	6,681,308
Liabilities							
Borrowings from central banks	—	42,083	203,230	—	—	—	245,313
Deposits from banks and non-bank financial institutions	240,617	391,400	178,750	6	—	—	810,773
Placements from banks and non-bank financial institutions	—	39,494	38,166	—	33	—	77,693
Financial assets sold under repurchase agreements	—	122,362	13,009	—	—	—	135,371
Deposits from customers	1,983,354	682,437	541,013	271,799	8	—	3,478,611
Debt securities issued	—	200,312	100,698	135,496	40,673	—	477,179
Others	68,746	43,151	40,277	6,491	1,430	8,582	168,677
Total liabilities	2,292,717	1,521,239	1,115,143	413,792	42,144	8,582	5,393,617
(Short)/long position	(2,040,236)	(445,711)	141,773	1,398,360	1,593,710	639,795	1,287,691
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	9	(85)	(295)	17	—	(354)
Derivative financial instruments settled on a gross basis							
— cash inflow	—	1,185,850	1,750,876	27,070	3	—	2,963,799
— cash outflow	—	(1,185,464)	(1,749,920)	(26,861)	—	—	(2,962,245)

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Credit Commitments include bank acceptances, credit card commitments, guarantees, loan commitment and letters of credit. The tables below summarise the amounts of credit commitments by remaining contractual maturity.

	31 December 2018			
	Less than 1 year	**1-5 years**	**Over 5 years**	**Total**
Bank acceptancess	**393,851**	**—**	**—**	**393,851**
Credit card commitments	**427,681**	**6,909**	**—**	**434,590**
Guarantees	**83,905**	**68,354**	**6,554**	**158,813**
Loan commitments	**7,033**	**15,578**	**17,418**	**40,029**
Letter of credit	**90,634**	**2,290**	**—**	**92,924**
Total	**1,003,104**	**93,131**	**23,972**	**1,120,207**

	31 December 2017			
	Less than 1 year	1-5 years	Over 5 years	Total
Bank acceptancess	427,490	71	—	427,561
Credit card commitments	310,315	—	—	310,315
Guarantees	113,575	81,171	1,000	195,746
Loan commitments	86,600	2,172	—	88,772
Letter of credit	18,718	24,784	28,858	72,360
Total	956,698	108,198	29,858	1,094,754

Notes:

(i) For cash and balances with central banks, the undated period amount represented statutory deposit reserve funds and fiscal deposits maintained with the PBOC. For placements with and loans to banks and non-bank financial institutions, loans and advances to customers and investments, the undated period amount represented the balances being impaired or overdue for more than one month. Equity investments were also reported under undated period.

(ii) The balances of loans and advances to customers which were overdue within one month but not impaired are included in repayable on demand.

(iii) Investments included the financial assets at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity investments. For investments, the remaining term to maturity did not represent the Group's intended holding period.

61 Financial risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, personnel, IT systems, or external events, including legal risk, but excluding strategy risk and reputational risk.

The Group manages operational risk through a control-based environment by establishing a sound mechanism of operational risk management in order to identify, assess, monitor, control, mitigate and report operational risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. Key controls include:

— by establishing a matrix authorisation management system of the whole group, carrying out the annual unified authorisation work, and strictly restricting the institutions and personnel at all levels to carry out business activities within the scope of authority granted, the management requirements of prohibiting the overstepping of authority to engage in business activities were further clarified at the institutional level;

— through consistent legal responsibility framework, taking strict disciplinary actions against non-compliance in order to ensure accountability;

— promoting operational risk management culture throughout the organisation; building a team of operational risk management professionals. Through formal training and performance appraisal system in raising risk management awareness;

— strengthening cash and account management in accordance with the relevant policies and procedures, intensifying the monitoring of suspicious transactions. Ensure the staff are well-equipped with the necessary knowledge and basic skills on anti-money laundering through continuous training;

— backup systems and disaster recovery plans covering all the major activities, especially backoffice operations in order to minimise any unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain disruptive events.

In addition to the above, the Group improves its operational risk management information systems on an ongoing basis to efficiently identify, evaluate, monitor, control and report its level of operational risk. The Group's management information system has the functionalities of recording and capturing lost data and events of operational risk to further support operational risk control and self-assessment, as well as monitoring of key risk indicators.

62 Capital Adequacy Ratio

Capital adequacy ratio reflects the Group's operational and risk management capability and it is the core of capital management. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testings and other measures to forecast, plan and manage capital adequacy ratio.

The Group's management monitors the Group's and the Bank's capital adequacy regularly based on regulations issued by the CBIRC. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly, respectively.

From 1 January 2013, the Group commenced the computation of its capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) and other relevant regulations promulgated by the CBIRC in the year of 2012. The requirements pursuant to these regulations may have certain differences comparing to those applicable in Hong Kong and other jurisdictions.

(Amounts in millions of Renminbi unless otherwise stated)

62 Capital Adequacy Ratio (Continued)

CBIRC demands that commercial banks shall meet the capital adequacy requirements set out in the "Capital Management Measures for Commercial Banks (Trial)" by the end of 2018. Systematically important banks are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%. Nonsystematically important bank are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 7.50%, 8.50% and 10.50%. In addition, overseas subsidiaries and branches are directly regulated by the respective local banking regulators and the requirements of capital adequacy ratios differ by country. During the year, the Group has complied in full with all its externally imposed capital requirements.

The capital adequacy ratios calculated in accordance with Regulation Governing Capital of Commercial Banks (Provisional). According to the requirements, for credit risk, the capital requirement was measured using the weighting method. The market risk was measured by adopting the standardised approach and the operational risk was measured by using the basic indicator approach.

Relevant requirements promulgated by the CBIRC are listed as below.

