



中国光大银行
CHINA EVERBRIGHT BANK

Building a Leading Wealth Management Bank

Stock Code: 6818

2018 年度報告
ANNUAL REPORT



中國光大銀行股份有限公司

China Everbright Bank Company Limited

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





中国光大银行
CHINA EVERBRIGHT BANK

Important Notice

The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this Report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this Report.

The 35th Meeting of the Seventh Session of the Board of Directors of the Bank was convened in Beijing on 28 March 2019, at which the 2018 Annual Report of the Bank was considered and approved. 14 out of 14 Directors attended the meeting in person. Executive Director Ge Haijiao was authorized in writing by Chairman of the Board of Directors Li Xiaopeng, Director Cai Yunge, and Independent Non-Executive Director Wang Liguo was authorized in writing by Independent Non-Executive Director Feng Lun, who were unable to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his behalf. 6 Supervisors were present at the meeting as non-voting attendees.

The financial statements of the Bank for the year 2018 were prepared in accordance with the PRC Generally Accepted Accounting Principles (“PRC GAAP”) and the International Financial Reporting Standards (“IFRS”) and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with the China Standards on Auditing and the International Standards on Auditing. Both auditors issued standard unqualified auditor’s reports.

Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Ge Haijiao, President, and Mr. Xie Rong, Independent Non-Executive Director, hereby warrant the authenticity, accuracy and completeness of the financial report in this Report.

Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.

The Board of Directors of the Bank proposed to pay an ordinary share dividend of RMB1.61 (before tax) for every 10 shares for 2018. Please refer to “Significant Events” for details.

Forward-looking statements such as future plans of the Bank mentioned in this Report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.

In this Report, “We/we”, “our Company”, “the Company”, “the Bank”, “Whole Bank” and “China Everbright Bank” all refer to China Everbright Bank Company Limited, and “the Group” refers to China Everbright Bank Company Limited and its subsidiaries.

**The Board of Directors of
China Everbright Bank Company Limited
28 March 2019**



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Definition and Significant Risk Warning

I. DEFINITIONS

i. In this Report, unless the context otherwise requires, the following terms shall have the meanings set out below

MOF	:	Ministry of Finance of the People's Republic of China
Central Bank	:	The People's Bank of China
CBIRC	:	China Banking and Insurance Regulatory Commission
Former CBRC	:	former China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
China Everbright Group	:	China Everbright Group Ltd.
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited
EY Hua Ming	:	Ernst & Young Hua Ming (LLP)
EY	:	Ernst & Young

ii. The following glossary contains explanations of certain terms used in connection with products of the Bank to facilitate the understanding of investors

E-loan: The Bank provides “one-stop” loan services for its customers via mobile phones. By using the WeChat public account “CEB Personal Loans”, customers can handle personal loan business and have access to value-added services.

Reassuring Loan: A smart network loan brand. It is intended to apply big data and artificial intelligence (AI) to consumption scenarios, with a view to offering all customers the network loan services which are convenient, fast and intelligent.

Sunshine e-Petty Loan: A short-term revolving loan product. It supports such functions as online application, automatic approval, and online contract signing, drawdown and repayment. It is mainly targeted at the existing high-quality small and micro-sized enterprise customers of the Bank. While granting this type of loans, the Bank will make analysis and decisions with reference to the internal and external data, including those on the assets and transactions of enterprises and their legal representatives.

Colorful Sunshine: A net-value wealth management system launched by the Bank. It uses the seven colors of sunshine (red, orange, yellow, green, blue, indigo, and purple) to represent the following seven categories of asset allocation: stock, hybrid strategy, fixed income, cash management, alternative assets, private equity, and structured investment and financing. It conforms to the new regulations on asset management and wealth management.

Monthly Interest Pal: A personal large-amount certificate of deposit (CD) product launched by the Bank. It pays interest on a monthly basis, and pays principal in one lump sum upon maturity.

Sunshine Refactoring: A product that enables factoring companies/bank factors to transfer their receivables obtained from the delivery of factoring services as well as all rights thereof to the Bank in exchange for such comprehensive financial services as trade financing, receivables management, receivables collection, and bad debt guarantee.

Sunshine e-Link: A product through which the Bank can employ such electronic means as online banking, bank-corporate direct linkage, or third-party supply-chain financial platform to directly or indirectly obtain the background information of both trading sides and the information on transfer of mutual creditor's rights for the upstream or downstream transactions of the supply chain, and to provide online factoring services throughout the whole process.

Sunshine Supply Chain: A financial brand of the Bank. It deals with trade finance and supply chain. It is an integrated transaction banking business platform and service system that supports on-and-off-balance-sheet items, home and foreign currencies, settlement and financing, interest rate and exchange rate, business within and outside free trade zones (FTZ), domestic and overseas institutions, and online and offline operations.

Bank-yi: The name of Everbright Supermarket. In addition to commercial banking business, the supermarket also offers businesses and products of other companies of China Everbright Group, manifesting the Banks's vision of "Everbright, forever".

II. SIGNIFICANT RISK WARNING

The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to the "Discussion and Analysis of Operations" for details.

Company Profile

I. BASIC INFORMATION

- i. Name of the Bank
 Registered Chinese Company Name: 中國光大銀行股份有限公司 (Abbreviation: 中國光大銀行 or 光大銀行)
 Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED (Abbreviation: CEB BANK)
- ii. Relevant Persons
 Legal Representative: Li Xiaopeng
 Authorized representatives: Ge Haijiao, Li Jiayan
 Secretary to the Board of Directors and Company Secretary: Li Jiayan
 Securities Affairs Representative: Li Jiayan
 Assistant to Company Secretary: Lee Mei Yi
- iii. Contacts
 Contact Address: China Everbright Center, No. 25 Taiping Qiao Street, Xicheng District, Beijing
 Postal code: 100033
 Tel.: 010-63636363
 Facsimile: 010-63636713
 Email: IR@cebbank.com
 Investor hotline: 010-63636388
- iv. Corporate Information
 Registered and Office Address: China Everbright Center, No. 25 and No. 25 A Taiping Qiao Street, Xicheng District, Beijing
 United Social Credit Code: 91110000100011743X
 Code of financial authority: B0007H111000001
- v. Principal Place of Business in Hong Kong
 CEB Hong Kong Branch: 30/F, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong
- vi. Newspaper and Website Designated for Information Disclosure
 Chinese mainland: China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
 Websites designated for publication of A share annual report:
 SSE's website: www.sse.com.cn
 Bank's website: www.cebbank.com
 Websites designated for publication of H share annual report:
 HKEX's website: www.hkex.com.hk
 Bank's website: www.cebbank.com
 Copies of annual report are available at: Office of the Board of Directors of the Bank, SSE

- vii. Stock Exchange for Listing of Shares
 A Shares: Shanghai Stock Exchange
 Abbreviated name of Ordinary Shares: Everbright Bank;
 Code: 601818
 Abbreviated name of Preference Shares: Everbright P1; Everbright P2
 Code: 360013, 360022 (SSE Comprehensive Business Platform)
 Abbreviated name of Bond: Everbright Convertible Bonds
 Code: 113011
 H shares: Hong Kong Exchanges and Clearing Limited
 Abbreviated name: CEB Bank; Code: 6818
- viii. Auditors during the Reporting Period
 Domestic Auditor: Ernst & Young Hua Ming LLP
 Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing
 Certified Public Accountants for Signature: Gu Jun, Leung Shing Kit
 Overseas Auditor: Ernst & Young
 Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
 Certified Public Accountant for Signature: Kam Cheong Geoffrey
- ix. Legal advisors to the Board of Directors during the Reporting Period
 A Share Legal Advisor: Jun He Law Offices
 H Share Legal Advisor: Herbert Smith Freehills
- x. Share Depository
 A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited
 Office Address: 36/F, China Insurance Building, No.166, Lujiazui East Road, Pudong New District, Shanghai
 H Share Registrar: Computershare Hong Kong Investor Services Limited
 Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Company Profile

II. INTRODUCTION

China Everbright Bank (hereinafter referred to as “CEB” or “the Bank”), which was established in August 1992 and headquartered in Beijing, is a national joint-stock commercial bank approved by the State Council of China and the People’s Bank of China (Central Bank). The Bank was listed on the Shanghai Stock Exchange (SSE) in August 2010 (stock code 601818) and the Hong Kong Exchanges and Clearing Limited (HKEX) in December 2013 (stock code 6818).

With continuous reform and innovation in optimizing its products design, channel development and service models, the Bank forged a strong competitive edge in its major product and business lines such as asset management, investment banking business, e-banking and credit card. Therefore, it has achieved balanced growth of all business lines, with improved risk management and enhanced innovation capabilities.

As at the end of the reporting period, the Bank had established 1,252 branches and outlets nationwide, which managed to cover all provincial administrative regions and extended its business reach to 136 economic center cities across the country. Closely following up with the Belt and Road Initiative and expanding its international presence at a faster pace, the Bank put Hong Kong Branch, Seoul Branch, CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A., and Luxembourg Branch into operation successively. At the same time, the Bank’s long-term sponsorship for “Water Cellar for Mothers”, a public charity program, demonstrated CEB’s ever-growing commitment to its social responsibilities, which was well recognized by the Chinese society. The Bank was ranked No.39 in the “Top 1,000 World Banks” by The Banker, a U.K. magazine, in 2018, 10 notches up over the previous year.

Over the years, along with the evolution of Chinese economy and the growth of Chinese financial sector, the Bank managed to improve its brand image and market value continuously. While rendering its customers and the public with quality financial services, it also secured a good business performance. Now the Bank is an influential listed bank with sound compliance.



III. HONORS AND AWARDS

1. The Bank won the Annual Poverty Alleviation Award on 11 January 2018 when the New Era, New Responsibility-themed Release Ceremony of the 12th CSR Excellence Awards was hosted by people.cn.
2. The Bank was named the Best FinTech Bank and the Best Corporate Service Bank on 18 January 2018 when the magazine Caijing unveiled the Second Evergreen Awards: 2017 Best Financial Institutions.
3. The Bank won the Excellence Award for Mobile Banking, the Excellence Award for Credit Card Innovation, the Excellence Bank Award for Asset Management, and the Excellence Award for Cash Management Innovation on 2 February 2018 when the website JRJ.com held the 2nd International Forum on FinTech and the 6th Grand Ceremony to Award the Leading Chinese Financial Enterprises and Figures.
4. The Bank was conferred the Excellence Bank Award for Brand Value on 5 February 2018 when the website Ifeng.com hosted the Golden Phoenix Financial Award-winner Selection Activity for 2017.
5. The Bank was chosen as the Best Bank for Trade Finance on 6 June 2018 when China Banking Association held the 7th Chinese Trade Finance Annual Meeting.
6. The Bank was recognized with the Junding Award for Private Banking Brand in China, Junding Award for Wealth Management Brand in China, and Junding Award for Credit Card Brand in China on 27 June 2018 when the newspaper Securities Times convened the 2018 China Wealth Management Summit and the 12th Junding Awarding Ceremony for Wealth Management Institutions.
7. The Bank won the Excellence Brand Award for Inclusive Financial Service in 2018 on 30 June 2018 when the newspaper 21st Century Business Herald held the Awarding Ceremony for Leading Enterprises and Figures of China in FinTech for 2018.
8. The Bank was conferred with the Most Socially Responsible Financial Institution Award on 3 July 2018 when China Banking Association released the Standards for Banks to Create Barrier-free Environment and the 2017 China Banking Corporate Social Responsibility Report.
9. The Bank was rated with the Best Bank Award for Wealth Management by the newspaper 21st Century Business Herald on 28 July 2018.
10. The Bank was recognized as the Top Ten Chinese Commercial Bank in Support of SMEs for 2018 on 24 November 2018 when China Association of Small and Medium Enterprises hosted the 13th Annual Conference for Small and Medium-sized Entrepreneurs in China.
11. The Bank was rated the 2018 FinTech Bank on 3 December 2018 when the 21st Century Business Herald released the 21st Century Asian Financial Competitiveness Evaluation results.
12. The Bank was named the 2018 Excellence Financial Institution in Competitiveness and Brand Building on 11 December 2018 when the Chinese Academy of Social Sciences, China Business Journal, and China Business Journal Institute of Finance co-hosted the 10th Extraordinarily Competitive Financial Institutions Awarding Ceremony.
13. The Bank was selected as the 2018 Best Inclusive Financial Service Platform, the 2018 Best Bank for Inclusive Financial Service, and the 2018 Best Bank for Strategic Innovation on 12 December 2018 when the Newspaper Financial Times hosted the 2018 New-era Financial Development Summit and the Annual Awarding Ceremony for Top Chinese Financial Institutions.
14. The Bank was awarded the Excellent Mobile Banking Brand, the 2018 Credit Card Brand, and 2018 Bank for Innovative Products (New e-Loan, a personal loan product) on 20 December 2018 when the website hexun.com held the 16th Summit of Influential Chinese Banks.
15. The Bank was conferred with the Social Responsibility and Public Welfare Award on 28 December 2018 when the website news.cn hosted the 2018 China Social Responsibility and Public Welfare Commendation Ceremony and the 11th Chinese CSR Summit.



LI Xiaopeng
Chairman

Message from the Chairman

2018 was an extraordinary year witnessing the 40th anniversary of China's Reform and Opening-Up, and marking China Everbright Bank's first year implementing the strategy of "building a leading wealth management bank". Faced with profound changes in the internal and external environment, CEB has stayed true to the overall principle of pursuing progress while maintaining stability, and achieving profitability while ensuring quality. As a result, CEB has delivered satisfactory results through orderly operations. Operating revenue exceeded the RMB100 billion threshold, reflecting significantly improved profitability; assets and liabilities realized steady growth, attesting to an improving structure; risk management bottom line was firmly guarded, ensuring asset quality under control.

As the year wraps up, I am genuinely proud of CEB's impressive take-off in 2018.

During the past year, CEB integrated enhancing the Party's leadership with improving corporate governance, and advanced top-tier bank building by first-class Party building. We welcomed suggestions and opinions, benchmarked against our peers and conducted strategic optimization to form consensus and find the right direction. We promoted our culture characterized by "family, sunshine, pro-business and responsibility" to foster cohesion and invigorate morale. We also stimulated potential and enhanced unity through programs, such as "Voices from Employees" and "CEB Talents". Moreover, we accelerated our human resource reform and launched the "CEB Talent Pavilion" to attract talents.

Over the past year, CEB provided quality services for private enterprises in order to support the real economy. We boosted innovation in products and mechanisms, and were the first to use the RRR reduction to launch market-oriented debt-for-equity programs. We created a credit risk mitigation warrant, and undertook multiple measures to address the difficulties private enterprises face. In addition, we promoted inclusive credit financing factory, advanced the development of inclusive finance, and cleared the "last mile" hurdle in financing for small- and micro-enterprises. We also fulfilled our social responsibilities by strengthening our financial support for targeted poverty alleviation.

In 2018, CEB focused on strategic connotations, clarified the strategic vision and diligently pushed the construction of Wealth Management 3.0. We implemented the transformation of asset management business and continuously improved the "Sunshine" brand image. We created the Cloud Fee Payment, the largest open payment platform in China, to build an inclusive and convenient ecosystem. We rolled out CEB supermarket, "Bank-yi", to explore a new mode of synergized marketing across different business segments. Furthermore, we enhanced technological innovation, fully leveraged the Internet Plus concept and built "financial brain" in an effort to drive the Bank's financial development with the latest technology.

CEB's performance attracted notable attention from many areas of the financial world. In May, Moody's lifted our rating outlook from "stable" to "positive"; in July, CEB was enlisted as 39th in the Top 1000 World Banks selected by Britain's *The Banker* magazine, up by 10 from last year; CEB ranked 40th in the "2018 Brand Finance Banking 500", up by 4 places from last year; CEB also ranked 7th amongst China commercial banks in 2018 "GYROSCOPE" appraisal system by the China Banking Association, 5 places higher than the previous year.

As we sail into 2019, I look forward to groundbreaking success amidst all challenges.

2019 is the Year of Deepening Strategy and the Year of Value Creation for CEB. While carrying out the vision of "building a leading wealth management bank", we will firmly implement China's national strategy and continuously improve our ability to serve the real economy. We will roll out well-regarded and innovative products, and integrate channels and resources to advance the E-SBU. We will also deepen institutional reform and refine the market-based operating mechanism, and at the same time seize opportunities to expand an international presence with CEB characteristics.