	31 December 2018	31 December 2017
Core Tier-One capital adequacy ratio	**8.62%**	8.49%
Tier-One capital adequacy ratio	**9.43%**	9.34%
Capital adequacy ratio	**12.47%**	11.65%
Components of capital base		
Core Tier-One capital:		
Share capital	**48,935**	48,935
Qualified portion of capital reserve	**58,977**	58,977
Other comprehensive income	**5,269**	(11,784)
Surplus reserve	**34,450**	31,183
General reserve	**74,255**	74,251
Retained earnings	**179,820**	163,121
Qualified portion of non-controlling interests	**4,422**	3,872
Total core Tier-One capital	**406,128**	368,555
Core Tier-One capital deductions:		
Goodwill (net of related deferred tax liability)	**(896)**	(849)
Other intangible assets other than land use right (net of related deferred tax liability)	**(1,878)**	(1,139)
Core Tier-One Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope	**—**	—
Net core Tier-One capital	**403,354**	366,567
Other Tier-One capital (Note (i))	**37,768**	36,811
Tier-One capital	**441,122**	403,378
Tier-Two capital:		
Qualified portion of Tier-Two capital instruments issued and share premium	**104,515**	60,842
Surplus allowance for loan impairment	**37,122**	37,255
Qualified portion of non-controlling interests	**634**	1,346
Net capital base	**583,393**	502,821
Total risk-weighted assets	**4,677,713**	4,317,502

Note:

(i) As at 31 December 2018, the Group's other Tier-One capital included preference shares issued by the Bank (Note 49) and non-controlling interests (Note 55).

63 Fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity instruments and debt instruments on exchanges and exchange-traded derivatives.

Level 2: inputs other than quoted prices included within Level 1 are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as level 2 are Renminbi bonds. The fair values of these bonds are determined based on the evaluation results provided by China Central Depository & Clearing Corporate Limited. This level also includes partial bills rediscounting and forfeiting in loans and advances, as well as a majority of over-the-counter derivative contracts. Foreign exchange forward and swaps, Interest rate swap, and foreign exchange options use discount cash flow evaluation method and the evaluation model of which includes Forward Pricing Model, Swap Model and Option Pricing Model. Bills rediscounting and forfeiting use discount cash flow evaluation method to estimate fair value. Input parameters are sourced from the Open market such as Bloomberg and Reuters.

Level 3: inputs for assets or liabilities are based on unobservable parameters. This level includes equity investments and debt instruments with one or more than one significant unobservable parameters. Management determine the fair value through inquiring from counterparties or using the valuation techniques. The model incorporate unobservable parameters such as discount rate and market price volatilities.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Market Department, the Financial Institution Department, and the Investment Bank Department are responsible for the fair valuation of financial assets and financial liabilities. The Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items according to the result generated from the valuation process and accounting policies. The Finance and Accounting Department prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the year ended 31 December 2018, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value

Financial assets and liabilities not carried at fair value of the Group include cash and balances with central banks, deposits with banks and non-bank financial institutions, placements with and loans to banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers at amortised cost, financial investments at amortised cost, held-to-maturity investments, investments classified as receivables, borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Except for the items shown in the tables below, the maturity dates of aforesaid financial assets and liabilities are within a year or are mainly floating interest rates, as a result, their carrying amounts are approximately equal to their fair value.

	Carrying values		**Fair values**	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Financial assets:				
Financial investment				
— at amortised cost	**778,238**	—	**778,779**	—
Held-to-maturity investments	**—**	216,586	**—**	212,530
Investments classified as receivables	**—**	531,118	**—**	533,669
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**2,813**	2,849	**2,752**	2,849
— debt securities issued	**82,091**	94,571	**80,625**	94,131
— subordinated bonds issued	**126,269**	73,728	**126,041**	76,246
— certificates of interbank deposit issued	**341,310**	270,096	**335,475**	265,071

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value (Continued)

Fair value of financial assets and liabilities above at fair value hierarchy is as follows:

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial investment				
— at amortised cost	**2,109**	**501,890**	**274,780**	**778,779**
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	**2,752**	—	**2,752**
— debt securities issued	—	**80,625**	—	**80,625**
— subordinated bonds issued	**5,642**	**120,399**	—	**126,041**
— certificates of interbank deposit issued	—	**335,475**	—	**335,475**

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-to-maturity investments	897	211,633	—	212,530
Investments classified as receivables	—	92,967	440,702	533,669
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	2,849	—	2,849
— debt securities issued	—	94,131	—	94,131
— subordinated bonds issued	5,531	70,715	—	76,246
— certificates of interbank deposit issued	—	265,071	—	265,071

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2018				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	137	—	137
— discounted bills	—	96,383	—	96,383
Financial investments at fair value through profit or loss				
— debt securities	2,815	62,319	6,786	71,920
— investment funds	4,879	178,451	5,846	189,176
— certificates of deposit	—	16,713	—	16,713
— wealth management products	—	—	116	116
— equity instruments	540	—	3,921	4,461
— trust investment plans	—	—	26,486	26,486
Financial investments at fair value through other comprehensive income				
— debt securities	64,506	421,783	4,726	491,015
— certificates of deposit	662	11,982	—	12,644
Financial investments designated at fair value through other comprehensive income				
— equity instruments	295	—	2,412	2,707
Derivative financial assets				
— interest rate derivatives	8	6,098	—	6,106
— currency derivatives	—	24,825	1	24,826
— precious metals derivatives	—	1,048	—	1,048
— credit derivatives	—	11	—	11
Total financial assets measured at fair value	73,705	819,750	50,294	943,749
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	962	—	—	962
Derivative financial liabilities				
— interest rate derivatives	12	5,962	—	5,974
— currency derivatives	—	24,500	1	24,501
— precious metals derivatives	—	1,170	—	1,170
— commodity derivatives	—	1	—	1
Total financial liabilities measured at fair value	974	31,633	1	32,608

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2017				
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
Held for trading financial assets				
— debt securities	3,480	35,248	—	38,728
— investment funds	—	2,000	1	2,001
— certificates of interbank deposit	177	19,223	—	19,400
Financial assets designed at fair value through profit or loss				
— debt securities	198	5,577	—	5,775
Derivative financial assets				
— interest rate derivatives	—	2,552	1	2,553
— currency derivatives	—	62,030	—	62,030
— precious metals derivatives	—	868	—	868
Available-for-sale financial assets				
— debt securities	48,906	420,925	12	469,843
— investment funds	189	119,259	70	119,518
— certificates of deposit	104	40,843	—	40,947
— wealth management products	—	26	—	26
— equity investments	744	—	—	744
Total financial assets measured at fair value	53,798	708,551	84	762,433
Liabilities				
Derivative financial liabilities				
— interest rate derivatives	—	2,311	1	2,312
— currency derivatives	—	62,368	—	62,368
— precious metals derivatives	—	257	—	257
Total financial liabilities measured at fair value	—	64,936	1	64,937