As the journey goes on, our dream goes on. We at CEB will always have the drive, the courage and the capability to fight for a brighter future and repay our shareholders and society with an outstanding performance.



GE Haijiao
President

Message from the President

In 2018, CEB implemented the new strategy of “building a leading wealth management bank”. Guided by this objective, we achieved a balance between progress and stability, as well as quality and profitability. CEB delivered remarkable operating performance, recording operating revenue of RMB110,386 million and net profit of RMB33,721 million, an increase of 19.96% and 6.67% respectively.

We firmly safeguarded our risk management bottom-line across the board and strengthened credit risk management. As of the end of the year, our NPL ratio was 1.59%, basically on par with that of the previous year, our Special Mention Loan ratio was down by 0.56 percentage point to 2.41%, and our provision coverage ratio was up by 17.98 percentage points to 176.16%. We enhanced liquidity risk management, internal controls and compliance management, and fin-tech risk management, and adhered to safe and stable operations.

We undertook special effort on the “two adjustments and two transformations” – adjusting 1) deposit structure and 2) loan structure, while promoting the optimization of 1) branches/sub-branches and 2) income structure. As a result, our general deposits and core deposits maintained steady growth, net interest margin improved, capacity and service quality at outlets continued to increase, and net fees grew by 19.89% from last year.

Furthermore, we accelerated business and technological transformation. Centered on the strategic vision of “building a leading wealth management bank”, we pushed forward the transformation and innovation of the three main businesses of corporate banking, retail and asset management, in an effort to serve the real economy and create well-regarded products and outlets. We also promoted the digitalization of businesses. Our internet finance developed at top speed and cloud fee payments maintained a leading position in the industry.

In 2019, we will continue to maintain stable operations and make progress in a practical and innovative manner. Embarking on a new journey, we will not only strive to achieve the goals for the present year, but also create favorable conditions for the medium- to long-term optimization of systems and mechanisms. Steadily and unremittingly, we will improve corporate governance, realize the Year of Value Creation, seek quality development and march unswervingly toward the goal of “building a leading wealth management bank” in 2019 and beyond.



Summary of Accounting Data and Financial Indicators

I. KEY FINANCIAL DATA AND INDICATORS

Item	2018	2017	Change in 2018 over 2017 (%)	2016	2015	2014
Operating performance (RMB million)						
Net interest income	61,043	60,950	0.15	65,288	66,459	58,259
Net fee and commission income	36,894	30,774	19.89	28,112	26,301	19,157
Operating income	110,386	92,018	19.96	94,365	93,364	78,771
Operating expenses	(33,706)	(30,802)	9.43	(30,254)	(32,354)	(30,008)
Impairment losses on assets	(35,828)	(20,570)	74.18	(23,931)	(21,652)	(10,209)
Profit before tax	40,852	40,646	0.51	40,180	39,358	38,554
Net profit	33,721	31,611	6.67	30,388	29,577	28,928
Net profit attributable to equity shareholders of the Bank	33,659	31,545	6.70	30,329	29,528	28,883
Scale indicators (RMB million)						
Total assets	4,357,332	4,088,243	6.58	4,020,042	3,167,710	2,737,010
Total loans and advances to customers	2,421,329	2,032,056	19.16	1,795,278	1,513,543	1,299,455
Provision for impairment of loans ¹	67,209	51,238	31.17	43,634	38,119	28,025
Total liabilities	4,034,859	3,782,807	6.66	3,768,974	2,943,663	2,557,527
Balance of deposits from customers	2,571,961	2,272,665	13.17	2,120,887	1,993,843	1,785,337
Total equity attributable to equity shareholders of the Bank	321,488	304,760	5.49	250,455	223,493	178,975
Share capital	52,489	52,489	-	46,679	46,679	46,679
Per share (in RMB)						
Net assets per share attributable to ordinary shareholders of the Bank ²	5.55	5.24	5.92	4.72	4.36	3.83
Basic earnings per share ³	0.61	0.64	(4.69)	0.63	0.63	0.62
Diluted earnings per share ⁴	0.55	0.59	(6.78)	0.63	0.63	0.62
Profitability indicators (%)						
Return on average total assets	0.80	0.78	+0.02 percentage point	0.85	1.00	1.12
Return on weighted average net assets ⁵	11.55	12.75	-1.20 percentage points	13.80	15.50	17.36
Net interest spread	1.50	1.32	+0.18 percentage point	1.59	2.01	2.06
Net interest margin	1.74	1.52	+0.22 percentage point	1.78	2.25	2.30
Proportion of fee and commission income in operating income	33.42	33.44	-0.02 percentage point	29.79	28.17	24.32
Cost-to-income ratio	29.48	32.36	-2.88 percentage points	29.00	27.05	30.02
Asset quality indicators (%)						
NPL ratio	1.59	1.59	-	1.60	1.61	1.19
Provision coverage ratio ⁶	176.16	158.18	+17.98 percentage points	152.02	156.39	180.52
Provision-to-loan ratio ⁷	2.80	2.52	+0.28 percentage point	2.43	2.52	2.16

Notes:

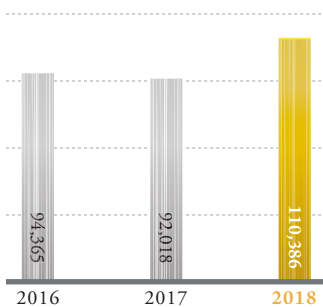
1. It only includes provision for impairment of loans measured at amortized cost.
2. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instruments)/total number of ordinary shares at the end of the period.
3. Basic earnings per ordinary share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank = net profit attributable to equity shareholders of the Bank – dividends of the preference shares declared during the period.
4. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).
5. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank.
6. Provision coverage ratio = (provision for impairment of loans and advances to customers measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/balance of NPLs.
7. Provision-to-loan ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/total loans and advances to customers.

The above figures from 2, 3, 4 and 5 were calculated according to the *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision)* issued by CSRC.

The Bank distributed total dividends of the preference shares of RMB1.45 billion (before tax) for the year of 2018.

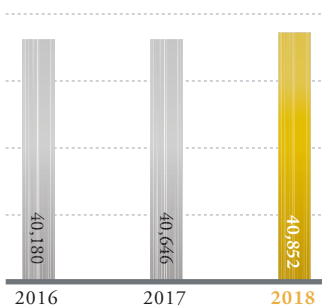
Operating income

Unit: RMB million



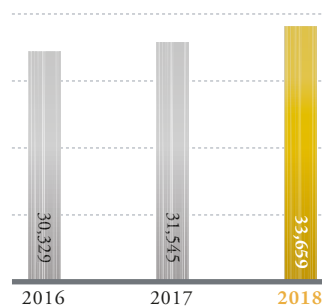
Profit before tax

Unit: RMB million



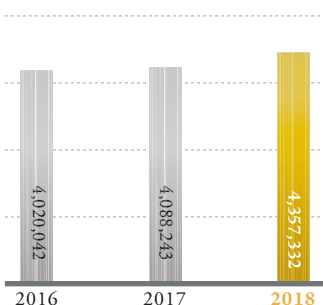
Net profit attributable to equity shareholders of the Bank

Unit: RMB million



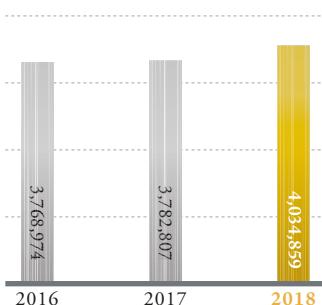
Total assets

Unit: RMB million



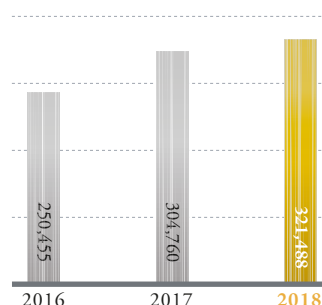
Total liabilities

Unit: RMB million



Equity attributable to equity shareholders of the Bank

Unit: RMB million



Summary of Accounting Data and Financial Indicators

II. QUARTERLY OPERATING INDICATORS OF THE YEAR

Unit: RMB million

Item	Q1	Q2	Q3	Q4
Operating income	25,378	26,924	29,147	28,937
Net profit attributable to equity shareholders of the Bank	9,051	9,024	9,685	5,899
Net cash flows from operating activities	(54,605)	176,117	(18,102)	83,896

III. SUPPLEMENTARY FINANCIAL INDICATORS

Unit: %

Item	Standard value	31 December 2018	31 December 2017	31 December 2016
Liquidity ratio RMB	≥25	64.26	59.93	63.18
Foreign currency	≥25	62.15	62.45	78.81
Loan exposure to largest single customer ratio	≤10	2.12	1.29	2.37
Loan exposure to top ten customers ratio	≤50	11.88	10.00	14.62

Note: The above indicators were calculated on non-consolidation basis.