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

Notes:

(i) During the current year, there were no significant transfers amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 fair value hierarchy:

	Assets					Liabilities	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets designated at fair value through other comprehensive income	Derivative financial assets	Total	Derivative financial liabilities	Total
As at 1 January 2018	45,535	4,850	237	1	50,623	(1)	(1)
Total gains or losses							
— in profit or loss	194	(40)	—	1	155	(1)	(1)
— in comprehensive income	—	102	(9)	—	93	—	—
Purchase	8,549	1,700	2,185	—	12,434	—	—
Settlements	(11,105)	(1,926)	—	(1)	(13,032)	1	1
Transfer in/out	—	39	—	—	39	—	—
Exchange effect	(18)	1	(1)	—	(18)	—	—
As at 31 December 2018	43,155	4,726	2,412	1	50,294	(1)	(1)

	Assets							Liabilities	
				Available-for-sale financial assets					
	Trading financial assets Investment funds	Financial assets designed at fair value through profit or loss Debt securities	Derivative financial assets Interest rate derivatives	Debt securities	Investment funds	Equity instruments	Total	Derivative financial liabilities Interest rate derivatives	Total
As at 1 January 2017	1	—	2	13	83	—	99	(2)	(2)
Total gains or losses									
— in profit or loss	—	—	—	—	—	—	—	—	—
Purchase	—	—	—	—	—	—	—	—	—
Settlements	—	—	(1)	—	(8)	—	(9)	1	1
Exchange effect	—	—	—	(1)	(5)	—	(6)	—	—
As at 31 December 2017	1	—	1	12	70	—	84	(1)	(1)

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties

(a) Relationship of related parties

(i) The Group is controlled by CITIC Corporation Limited (incorporated in mainland China), which owns 65.37% of the Bank's shares. The ultimate parent of the Group is CITIC Group (incorporated in mainland China).

(ii) Related parties of the Group include subsidiaries, joint ventures and associates of CITIC Corporation Limited and CITIC Group. The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business. These transactions are eliminated on consolidation.

The Bank issued 2,147,469,539 shares to CNTC through private placement on 31 December 2015, representing 4.39% shares of the Bank. A non-executive director designated by CNTC was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 24 June 2016. CNTC is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

In February 2015, Xinhu Zhongbao Co., Ltd. acquired 2,292,579,000 H shares of the Bank through its wholly owned subsidiary, representing 4.68% shares of the Bank. A non-executive director designated by Xinhu Zhongbao Co., Ltd. was appointed on 17 March 2016, and the appointment was approved by the CBRC on 16 November 2016. Xinhu Zhongbao Co., Ltd. is thereafter regarded as the Group's related party, as it has significant influence upon the Bank. On 29 November 2016, Xinhu Zhongbao Co., Ltd., increased its shareholding to 2,320,177,000 H shares of the Bank through its wholly owned subsidiary, representing 4.74% shares of the Bank. In October 2017, Xinhu Zhongbao Co., Ltd. increased its shareholding to 2,446,265,000 H shares of the Bank through its wholly owned subsidiary, representing 4.999% shares of the Bank.

Poly Group acquired 27,216,400 A shares of the Bank through the secondary market, representing 0.06% shares of the Bank. A non-executive director designated by Poly Group was appointed and sent to the bank on 25 May 2018. Poly Group is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

(b) Related party transactions

During the relevant years, the Group entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of public placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

In addition, transactions during the relevant year and the corresponding balances outstanding at the reporting dates are as follows:

	Year ended 31 December 2018		
	Ultimate holding company and affiliates	**Other major equity holders Note (i)**	**Associates and joint ventures**
Profit and loss			
Interest income	**244**	**4**	**63**
Fee and commission income and other operating income	**1,240**	**2**	**—**
Interest expense	**(445)**	**(869)**	**(17)**
Net trading loss	**(32)**	**—**	**—**
Other service fees	**(1,398)**	**—**	**—**

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(b) Related party transactions (Continued)

	Year ended 31 December 2017		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint venturess
Profit and loss			
Interest income	337	46	—
Fee and commission income and other operating income	1,573	—	8
Interest expense	(597)	(407)	(21)
Net trading gain	9	—	11
Other service fees	(940)	—	—

	31 December 2018		
	Ultimate holding company and affiliates	**Other major equity holders Note (i)**	**Associates and joint ventures**
Assets			
Gross loans and advances to customers	**10,645**	**14,363**	—
Less: allowance for impairment losses on loans and advances	**(258)**	**(417)**	—
Loans and advances to customers (net)	**10,387**	**13,946**	—
Deposits with banks and non-bank financial institutions	—	—	**5,364**
Investment in financial assets			
— at fair value through profit or loss	**310**	—	—
— at amortised cost	**4,258**	**4,318**	—
Placements with and loans to banks and non-bank financial institutions	**1,547**	—	—
Derivative financial assets	**60**	—	—
Investments in associates and joint ventures	—	—	**3,881**
Other assets	**10,941**	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	**25,710**	**178**	**1,201**
Derivative financial liabilities	**24**	—	—
Deposits from customers	**37,496**	**41,756**	**17**
Placements from banks and non-bank financial institutions	**2,503**	—	—
Other liabilities	**1,222**	—	—
Off-balance sheet items			
Guarantees and letters of credit	**1,828**	**452**	—
Acceptances	**72**	—	—
Entrusted funds	**45,729**	**6,641**	—
Entrusted loans	**18,514**	**12,540**	—
Funds raised from investors of non-principle guaranteed wealth management products	**707**	—	—
Guarantees received	**52,986**	**9,638**	—
Nominal amount of derivatives	**7,950**	—	—

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(b) Related party transactions (Continued)

	31 December 2017		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint ventures
Assets			
Gross loans and advances to customers	16,556	875	—
Less: collectively assessed allowance for impairment losses	(172)	(12)	—
Loans and advances to customers (net)	16,384	863	—
Deposits with banks and non-bank financial institutions	—	—	7,000
Placements with and loans to banks and non-bank financial institutions	418	—	—
Derivative financial assets	14	—	—
Interest receivables	123	1	—
Available for sale financial asset	390	—	—
Investment in associates and joint ventures	—	—	2,341
Other assets	10,104	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	16,205	178	266
Placements from banks and non-bank financial institutions	2,800	—	—
Derivative financial liabilities	6	—	—
Deposits from customers	69,094	17,362	75
Interest payable	107	21	1
Other liabilities	72	—	—
Off-balance sheet items			
Guarantees and letters of credit	1,979	13	—
Bank acceptances	618	190	—
Entrusted funds	7,695	1,500	—
Entrusted loan	2,130	6,446	—
Funds raised from investors of non-principle guaranteed wealth management products	496	—	450
Guarantees received	7,793	867	—
Nominal amount of derivatives	1,710	—	—

Note:

(i) Other major equity holders include CNTC, Xinhu Zhongbao Co., Ltd. and Poly Group.

The amounts disclosed represented those transactions or balances when they were considered as related parties of the Group during the relevant periods. The transactions between the subsidiaries of CNTC/Poly Group and the Group are not significant in 2018.

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(c) Key management personnel and their close family members and related companies

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

The Group entered into banking transactions with key management personnel and their close family members and those companies controlled or jointly controlled by them in the normal course of business. Other than those disclosed below, there was no material transactions and balances between the Group and these individuals, their close family members or those companies controlled or jointly controlled by them.

The aggregate amount of relevant loans outstanding as at 31 December 2018 to directors, supervisors and executive officers amounted to RMB0.40 million (as at 31 December 2017: RMB3.37 million).

The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Salaries and other emoluments	**11,751**	13,495
Discretionary bonuses	**24,141**	20,134
Retirement schemes contributions	**2,693**	2,860
Toal	**38,585**	36,489

(d) Supplementary defined contribution plan

The Group has established a supplementary defined contribution plan for its qualified employees which is administered by CITIC Group (Note 42(b)).

(e) Transactions with state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as "state-owned entities").

Transactions with state-owned entities, including CNTC's indirect subsidiaries and Poly Group's indirect subsidiaries, include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— derivative transactions;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. The Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

(Amounts in millions of Renminbi unless otherwise stated)

65 Structured entities

(a) Unconsolidated structured entities sponsored and managed by third parties

The Group invests in unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2018 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the consolidated statement of financial position under which relevant assets are recognised:

	31 December 2018 Carrying amount				
	Financial investments at fair value through profit or loss	**Financial investments at amortised cost**	**Financial investments at fair value through other Comprehensive income**	**Total**	**Maximum loss exposure**
Wealth management product of other banks	**116**	**—**	**—**	**116**	**116**
Investment management products managed by securities companies	**—**	**228,502**	**—**	**228,502**	**228,502**
Turst management plans	**26,486**	**151,582**	**—**	**178,068**	**178,068**
Asset-backed securities	**1,289**	**39,846**	**61,994**	**103,129**	**103,129**
Investment funds	**189,176**	**—**	**—**	**189,176**	**189,176**
Total	**217,067**	**419,930**	**61,994**	**698,991**	**698,991**

	31 December 2017 Carrying amount					
	Financial asset at fair value through profit or loss	Held-to-maturity investments	Available for sale financial assets	Investments classified as receviables	Total	Maximum loss exposure
Wealth management products issued by banks	—	—	26	139,020	139,046	139,046
Investment management products managed by securities companies	—	—	—	268,247	268,247	268,247
Trust investment plans	—	—	—	126,794	126,794	126,794
Asset-backed securities	—	34,234	16,877	—	51,111	51,111
Investment funds	2,001	—	119,518	—	121,519	121,519
Total	2,001	34,234	136,421	534,061	706,717	706,717

The maximum exposures to risk in the above wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities managed by securities companies and trust investment funds are the carrying value of the assets held by the Group at the reporting date. The maximum exposures to risk in the asset-backed securities are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items under which these assets are presented in the consolidated statement of financial position.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

65 Structured entities (Continued)

(b) Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products. The wealth management products invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these wealth management products, the Group invests, on behalf of its customers, in assets as described in the investment plan related to each wealth management product and receives fee and commission income.

As at 31 December 2018, the total assets invested by these outstanding non-principal guaranteed wealth management products issued by the Group amounted to RMB1,058,907 million (31 December 2017: RMB1,132,676 million).

During the year ended 31 December 2018, the Group's interest in these wealth management products included fee and commission income of RMB2,628 million (2017: RMB5,536 million); interest income of RMB2,271 million (2017: RMB2,258 million) and interest expense of RMB620 million (2017: RMB1,613 million).

As at 31 December 2018, the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group amounted to RMB63,500 million (31 December 2017: RMB70,488 million), while the placements from these wealth management products to the Group amounted to RMB44,605 million (31 December 2017: RMB25,901 million). During the year ended 31 December 2018, the amount of maximum exposure of the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group was RMB68,144 million (31 December 2017: RMB72,372 million), and the amount of maximum exposure of the placements from these wealth management products to the Group was RMB13,435 million (31 December 2017: RMB44,233 million). These transactions were conducted under normal business terms and conditions.

As at 31 December 2018, assets of these wealth management products amounting to RMB198,892 million (31 December 2017: RMB202,167 million) were invested in investments in which certain subsidiaries and associates of the CITIC Group acted as trustees.

(c) Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items in accordance with the Group's accounting policies based on the nature of the assets and liabilities.

66 Transfers of financial assets

The Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements.

These transactions were entered into in the normal course of business by which recognised financial assets were transferred to third parties or structured entities. Transfers of assets may give rise to full or partial de-recognition of the financial assets concerned. On the other hand, where transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Details of the financial assets sold under repurchase agreements are set forth in Note 40. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the year ended 31 December 2018 totally RMB227,518 million (year ended 31 December 2017: RMB175,601 million) are set forth below.