IV. CAPITAL COMPOSITION AND CHANGES

The capital adequacy ratio (CAR) indicators calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (Decree No.1 of CBRC in 2012) are as follows:

Unit: RMB million, %

Item	31 December 2018		31 December 2017		31 December 2016	
	Consolidated ¹	Non-consolidated	Consolidated ¹	Non-consolidated	Consolidated ¹	Non-consolidated
1. Net capital base ²	412,012	400,663	385,524	377,381	287,880	280,783
1.1 Common equity tier-1 capital	292,093	288,903	275,302	272,412	221,001	218,511
1.2 Common equity tier-1 capital deductions	(2,455)	(9,827)	(2,276)	(6,675)	(2,125)	(5,488)
1.3 Net common equity tier-1 capital ²	289,638	279,076	273,026	265,737	218,876	213,023
1.4 Additional tier-1 capital	30,021	29,947	30,012	29,947	29,997	29,947
1.5 Additional tier-1 capital deductions	–	–	–	–	–	–
1.6 Net tier-1 capital ²	319,659	309,023	303,038	295,684	248,873	242,970
1.7 Tier-2 capital	92,353	91,640	82,486	81,697	39,007	37,813
1.8 Tier-2 capital deductions	–	–	–	–	–	–
2. Credit risk-weighted assets	2,936,448	2,864,946	2,669,951	2,611,528	2,490,988	2,435,979
3. Market risk-weighted assets	44,913	44,358	12,210	13,074	7,757	7,079
4. Operational risk-weighted assets	185,307	182,654	174,639	172,143	166,292	164,066
5. Total risk-weighted assets	3,166,668	3,091,958	2,856,800	2,796,745	2,665,037	2,607,124
6. Common equity tier-1 CAR	9.15	9.03	9.56	9.50	8.21	8.17
7. Tier-1 CAR	10.09	9.99	10.61	10.57	9.34	9.31
8. CAR	13.01	12.96	13.49	13.49	10.80	10.77

Notes:

- All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the Capital Rules for Commercial Banks (Provisional), shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Jiangsu Huai'an Everbright Village Bank Co., Ltd., CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A. and Jiangxi Ruijin Everbright Village Bank Co., Ltd..
- Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.
- The Bank has disclosed the full text of the 2018 Capital Adequacy Ratio Report. Please refer to the websites of SSE, HKEX and the Bank for details.

Summary of Accounting Data and Financial Indicators

V. LEVERAGE RATIO

The leverage ratio indicators calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (Decree No.1 of CBRC in 2015) are as follows:

Unit: RMB million, %

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Leverage ratio (%)	6.29	6.25	6.16	6.34
Net tier-1 capital	319,659	312,578	302,525	304,269
Adjusted balance of on- and off-balance sheet assets	5,079,718	5,000,632	4,908,768	4,801,440

Please refer to “Unaudited Supplementary Financial Information” for more details.

VI. LIQUIDITY COVERAGE RATIO

The liquidity coverage ratio indicators calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks* (Decree No.3 of CBIRC in 2018) are as follows:

Unit: RMB million, %

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Liquidity coverage ratio	118.15	97.84	115.77	99.68
Eligible high quality liquid assets	407,191	338,731	340,983	284,312
Net cash outflow in the next 30 days	344,642	346,214	294,535	285,211

Business Overview of the Bank

I. ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENTS DURING THE REPORTING PERIOD

In 2018, the global economy continued to grow on the whole, while the growth momentum slowed down and the economy progress witnessed a less synchronicity. Affected by global trade frictions and changes in the financial environment, financial market fluctuations intensified and economic downward risks rose.

China's economy was generally stable. The annual GDP growth was 6.6% which was kept within an appropriate range while the overall economy is facing downward pressure. The economic structure was continuously improved, and the contribution of consumption to economic growth increased. The supply-side structural reform was further advanced, reform and opening up was intensified and new drivers of growth gained strength.

In 2018, Central Bank implemented a sound monetary policy to maintain reasonable and sufficient liquidity in the banking system. Following the fundamental principle of making the financial sector better serve the real economy, it applied existing and new monetary policy instruments to advance the economic support for small and micro business and private economy. Meanwhile, it adjusted macro-prudential polices in a timely manner and made good use of their countercyclical regulation. Besides, with the reform in interest rate liberalization going deeper, the market-based operation of Renminbi got regularized.

CBIRC strengthened its supervision, timely made up for the weakness in terms of regulatory policies, focused on preventing and mitigating financial risks and took a stern investigation and accountability mechanism. It also tackled the misconducts that disrupted the normal market order so as to enable the banking system to return to the original aspirations and focus on principal business. In addition, the regulator went further in reform and opening up, promoted the transformation of the banking sector to high-quality development, and improved the sector's capacity to serve the real economy.

II. INDUSTRY LANDSCAPE AND STATUS OF THE BANK

In 2018, the Chinese banking sector was steady as a whole, focused on strengthening corporate governance, expanded opening up and deeply integrated financial technologies, and set up many Fin Tech subsidiaries. Due to this, the sector was able to better serve the real economy. Furthermore, the stronger and stricter regulation brought better discipline to the financial market.

The Bank remained committed to the principle of pursuing progress while ensuring stability, paid more attention to improve the quality and performance of the development, propelled structural adjustment and forestalled a variety of risk bottom lines. It also sped up the development of internet finance business by strongly boosting digitalized transformation and technological innovation and creating the image of "Digital CEB". What's more, the Bank deepened the reform of system and mechanism across the board, sped up the transformation of operational mode, and proactively served the real economy and private economy, thus enhancing the foundation for development.

Business Overview of the Bank

III. REVIEW OF MAIN WORK OF THE BANK

i. The Bank drafted the new version of development strategy aiming to push its development to a new level.

The Bank made clear its strategy vision of “building a leading wealth management bank” and actively promoted the building of wealth management 3.0. In this process, it highlighted the three characteristics of “wealth management”. The first is “big”. The Bank launched more diversified wealth management products and attracted more extensive customers, including traditional personal customers, as well as corporate customers, institutional customers and government customers. The second is “true”, that is, to make wealth management return to its origin. This characteristic is demonstrated through the creation, design and issuance of products, investment management and the risk and return. The third is “new”. The Bank adapted to the development trend of FinTech and responded to the digital, intelligent requirements of the time in its wealth management business.

ii. The Bank fulfilled its social responsibilities in line with policy orientation.

The Bank gave full support to the development of private enterprises and small and micro enterprises, cooperated with private enterprises to implement the first market-oriented debt-for-equity swap project using funds released from reserve requirement ratio (RRR) cuts, promoted inclusive finance credit factories, set up institutions dedicated to inclusive finance, and realized the goal of “two increases and two controls”. Furthermore, the Bank proactively carried out the task of fighting against poverty, ensured that loans for agriculture and targeted poverty alleviation were granted in full and on time to provide financial support to targeted poverty-relief areas, and continued to donate funds to charity projects such as the “Water Cellar for Mothers” and local Red Cross Society branches.

iii. The Bank intensified risk management and controlled risks effectively.

The Bank strengthened the unified credit management, improved the credit policy framework, and enhanced the early warning ability. As a result, the risk indicators tended to be good. It intensified the management of matching assets and liabilities, strengthened the overall planning function of the treasury, and continued to meet liquidity risk targets. Besides, it improved internal control and compliance management, did a good job in the rotation of key personnel, and continued to carry out unannounced inspection. The Bank also strengthened technology and reputational risk management. Thanks to these efforts, it maintained stable information system operation and a sound reputation.

iv. The Bank continued to deepen reform and optimize its system and mechanism.