65 Structured entities (Continued)

Securitisation transactions and structured transfers on assets usufruct

The Group enters into securitisation transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognise the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 4(c) and Note 5.

During the year ended 31 December 2018, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of RMB192,665 million (year ended 31 December 2017: 127,271million). RMB7,197 million of this balance (year ended 31 December 2017: RMB865 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. The Group also recognised other assets and other liabilities of RMB897 million (year ended 31 December 2017: RMB79 million) arising from such continuing involvement. The remaining balance of the loans transferred were qualified for full de-recognition.

Loan transfers

During the year ended 31 December 2018, the Group also through other types of transactions transferred loans of book value before impairment of RMB34,853 million (during the year of 2017: RMB48,330 million), of which RMB34,853 million represented non-performing loans (during the year of 2017: RMB38,733 million). The Group carried out assessment based on the criteria as detailed in Note 4(c) and Note 5(iv) and concluded that these transferred assets qualified for full de-recognition.

67 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

68 Statements of financial position and changes in equity of the Bank

Statement of financial position

	31 December 2018	31 December 2017
Assets		
Cash and balances with central banks	**533,393**	564,105
Deposits with banks and non-bank financial institutions	**78,758**	102,139
Precious metals	**4,988**	3,348
Placements with and loans to banks and non-bank financial institutions	**144,364**	149,511
Financial assets at fair value through profit or loss	—	59,976
Derivative financial assets	**26,571**	61,795
Financial assets held under resale agreements	**10,790**	54,626
Interest receivables	—	31,674
Loans and advances to customers	**3,285,963**	2,886,685
Financial investments		
— at fair value through profit or loss	**293,542**	—
— at amortised cost	**777,883**	—
— at fair value through other comprehensive income	**449,350**	—
— designated at fair value through other comprehensive income	**2,242**	—
Available-for-sale financial assets	—	579,623
Held-to-maturity investments	—	216,586
Investments classified as receivables	—	531,118
Investments in subsidiaries and joint ventures	**25,008**	23,445
Property, plant and equipment	**20,956**	20,594
Intangible assets	**1,301**	1,135
Deferred tax assets	**22,458**	21,605
Other assets	**33,108**	51,249
Total assets	**5,710,675**	5,359,214
Liabilities		
Borrowings from central banks	**286,350**	237,500
Deposits from banks and non-bank financial institutions	**782,768**	799,259
Placements from banks and non-bank financial institutions	**71,482**	34,088
Financial liabilities at fair value through profit or loss	**962**	—
Derivative financial liabilities	**25,784**	61,236
Financial assets sold under repurchase agreements	**120,095**	134,384
Deposits from customers	**3,397,318**	3,181,070
Accrued staff costs	**9,508**	8,024
Taxes payable	**4,086**	8,153
Interest payable	—	38,395
Provisions	**4,944**	796
Debt securities issued	**541,053**	430,176
Other liabilities	**44,800**	38,131
Total liabilities	**5,289,150**	4,971,212
Equity		
Share capital	**48,935**	48,935
Preference shares	**34,955**	34,955
Capital reserve	**61,359**	61,359
Other comprehensive income	**5,167**	(9,782)
Surplus reserve	**34,450**	31,183
General reserve	**73,370**	73,370
Retained earnings	**163,289**	147,982
Total equity	**421,525**	388,002
Total liabilities and equity	**5,710,675**	5,359,214

(Amounts in millions of Renminbi unless otherwise stated)

68 Statements of financial position and changes in equity of the Bank (Continued)

Statement of changes in equity

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2017	48,935	34,955	61,359	(9,782)	31,183	73,370	147,982	388,002
Changes in accounting policy	—	—	—	4,478	(939)	—	(8,442)	(4,903)
As at 1 January 2018	48,935	34,955	61,359	(5,304)	30,244	73,370	139,540	383,099
(i) Net profit	—	—	—	—	—	—	42,057	42,057
(ii) Other comprehensive income	—	—	—	10,471	—	—	—	10,471
Total comprehensive income	—	—	—	10,471	—	—	42,057	52,528
(iii) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	4,206	—	(4,206)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(12,772)	(12,772)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2018	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2017	48,935	34,955	61,359	(1,737)	27,263	73,370	124,557	368,702
(i) Net profit	—	—	—	—	—	—	39,196	39,196
(ii) Other comprehensive income	—	—	—	(8,045)	—	—	—	(8,045)
Total comprehensive income	—	—	—	(8,045)	—	—	39,196	31,151
(iii) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	3,920	—	(3,920)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(10,521)	(10,521)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2017	48,935	34,955	61,359	(9,782)	31,183	73,370	147,982	388,002

(Amounts in millions of Renminbi unless otherwise stated)

69 Benefits and interests of directors and supervisors

(a) Directors and supervisors' emoluments

The remuneration of the Bank's director and supervisor is set out below:

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of services as director or supervisor of the Group								
Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Allowances and benefits in kind (note (vii)) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director and supervisor RMB'000	Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group RMB'000	Total RMB'000
Executive directors									
Li Qingping Note (i)	–	–	–	–	–	–	–	–	–
Fang Heying	–	600	652	–	132	184	–	–	1,568
Non-executive directors									
Cao Guoqiang Note (i)(iv)	–	233	229	–	104	63	–	–	629
Huang Fang Note (i)	–	–	–	–	–	–	–	–	–
Wan Liming Note (i)	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Ying Liji	82	–	–	–	–	–	–	–	82
Supervisors									
Liu Cheng	–	467	451	–	47	99	–	–	1,064
Deng Changqing Note (i)	–	–	–	–	–	–	–	–	–
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Deng Wei	300	–	–	–	–	–	–	–	300
Cheng Pusheng	–	360	2,373	–	164	178	–	–	3,075
Chen Panwu	–	440	2,327	–	179	184	–	–	3,130
Zeng Yufang	–	330	2,457	–	117	329	–	–	3,233
Former Directors and Supervisors resigned in 2018									
Chang Zhenming Note (ii)	–	–	–	–	–	–	–	–	–
Shu Yang Note (iii)	225	–	–	–	–	–	–	–	–
Wu Xiaoqing Note (v)	225	–	–	–	–	–	–	–	225
Wang Lianzhang Note (v)	–	–	–	–	–	–	–	–	225
Zhu Gaoming Note (v)	–	–	–	–	–	–	–	–	–
Sun Desheng	–	900	1,124	–	222	209	–	–	2,455

(Amounts in millions of Renminbi unless otherwise stated)

69 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

For the year ended 31 December 2017

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Allowances and benefits in kind (note (vii))	Employer's contribution to retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director and supervisor	Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group	Total
	Emoluments paid or receivable in respect of services as director or supervisor of the Group								
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Li Qingping Note (i)	–	–	–	–	–	–	–	–	–
Sun Deshun	–	900	1,112	–	351	233	–	–	2,596
Non-executive directors									
Zhu Gaoming	–	–	–	–	–	–	–	–	–
Huang Fang	–	–	–	–	–	–	–	–	–
Wan Liming	–	–	–	–	–	–	–	–	–
Chang Zhenming	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
Wu Xiaoqing	300	–	–	–	–	–	–	–	300
Wong Luen Cheung Andrew	300	–	–	–	–	–	–	–	300
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Supervisors									
Cao Guoqiang	–	700	658	–	297	219	–	–	1,874
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Zheng Wei	300	–	–	–	–	–	–	–	300
Cheng Pusheng	–	340	2,418	–	261	202	–	–	3,221
Chen Panwu	–	430	2,191	–	281	211	–	–	3,113
Zeng Yufang	–	320	2,344	–	94	340	–	–	3,098
Shu Yang	–	–	–	–	–	–	–	–	–
Former Directors and Supervisors resigned in 2017									
Zhu Xiaohuang Note (vii)	–	–	–	–	–	–	–	–	–
Wen Shuping Note (viii)	–	145	806	–	24	47	–	–	1,022
Ma Haiqing Note (viii)	–	70	539	–	85	68	–	–	762

69 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

Notes:

(i) Mrs. Li Qingping, Mr. Cao Guoqiang, Mrs. Huang Fang, Mr.Wan Liming, and Mr. Deng Changqing did not receive any eTwo of the four directors are delegated by CITIC Limited and CITIC Group ("parent compaies"). Their emoluments were paid by the group. The other two directors and the supervisor are delegated respectively by Xinhu Zhongbao Co., Ltd, CNTC and Poly Group and provide service to both the parent company and the bank. Their emolument allocation are not disclosed due to the difficulty to differentiate the services provided by the four directors and the supervisor.

(ii) Mr. Chang Zhenmig resigned in January, 2018.

(iii) Mr. Shu Yang resigned in Feburary, 2018.

(iv) Mr.Cao Guoqiang resigned in March, 2018.

(v) Mrs. Wu Xiaoqing, Mr. Wang Lianzhang, and Mr. Zhu Gaoming resigned in September, 2018.

(vi) Mr. Sun Deshun resigned in Feburary, 2018.

(vii) Mr. Zhu Xiaohuang resigned in March, 2017.

(viii) Mrs Wen Shuping and Mr. Ma Haiqing resigned in September, 2017.

(b) Other benefits and interests

No direct or indirect retirement benefits and termination benefits were paid to directors as at 31 December 2018 (as at December 2017: Nil).

For the year ended 31 December 2018 and 31 December 2017, the balance of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors was not significant.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 2018 (2017: Nil).

70 Events after the reporting period

(a) On 4 March 2019, the Bank issued a total of 400,000,000 A share convertible corporate bonds ("A Share Convertible Bonds"), with a nominal value of RMB100 each and an aggregate value amounting to RMB40 billion. The A Share Convertible Bonds was issued at nominal value and the initial conversion price shall be RMB7.45 per share. The A Share Convertible Bonds have a term of six years from the date of the issuance, which commences from 4 March 2019 and ends on 3 March 2025.

(b) On 26 March 2019, a public issuance of perpetual capital securities with no more than RMB40 billion or equivalent foreign currency in China and foreign markets is approved by the Board of Directors. As at the report date, the relevant issuance is subject to the approval from regulators.

(Amounts in millions of Renminbi unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

1 Difference between the financial report prepared under IFRSs and that prepared in accordance with PRC GAAP

China CITIC Bank Corporation (the "Bank") prepares consolidated financial statements for the year ended at 31 December 2018, which includes the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC") and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the year ended 31 December 2018 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the regulatory bodies of the PRC (collectively "PRC GAAP").

There is no difference in the profit for the year ended 31 December 2018 or total equity as at 31 December 2018 between the Group's consolidated financial statements prepared in accordance with IFRSs and those prepared in accordance with PRC GAAP respectively.

2 Liquidity coverage ratio

	31 December 2018	31 December 2017
Liquidity coverage ratio	**114.33%**	97.98%

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk management of Commercial Banks (Provisional) issued by the CBIRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

3 Currency concentrations

	31 December 2018			
	US Dollars	**HK Dollars**	**Others**	**Total**
Spot assets	**291,086**	**143,406**	**33,019**	**467,511**
Spot liabilities	**276,119**	**147,045**	**(4,303)**	**418,861**
Forward purchases	**1,240,838**	**194,757**	**53,275**	**1,488,870**
Forward sales	**(1,256,218)**	**(172,554)**	**(67,729)**	**(1,496,501)**
Options	**(23,481)**	**2**	**193**	**(23,286)**
Net long position	**528,344**	**312,656**	**14,455**	**855,455**

	31 December 2017			
	US Dollars	HK Dollars	Others	Total
Spot assets	225,292	139,707	30,624	395,623
Spot liabilities	(248,386)	(132,999)	(40,659)	(422,044)
Forward purchases	1,630,824	116,379	49,774	1,796,977
Forward sales	(1,621,525)	(94,772)	(40,212)	(1,756,509)
Options	(141)	(118)	(2,030)	(2,289)
Net long position	(13,936)	28,197	(2,503)	11,758

(Amounts in millions of Renminbi unless otherwise stated)