The Bank upgraded its organizational structure by adjusting the structure and functions of some departments of the Head Office, and provided organizational and human resource support to key areas such as cloud fee payment, auto finance, inclusive finance and intelligent risk control center. In term of employment, the Bank refined the mechanism for selecting and appointing officials and employees, and realized internal talent flow and external talent introduction through the “Talent Initiative”. It explored ways to make the secretaries of Discipline Committee of branches more professional and significantly strengthened Party building and discipline inspection and supervision.

IV. ANALYSIS ON CORE COMPETITIVENESS OF THE BANK

China Everbright Group's full range of financial licenses: As a key state-owned enterprise under the management of the central government, China Everbright Group owns a full range of financial licenses and has set up a platform for the multi-business linkage cooperation of the Bank and other companies under the banner of the Group so as to provide customers with cross-market integrated financial solutions.

Unified Sunshine brand: Upholding the business philosophy of "Sharing Sunshine Innovating Life" for many years, the Bank has stepped up its brand building efforts to create the "Sunshine" brand series. Thanks to the brand, it develops a favorable image in the market, gains fairly great reputation, and demonstrates considerable brand competitiveness.

Outstanding innovative DNA: The Bank was incorporated at the right time when a competitive financial market just emerged in China, and it grew stronger in the pursuit of exploration and innovation. Inspired by the intensive awareness of making innovation, it secured impressively innovative achievements. With its innovative efforts, it became the first bank that launched the RMB wealth management product, the first one to be licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it accomplished the first market-oriented debt-for-equity swap project, and forged the largest open-ended payment platform named "Cloud Bill Payment" nationwide.

Leading roles in some businesses: The Bank has obtained comparative advantages in wealth management business, and is devoted to building the image of "leading wealth management bank". Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. Its e-banking business has focused on building an open service system based on an open-ended platform, which thus has developed into an industry leading business model. Centering on customer service, the credit card business of the Bank has gained a superior position among its peers with rapid growth generated by means of technology-driven innovation and service-based image building.

Prudent and efficient system for comprehensive risk management: Sticking to the principle of "all-round, whole-process, all staff participation", the Bank keeps improving risk management system and mechanism, proactively pushes forward the transformation of risk management, and has established a sound and comprehensive risk management system which is adapted to the Bank's business scale and characteristics. The Bank is running a prudent and highly efficient risk management mechanism with the help of financial technology.

Advanced IT management and independent R&D capabilities: As the first Chinese commercial bank to realize "data centralization", the Bank has led the industry in terms of safe operation and maintenance as well as technological support capabilities. In recent years, it has also set up a platform to enhance its independent R&D capability.

Discussion and Analysis of Operations

I. OVERALL OPERATION OF THE BANK

In 2018, guided by the strategic version of “building a first-class wealth management bank”, the Bank focused its efforts on carrying on three major tasks, that is, “serving real economy, preventing and controlling financial risk, and deepening financial reform”, stuck to quality development, actively promoted structural adjustment, accelerated the business transformation on all fronts and held firmly the bottom line of risk. As a result, its business operation and management entered a safe and orderly track with sound momentum while ensuring stability.

i. Assets and liabilities realized steady growth, and structural adjustment effects appeared

As at the end of the reporting period, total assets of the Group posted RMB4,357,332 million, representing an increase of RMB269,089 million or 6.58% as compared with those at the end of the previous year. Total loans and advances to customers stood at RMB2,421,329 million, representing a year-on-year increase of RMB389,273 million or 19.16%, accounting for 55.57% of the total assets, up by 5.87 percentage points over the end of the previous year. The balance of deposits reached RMB2,571,961 million, representing a year-on-year increase of RMB299,296 million or 13.17%, accounting for 63.74% of the total liabilities, up by 3.66 percentage points year on year.

ii. Income recorded fast growth, and profitability kept improving

During the reporting period, operating income of the Group registered RMB110,386 million, a year-on-year increase of RMB18,368 million or 19.96%. Specifically, net fee and commission income posted RMB36,894 million, an increase of RMB6,120 million or 19.89% year on year. The income from investment securities reached RMB9,862 million, a year-on-year increase of RMB10,055 million. Net profit of the Group reached RMB33,721 million, up by RMB2,110 million or 6.67% as compared to the same period of last year.

iii. Asset quality remained controllable, and risk resistance got intensified

As at the end of the reporting period, the Group’s non-performing loans (NPLs) amounted to RMB38,421 million, a year-on-year increase of RMB6,029 million. NPL ratio reported 1.59%, unchanged as compared with the end of the previous year. Provision coverage ratio reached 176.16%, up by 17.98 percentage points over the end of the previous year. Risk indicators remained stable while making progress.

iv. Capital adequacy ratio (CAR) maintained a fairly high level, and conformed to regulatory requirements continuously

As at the end of the reporting period, the Group’s CAR, tier-1 CAR and common equity tier-1 CAR was 13.01%, 10.09% and 9.15% respectively.



II. INCOME STATEMENT ANALYSIS

i. Changes in items of income statement

Item	Unit: RMB million		
	2018	2017	Change
Net interest income	61,043	60,950	93
Net fee and commission income	36,894	30,774	6,120
Net trading gains/(losses)	1,071	(2,751)	3,822
Dividend income	8	6	2
Net gains/(losses) arising from investment securities	9,862	(193)	10,055
Net foreign exchange gains	724	2,464	(1,740)
Other net operating income	784	768	16
Operating expenses	33,706	30,802	2,904
Impairment losses on assets	35,828	20,570	15,258
Profit before tax	40,852	40,646	206
Income tax	7,131	9,035	(1,904)
Net profit	33,721	31,611	2,110
Net profit attributable to equity shareholder of the Bank	33,659	31,545	2,114

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB110,386 million, a year-on-year increase of RMB18,368 million or 19.96%. Net interest income accounted for 55.30%, down by 10.94 percentage points year on year. The proportion of other income to the total operating income was 11.28%, a year-on-year increase of 10.96 percentage points.

Item	Unit: %	
	2018	2017
Net interest income	55.30	66.24
Net fee and commission income	33.42	33.44
Other income	11.28	0.32
Total operating income	100.00	100.00

iii. Net interest income

During the reporting period, the Group's net interest income stood at RMB61,043 million. In 2018, the Group adopted IFRS 9 officially. According to IFRS 9, the operating income generated from monetary funds and bond funds, which was previously recognized in "interest income", was included in other income such as "net gains/(losses) arising from investment securities". Calculated according to the standards applied in the last year, by adding back that income to the interest income, the net interest income posted RMB73,399 million, a year-on-year increase of RMB12,449 million or 20.42%.

Discussion and Analysis of Operations

By the comparable standards of the previous year, the Group's net interest spread reported 1.50%, a year-on-year increase of 18 basis points. Its net interest margin was 1.74%, up by 22 basis points year on year, mainly due to the improved asset and liability structure and the recovering interest margin of interbank business.

Unit: RMB million, %

Item	2018			2017		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
Interest-earning assets						
Loans and advances to customers	2,240,476	104,987	4.69	1,956,332	86,941	4.44
Finance lease receivables	62,884	3,379	5.37	58,191	2,729	4.69
Investment	1,038,374	45,870	4.42	1,315,771	54,391	4.13
Deposits with the central bank	343,107	5,100	1.49	355,074	5,263	1.48
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	274,211	9,231	3.37	326,598	11,019	3.37
Total interest-earning assets	3,959,052	168,567	4.26	4,011,966	160,343	4.00
Interest income		168,567			160,343	
Interest-bearing liabilities						
Deposits from customers	2,375,749	51,026	2.15	2,185,250	42,218	1.93
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	1,071,909	38,264	3.57	1,012,350	36,593	3.61
Debt securities issued	422,935	18,234	4.31	512,675	20,582	4.01
Total interest-bearing liabilities	3,870,593	107,524	2.78	3,710,275	99,393	2.68
Interest expenses		107,524			99,393	
Net interest income		61,043			60,950	
Net interest spread¹			1.50			1.32
Net interest margin²			1.74			1.52

Notes:

1. Net interest spread is the difference between the average yield of total interest-bearing assets and the average cost of total interest-bearing liabilities;
2. Net interest margin is the net interest income divided by the average balance of total interest-bearing assets.
3. While calculating the net interest spread and net interest margin, the average balance and interest income of such business lines as fund investments were added back for recovery by the comparable standards of the previous year.

The following table sets forth the changes in interest income and interest expenses of the Group due to changes in business scale and interest rate.

Unit: RMB million

Item	Scale factor	Interest rate factor	Change in interest
Loans and advances to customers	13,315	4,731	18,046
Finance lease receivables	252	398	650
Investment	(12,254)	3,733	(8,521)
Deposits with the central bank	(178)	15	(163)
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(1,764)	(24)	(1,788)
Interest-bearing assets	(2,253)	10,477	8,224
Changes in interest income			8,224
Deposits from customers	4,092	4,716	8,808
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	2,126	(455)	1,671
Debt securities issued	(3,869)	1,521	(2,348)
Interest-bearing liabilities	4,454	3,677	8,131
Changes in interest expense			8,131
Net interest income			93

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB168,567 million, a year-on-year increase of RMB8,224 million or 5.13%. Such increase was mainly attributed to the growing interest income from loans and advances to customers.

Discussion and Analysis of Operations

1. Interest income from loans and advances to customers

During the reporting period, the Group's interest income from loans and advances to customers amounted to RMB104,987 million, a year-on-year increase of RMB18,046 million or 20.76%. Such increase was mainly due to the expanding loan scale.

Unit: RMB million, %

Item	2018			2017		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,276,160	61,585	4.83	1,174,691	53,463	4.55
Personal loans	939,208	42,126	4.49	750,482	32,365	4.31
Discounted bills	25,108	1,276	5.08	31,159	1,113	3.57
Loans and advances to customers	2,240,476	104,987	4.69	1,956,332	86,941	4.44

2. Interest income from investment

During the reporting period, the Group's interest income from investment amounted to RMB45,870 million, a year-on-year decrease of RMB8,521 million or 15.67%. Such decrease was mainly because the Group adopted IFRS 9 officially in 2018. In accordance with IFRS 9, the operating income generated from monetary funds and bond funds, which was previously recognized in "interest income", was included in other income such as "net gains/(losses) arising from investment securities".

3. Interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB9,231 million, a year-on-year decrease of RMB1,788 million or 16.23%. The drop was mainly attributed to the shrinking scale of such assets.

v. Interest expense

During the reporting period, the Group's interest expenses amounted to RMB107,524 million, representing a year-on-year increase of RMB8,131 million or 8.18%. Such increase was mainly due to the growing interest expenses arising from deposits from customers and placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements.

1. Interest expenses on deposits from customers

During the reporting period, the Group's interest expenses on deposits from customers amounted to RMB51,026 million, a year-on-year increase of RMB8,808 million or 20.86%. Such increase was mainly due to the expanding scale of deposits from customers and rising interest rates.

Unit: RMB million, %

Item	2018			2017		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
Corporate deposits	1,856,309	39,161	2.11	1,741,071	33,706	1.94
Demand deposits	706,571	5,234	0.74	669,238	4,660	0.70
Time deposits	1,149,738	33,927	2.95	1,071,833	29,046	2.71
Personal deposits	519,440	11,865	2.28	444,179	8,512	1.92
Demand deposits	177,391	728	0.41	160,000	662	0.41
Time deposits	342,049	11,137	3.26	284,179	7,850	2.76
Total deposits from customers	2,375,749	51,026	2.15	2,185,250	42,218	1.93

2. Interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements

During the reporting period, the Group's interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB38,264 million, up RMB1,671 million or 4.57% year on year. The increase was mainly attributed to the growth in placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements.

3. Interest expenses on debt securities issued

During the reporting period, the Group's interest expenses on debt securities issued totaled RMB18,234 million, a year-on-year decrease of RMB2,348 million or 11.41%. Such decrease was mainly due to the year-on-year decrease of the average balance of debt securities issued.

Discussion and Analysis of Operations

vi. Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB36,894 million, a year-on-year increase of RMB6,120 million or 19.89%. Such rise was mainly due to the notable increase in bank card service fees, which grew by RMB8,272 million or 40.60% year on year.

Item	Unit: RMB million	
	2018	2017
Fee and commission income	39,552	33,025
Underwriting and advisory fees	1,594	1,604
Bank card service fees	28,644	20,372
Settlement and clearing fees	1,279	1,066
Wealth management service fees	876	3,400
Acceptance and guarantee fees	1,120	861
Agency services fees	2,734	2,665
Custody and other fiduciary business fees	1,358	1,683
Others	1,947	1,374
Fee and commission expenses	(2,658)	(2,251)
Net fee and commission income	36,894	30,774

vii. Other income

During the reporting period, the Group's other income stood at RMB12,449 million, representing a year-on-year increase of RMB12,155 million. The rise was mainly because the Group adopted IFRS 9 officially in 2018. In accordance with IFRS 9, the income from monetary funds, bond funds and other business lines was moved from the original item of "interest income" to the item of other income like "net gains/(losses) arising from investment securities" for accounting purpose.

Item	Unit: RMB million	
	2018	2017
Net trading gains/(losses)	1,071	(2,751)
Dividend income	8	6
Net gains/(losses) arising from investment securities	9,862	(193)
Net foreign exchange gains/(losses)	724	2,464
Other operating income	784	768
Total	12,449	294

Note: The gains and losses arising from foreign exchange derivative financial instruments in 2018 were moved from "net trading gains/(losses)" to "net foreign exchange (losses)/gains". The relevant data in 2017 shall not be traced to alter.

viii. Operating expenses

During the reporting period, the Group incurred operating expenses of RMB33,706 million, an increase of RMB2,904 million or 9.43% year on year. Cost-to-income ratio stood at 29.48%, down by 2.88 percentage points year on year.

Item	Unit: RMB million	
	2018	2017
Staff costs	16,869	15,679
Premises and equipment expenses	5,017	4,828
Tax and surcharges	1,165	1,025
Others	10,655	9,270
Total operating expenses	33,706	30,802

ix. Impairment losses on assets

During the reporting period, the Group pursued the objective and prudent provisioning policy, continued to consolidate the provision foundation and increased risk resistance. It sustained the impairment losses on assets of RMB35,828 million, representing a year-on-year increase of RMB15,258 million or 74.18%.

Item	Unit: RMB million	
	2018	2017
Impairment losses on loans and advances to customers	34,345	19,700
Loans and advances to customers measured at amortized cost	34,714	19,700
Loans and advances to customers at fair value through other comprehensive income	(369)	N/A
Impairment losses on finance lease receivables	170	92
Impairment on debt instruments at fair value through other comprehensive income	58	N/A
Impairment on financial investments measured at amortized cost	485	N/A
Impairment losses on held-to-maturity investments	N/A	(11)
Impairment losses on available-for-sale financial assets	N/A	207
Impairment losses on debt securities classified as receivables	N/A	391
Others	770	191
Total impairment losses on assets	35,828	20,570

x. Income tax

During the reporting period, the Group incurred an income tax of RMB7,131 million, a decrease of RMB1,904 million or 21.07% year on year.

Discussion and Analysis of Operations

III. BALANCE SHEET ANALYSIS

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB4,357,332 million, an increase of RMB269,089 million or 6.58% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	2,421,329		2,032,056	
Loan accrued interest	7,158		N/A	
Allowance for impairment of loans ¹	(67,209)		(51,238)	
Net loans and advances to customers	2,361,278	54.19	1,980,818	48.45
Finance lease receivables	63,333	1.45	56,364	1.38
Deposits with banks and other financial institutions	41,005	0.94	44,754	1.09
Cash and deposits with the central bank	366,575	8.41	353,703	8.65
Precious metals	23,628	0.54	40,352	0.99
Investment in securities and other financial assets	1,316,292	30.21	1,302,449	31.86
Placements with banks and other financial institutions, and financial assets held under resale agreements	134,458	3.09	240,257	5.88
Interests receivables ²	N/A	N/A	28,576	0.70
Fixed assets	18,241	0.42	14,929	0.37
Goodwill	1,281	0.03	1,281	0.03
Deferred tax assets	10,794	0.25	7,596	0.19
Other assets	20,447	0.47	17,164	0.41
Total assets	4,357,332	100.00	4,088,243	100.00

Notes:

1. It only includes allowance for impairment of loans measured at amortized cost.
2. The items recognized were adjusted, of which the charged interest on financial instruments in 2018 was recognized in the book balance of the corresponding financial instruments, and the interest that has been due but not yet received at the balance sheet date was recognized under "other assets". The relevant data in 2017 shall not be traced to adjust.