4 International claims

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and non-bank financial institutions, placements with and loans to banks and non-bank financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, financial investments, etc.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	31 December 2018			
	Banks	**Official sector**	**Non-bank private sector**	**Total**
Asia Pacific excluding Mainland China	**25,970**	**314**	**63,854**	**90,138**
— of which attributed to Hong Kong	**16,335**	**307**	**56,098**	**72,740**
Europe	**6,025**	**3**	**12,350**	**18,378**
North and South America	**25,623**	**41,616**	**65,373**	**132,612**
Africa	**186**	**—**	**—**	**186**
Total	**57,804**	**41,933**	**141,577**	**241,314**

	31 December 2017			
	Banks	Official sector	Non-bank private sector	Total
Asia Pacific excluding Mainland China	33,040	418	56,421	89,879
— of which attributed to Hong Kong	25,305	411	49,538	75,254
Europe	1,817	1	7,115	8,933
North and South America	20,570	47,179	50,786	118,535
Africa	—	—	—	—
Total	55,427	47,598	114,322	217,347

(Amounts in millions of Renminbi unless otherwise stated)

5 Overdue loans and advances to customers by geographical sectors

	31 December 2018		
	Gross loans and advances	**Loans and advances overdue over 3 months**	**Credit impaired loans**
Bohai Rim (including Head Office)	**1,123,293**	**23,325**	**25,738**
Yangtze River Delta	**784,722**	**8,582**	**9,193**
Pearl River Delta and West Strait	**549,491**	**7,506**	**7,729**
Central	**463,100**	**7,994**	**8,565**
Western	**433,143**	**6,475**	**7,638**
Northeastern	**75,682**	**4,903**	**5,083**
Outside Mainland China	**178,981**	**384**	**1,470**
Accrued interest	**8,338**	**—**	**—**
Total	**3,616,750**	**59,169**	**65,416**

	31 December 2017		
	Gross loans and advances	Loans and advances overdue over 3 months	Impaired loans
Bohai Rim (including Head Office)	967,864	15,861	15,225
Yangtze River Delta	691,183	10,949	9,672
Pearl River Delta and West Strait	493,118	6,796	6,029
Central	421,810	10,669	10,705
Western	389,152	9,566	7,809
Northeastern	67,609	3,340	2,271
Outside Mainland China	166,151	1,501	1,937
Total	3,196,887	58,682	53,648

6 Gross overdue amounts due from banks and other financial institutions and overdue loans and advances to customers

(a) Gross overdue amounts due from banks and other financial institutions

	31 December 2018	31 December 2017
Gross amounts due from banks and other financial institutions which have been overdue	**1**	1
As a percentage of total gross amounts due from banks and other financial institutions	**0.00036%**	0.00058%

(Amounts in millions of Renminbi unless otherwise stated)

6 Gross overdue amounts due from banks and other financial institutions and overdue loans and advances to customers (Continued)

(b) Gross amounts of overdue loans and advances to customers

	31 December 2018	31 December 2017
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**13,181**	13,207
— between 6 and 12 months	**20,011**	19,976
— over 12 months	**25,977**	25,499
Total	**59,169**	58,682
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	**0.37%**	0.41%
— between 6 and 12 months	**0.55%**	0.62%
— over 12 months	**0.72%**	0.80%
Total	**1.64%**	1.83%

— The above analysis represents loans and advances overdue for more than 3 months as required by the Hong Kong Monetary Authority.

— Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

— Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances are repayable on demand which are outside the approved limit that was advised to the borrower, they are also considered as overdue.

— As at 31 December 2018, the loans and advances to customers of RMB46,908 million of the above overdue loans and advances were credit-impaired. (As at 31 December 2017, loans and advances to customers of RMB37,685 million were subjected to individual assessment for impairment)

Loans and advances to customers overdue for more than 3 months:

	31 December 2018	31 December 2017
Secured portion	**31,690**	21,147
Unsecured portion	**15,218**	16,538
Total	**46,908**	37,685
Allowance for impairment losses	**(28,026)**	(26,477)
Net balance	**18,882**	11,208
Maximum exposure covered by pledge and collateral held	**29,187**	19,197

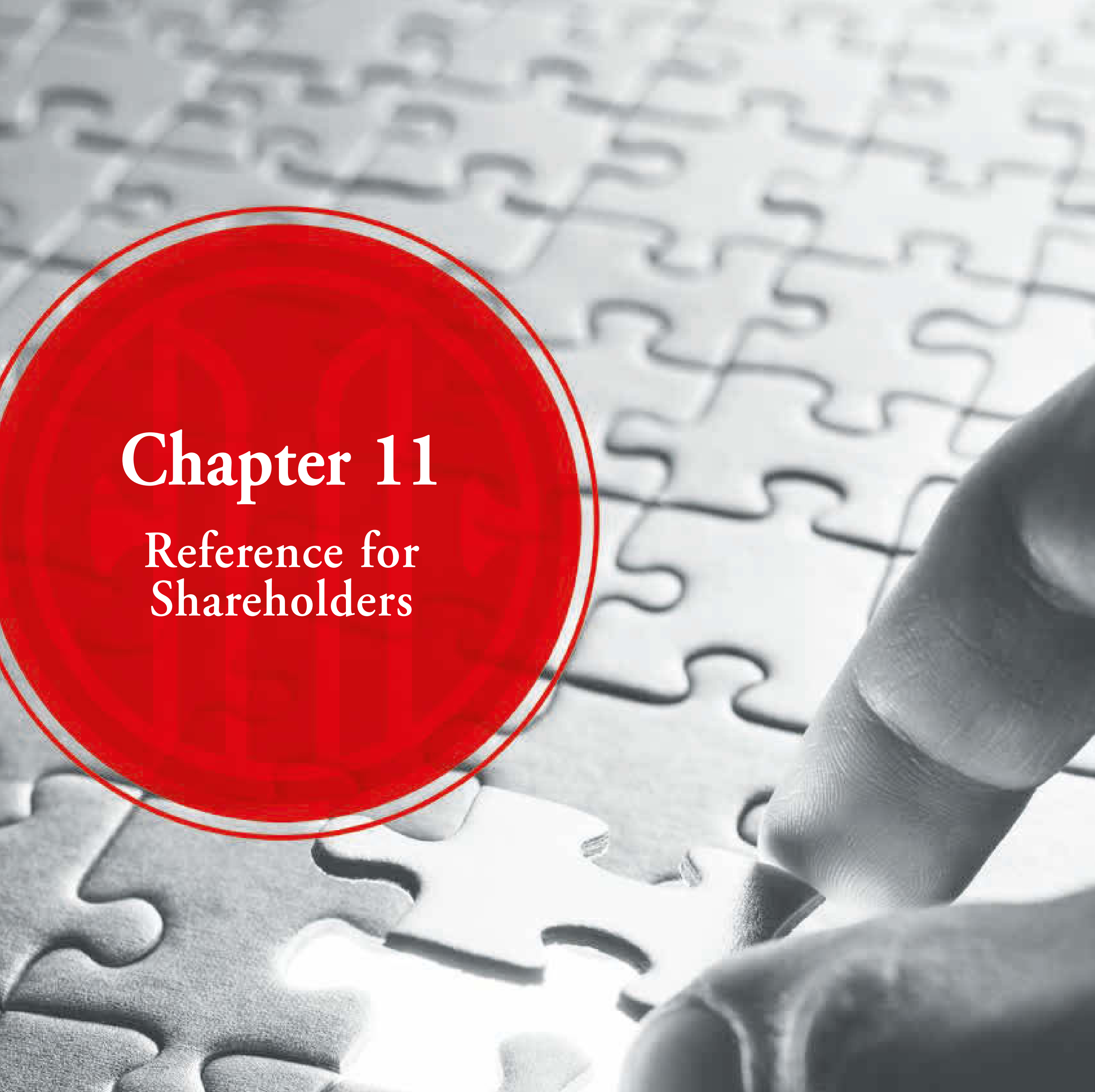
The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

7 Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in Mainland China. As of 31 December 2018, the majority of the Bank's non-bank exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparties have been disclosed in the notes to the consolidated financial statements.

Chapter 11

Reference for Shareholders



Chapter 11 Reference for Shareholders

11.1 Information on Shares

11.1.1 IPOs

On 27 April 2007 the Bank was concurrently listed on SSE and SEHK.

11.1.2 Ordinary Shares

As at the end of the reporting period, the Bank had 48,934,796,573 issued and outstanding shares, including 34,052,633,596 A shares and 14,882,162,977 H shares.

11.1.3 Preference Shares

As at the end of the reporting period, the Bank had made a private offering of 350 million preference shares at RMB100.00 par value per share in China. The preference shares were issued at par at an initial coupon rate of 3.80% with no maturity period.

Please refer to Chapter 7 "Preference Shares" of the report for details on the issuance of preference shares.

11.1.4 Dividends on Ordinary Shares

The Board of Directors proposed to pay a cash dividend of RMB2.30 every 10 shares (before tax) for 2018.

Please refer to Chapter 5 "Report of The Board of Directors" of the report for detailed information about dividend distribution.

11.1.5 Stock Code and Stock Name:

A share

SSE	601998 CNCB
Reuters	601998.SS
Bloomberg	601998 CH

H share

SEHK	0998 CITIC Bank
Reuters	998.HK
Bloomberg	998 HK

Preference Shares

SSE	360025 CITIC Excellent 1

11.2 Shareholders' Inquiry

If shareholders have any inquiry about their shareholdings, such as share transfer, change of name or address or loss of share certificate, please post letters to the following addresses:

A share
China Securities Depository and Clearing Corporation Limited Shanghai Branch
3/F, China Insurance Building, No. 166 Lu Jia Zui East Road, Pudong New Area, Shanghai
Tel: +86-21-68870587

H share
Computershare Hong Kong Investor Services Limited
Room 1712-16, 17/F, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong
Tel: +852-2862 8555
Fax: +852-2865 0990
E-mail: hkinfo@computershare.com.hk

Preference Shares
China Securities Depository and Clearing Corporation Limited Shanghai Branch
3/F, China Insurance Building, No. 166 Lu Jia Zui East Road, Pudong New Area, Shanghai
Tel: +86-21-68870587

11.2.1 Credit Ratings

Credit Ratings

As at the end of the reporting period, the Bank had the following ratings:

Ratings by S&P:
(1) BBB+ for long-term corporate credit rating;
(2) A-2 for short-term rating; and
(3) Stable for long-term rating outlook.

Ratings by Moody's Investors Service:
(1) Baa2/P-2 for deposit rating;
(2) ba2 for baseline credit assessment (BCA); and
(3) Positive for rating outlook.

Ratings by Fitch ratings:
(1) BBB for default rating;
(2) 2 for support rating;
(3) BBB for support bottom line rating;
(4) b+ for survival rating; and
(5) Stable for rating outlook.

11.2.2 Index Constituent Stock

A-share Index of SSE
SSE 180 Index
SSE Composite Index
SSE Corporate Governance Index
New SSE Composite Index
Shanghai Shenzhen CSI 300 Index
CSI 100 Index
CSI 800 Index
Hang Seng China H-Financials Index (H-Fin)

11.2.3 Investor Inquiry

For any inquiry, investors may contact:
Investor Relations Team of China CITIC Bank Corporation Limited
Address: No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing
Tel: +86-10-8523 0010
Fax: +86-10-8523 0079
E-mail: ir@citicbank.com

11.3 Other Information

The Bank's annual report (A shares) is available in Chinese and its annual report (H shares) is available in both Chinese and English. To obtain a copy of the annual report (H shares) prepared in accordance with the international accounting standards, please write to Computershare Hong Kong Investor Services Limited, the Bank's H-share Registrar. For a copy of the annual report (A shares) prepared in accordance with the PRC accounting standards, please write to the Head Office of the Bank (No. 9 Chaoyangmen Beidajie, Dongcheng District, Beijing). The annual report is also available in both the Chinese and English languages on the websites of SSE (www.sse.com.cn), HKEXnews (www.hkexnews.hk) and the Bank (www.citicbank.com).

Should you have any queries about how to obtain a copy of the annual report or how to access the annual report on the Bank's website, please call the Bank's hotline at +86-10-8523 0010.

中信银行
CHINA CITIC BANK
以 信 致 远　融 智 无 限

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