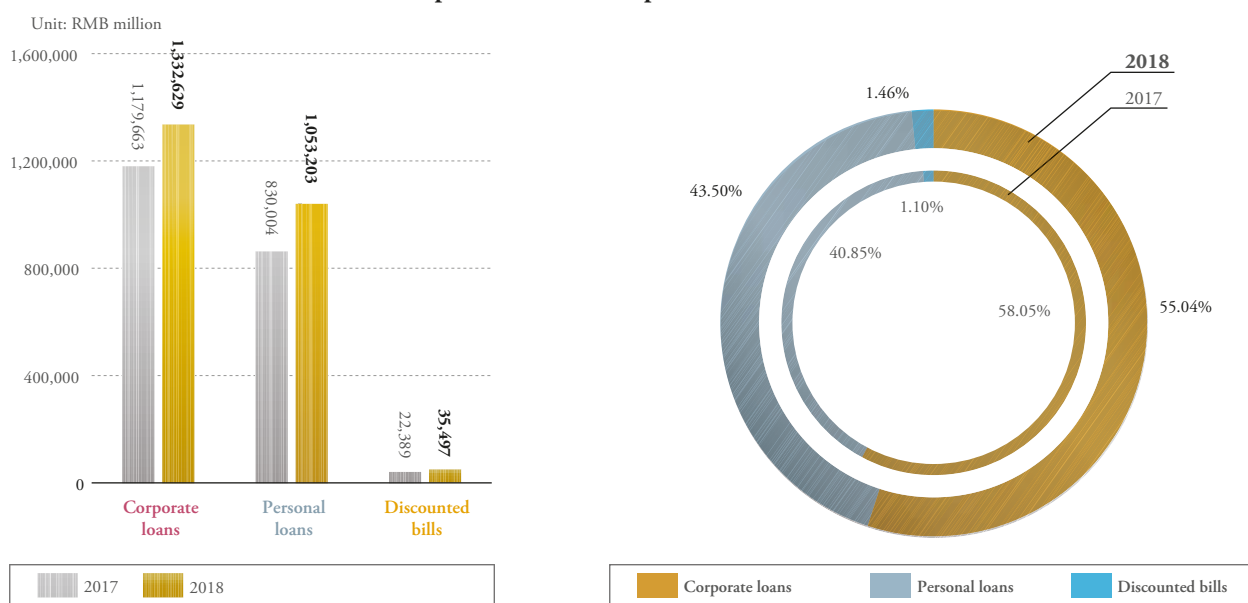
1. Loans and advances to customers

As at the end of the reporting period, the Group's total loans and advances to customers were RMB2,421,329 million, an increase of RMB389,273 million or 19.16% as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 54.19%, an increase of 5.74 percentage points year on year.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,332,629	55.04	1,179,663	58.05
Personal loans	1,053,203	43.50	830,004	40.85
Discounted bills	35,497	1.46	22,389	1.10
Gross loans and advances to customers	2,421,329	100.00	2,032,056	100.00

As of the end of the reporting period, the major components of the Group's loans and advances



Discussion and Analysis of Operations

2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investment in securities and other financial assets totaled RMB1,316,292 million, an increase of RMB13,843 million as compared with the end of the previous year, accounting for 30.21% of total assets, down by 1.65 percentage points year on year.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	222,737	16.92	24,196	1.86
Debt instruments at fair value through other comprehensive income	153,987	11.70	N/A	N/A
Equity instruments at fair value through other comprehensive income	367	0.03	N/A	N/A
Financial investments measured at amortized cost	923,989	70.19	N/A	N/A
Derivative financial assets	15,212	1.16	4,513	0.35
Available-for-sale financial assets	N/A	N/A	414,547	31.83
Held-to-maturity investments	N/A	N/A	344,617	26.46
Debt securities classified as receivables	N/A	N/A	514,576	39.50
Total investment in securities and other financial assets	1,316,292	100.00	1,302,449	100.00

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB231,439 million, up by RMB137,650 million over the end of the previous year. Of these, the financial bonds measured at amortized cost occupied a proportion of 77.22% in the total.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	4,442	1.92	911	0.97
Debt instruments at fair value through other comprehensive income	48,278	20.86	N/A	N/A
Financial investments measured at amortized cost	178,719	77.22	N/A	N/A
Available-for-sale financial assets	N/A	N/A	19,663	20.97
Held-to-maturity investments	N/A	N/A	73,215	78.06
Total financial bonds held	231,439	100.00	93,789	100.00

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bond	Nominal value	Annual interest rate	Maturity date	Allowance for impairment losses
Bond 1	15,820	4.98	12 January 2025	–
Bond 2	11,390	4.04	10 April 2027	–
Bond 3	10,700	4.73	2 April 2025	–
Bond 4	9,460	4.39	8 September 2027	–
Bond 5	6,550	4.24	24 August 2027	–
Bond 6	5,140	3.80	25 January 2036	–
Bond 7	4,990	3.74	10 September 2025	–
Bond 8	4,500	4.01	9 January 2037	–
Bond 9	4,430	3.83	6 January 2024	–
Bond 10	2,880	3.85	9 January 2024	–

5. Goodwill

The cost of the Group's goodwill stood at RMB6,019 million. As at the end of the reporting period, the allowance for impairment losses on goodwill reported RMB4,738 million, and the book value of goodwill registered RMB1,281 million, the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing or mortgage or pledge of the Bank's principal assets.

ii. Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB4,034,859 million, an increase of RMB252,052 million or 6.66% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Due to the central bank	267,193	6.62	232,500	6.15
Deposits from customers	2,571,961	63.74	2,272,665	60.08
Deposits from banks and other financial institutions	490,091	12.15	577,447	15.27
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	192,448	4.77	152,379	4.03
Financial liabilities at fair value through profit or loss	354	0.01	–	–
Derivative financial liabilities	14,349	0.36	6,552	0.17
Accrued staff costs	8,028	0.20	8,412	0.22
Taxes payable	5,666	0.14	4,932	0.13
Interests payable	N/A	N/A	40,206	1.06
Debt securities issued	440,449	10.92	445,396	11.77
Other liabilities	44,320	1.09	42,318	1.12
Total liabilities	4,034,859	100.00	3,782,807	100.00

Note: The items under "interests payable" were adjusted in 2018, of which the charged interest on financial instruments was recognized in the book balance of the corresponding financial instruments, and the interest that has been due but not yet paid at the balance sheet date was recognized under "other liabilities". The relevant data in 2017 shall not be traced to adjust.

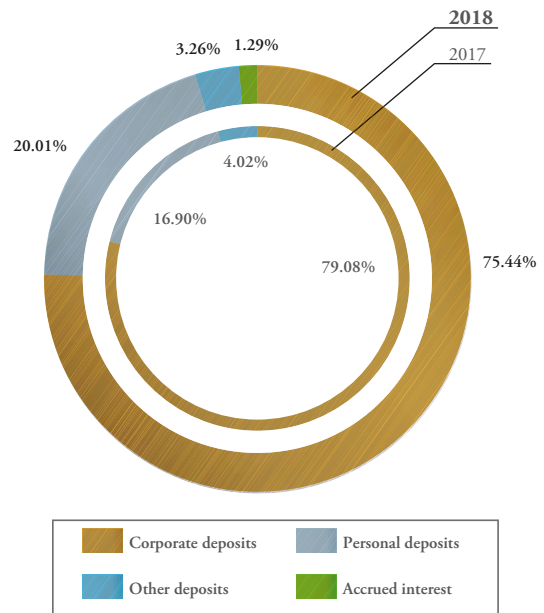
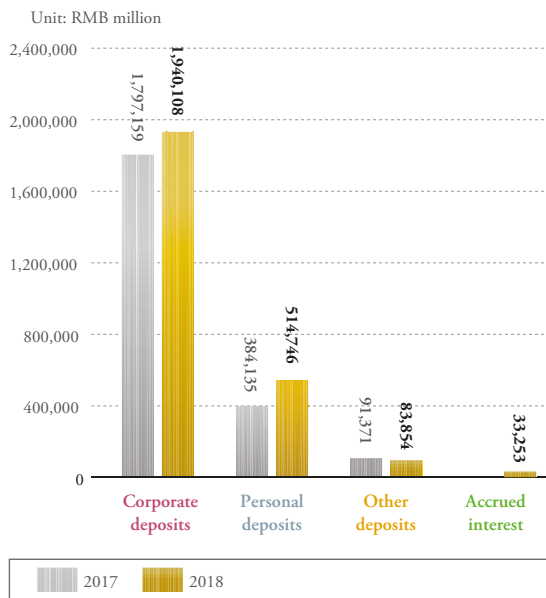
Discussion and Analysis of Operations

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,571,961 million, representing an increase of RMB299,296 million or 13.17%, as compared with the end of the previous year.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate deposits	1,940,108	75.44	1,797,159	79.08
Demand deposits	732,628	28.49	740,220	32.57
Time deposit	1,207,480	46.95	1,056,939	46.51
Personal deposits	514,746	20.01	384,135	16.90
Demand deposits	194,434	7.56	179,176	7.88
Time deposits	320,312	12.45	204,959	9.02
Other deposits	83,854	3.26	91,371	4.02
Accrued interest	33,253	1.29	N/A	N/A
Total deposits from customers	2,571,961	100.00	2,272,665	100.00

As at end of the reporting period,
the components of the Group's deposits



iii. Equity of shareholders

As at the end of the reporting period, the equity attributable to shareholders of the Group amounted to RMB321,488 million, a year-on-year increase of RMB16,728 million. The increase was mainly due to dividend distribution, switch to new accounting standards for financial instruments, and profit realized in the current period.

Item	Unit: RMB million	
	31 December 2018	31 December 2017
Share capital	52,489	52,489
Other equity instruments	35,108	35,108
Capital reserve	53,533	53,533
Other comprehensive income	1,655	(1,845)
Surplus reserve	24,371	21,054
General reserve	54,036	52,257
Retained earnings	100,296	92,164
Total equity attributable to equity shareholders of the Bank	321,488	304,760
Non-controlling interests	985	676
Total equity	322,473	305,436

iv. Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB1,011,591 million, an increase of RMB210,979 million as compared with that as at the end of the previous year.

Item	Unit: RMB million	
	31 December 2018	31 December 2017
Loan and credit card commitments	279,184	215,246
Bank's acceptance bills	477,110	403,717
Letters of guarantee	123,416	103,295
Letters of credit	131,696	78,169
Guarantees	185	185
Total credit commitments	1,011,591	800,612

IV. CASH FLOW ANALYSIS

The Group's net cash inflows from operating activities amounted to RMB19,514 million. Specifically, cash inflows generated from operating activities reported RMB39,288 million, cash outflows arising from changes in operating assets stood at RMB272,508 million, and cash inflows arising from changes in operating liabilities totaled RMB252,734 million.

Discussion and Analysis of Operations

The Group's net cash inflows from investing activities amounted to RMB55,765 million, of which cash inflows generated from disposal and redemption of investments reported RMB376,114 million and cash outflows arising from acquisition of investment amounted to RMB366,047 million.

The Group's net cash outflows from financing activities were RMB37,444 million, of which cash outflows generated from payment of debt interests registered RMB18,141 million.

V. ANALYSIS OF LOAN QUALITY

i. Distribution of loans by industry

During the reporting period, industries with the top five corporate loan balances of the Group were manufacturing, water, environment and public utility management, real estate, leasing and commercial services as well as wholesale and retail trade.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Manufacturing	248,914	18.68	241,125	20.44
Water, environment and public utility management	222,568	16.70	209,223	17.74
Real estate	192,075	14.41	142,010	12.04
Leasing and commercial services	150,159	11.27	126,451	10.72
Wholesale and retail trade	111,021	8.33	109,268	9.26
Transportation, storage and postal services	94,783	7.11	91,949	7.79
Finance	74,177	5.57	49,780	4.22
Construction	71,435	5.36	62,984	5.34
Production and supply of power, gas and water	43,638	3.27	42,237	3.58
Agriculture, forestry, animal husbandry and fishery	32,356	2.43	20,221	1.71
Others	91,503	6.87	84,415	7.16
Subtotal of corporate loans	1,332,629	100.00	1,179,663	100.00
Personal loans	1,053,203		830,004	
Discounted bills	35,497		22,389	
Total loans and advances to customers	2,421,329		2,032,056	

Note: "Others" consist of mining; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education; etc.

ii. Distribution of loans by region

The distribution of the Group's loans by region remained relatively stable with a well-balanced structure.

Unit: RMB million, %

Region	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	478,383	19.76	382,262	18.80
Pearl River Delta	291,896	12.06	235,902	11.61
Bohai Rim	341,728	14.11	322,013	15.84
Central	382,965	15.82	314,516	15.48
Western	325,532	13.44	301,306	14.83
Northeastern	119,667	4.94	113,724	5.60
Head Office	403,118	16.65	303,300	14.93
Overseas	78,040	3.22	59,033	2.91
Total loans and advances to customers	2,421,329	100.00	2,032,056	100.00

iii. Types of loan collateral and their proportions

The Group's guaranteed loans, mortgage loans and pledged loans combined accounted for 67.84% of the total, and the remaining unsecured loans were mainly granted to customers with relatively high credit ratings.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Unsecured loans	778,691	32.16	591,866	29.13
Guaranteed loans	563,293	23.26	451,380	22.21
Mortgage loans	814,026	33.62	754,180	37.11
Pledged loans	265,319	10.96	234,630	11.55
Total loans and advances to customers	2,421,329	100.00	2,032,056	100.00

Discussion and Analysis of Operations

iv. Top ten loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as at 31 December 2018	Proportion in total loans	Proportion in net capital
Borrower1	Real estate	8,744	0.36	2.12
Borrower2	Manufacturing	8,437	0.35	2.05
Borrower3	Leasing and commercial services	4,900	0.20	1.19
Borrower4	Water, environment and public utility management	4,585	0.19	1.11
Borrower5	Wholesale and retail trade	4,252	0.18	1.03
Borrower6	Finance services	4,008	0.17	0.97
Borrower7	Water, environment and public utility management	3,620	0.15	0.88
Borrower8	Real estate	3,575	0.15	0.87
Borrower9	Manufacturing	3,490	0.14	0.85
Borrower10	Transportation, storage and postal services	3,354	0.13	0.81
Total amount		48,965	2.02	11.88

Notes:

- The proportion of the balance of loans in net capital is calculated according to the requirements of CBIRC.
- Borrower 3 is a related party of the Bank and has conducted a connected transaction with the Bank.

v. Five-category loan classification

Due to some internal and external factors such as macro economy slowdown and structural adjustment, the Group's NPLs balance increased moderately. As at the end of the reporting period, the balance of NPLs reported RMB38,421 million, an increase of RMB6,029 million year on year. The NPL ratio was 1.59%, on a par with that at the end of the previous year.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Normal	2,324,565	96.00	1,939,378	95.44
Special mention	58,343	2.41	60,286	2.97
Substandard	17,392	0.72	10,204	0.50
Doubtful	14,437	0.60	13,875	0.68
Loss	6,592	0.27	8,313	0.41
Total loans and advances to customers	2,421,329	100.00	2,032,056	100.00
Performing loans	2,382,908	98.41	1,999,664	98.41
Non-performing loans	38,421	1.59	32,392	1.59

vi. Loan migration ratio

Item	Unit: %			
	2018	2017	Change from 2017 to 2018	2016
Migration ratio of normal loans	1.94	1.68	+0.26 percentage point	3.31
Migration ratio of special mention loans	38.48	22.49	+15.99 percentage points	26.78
Migration ratio of substandard loans	68.71	57.69	+11.02 percentage points	62.17
Migration ratio of doubtful loans	32.80	36.18	-3.38 percentage points	25.66

vii. Restructured loans and overdue loans

1. Restructured loans

Item	31 December 2018		31 December 2017	
	Balance	Proportion in total	Balance	Proportion in total
Restructured loans and advances to customers	15,788	0.65	19,685	0.97
Restructured loans and advances to customers overdue more than 90 days	801	0.03	971	0.05

2. Please refer to “Notes to Consolidated Financial Statements” for details of overdue loans.

viii. NPLs by business type

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate loans	26,071	67.86	22,785	70.34
Personal loans	12,350	32.14	9,607	29.66
Discounted bills	—	—	—	—
Total NPLs	38,421	100.00	32,392	100.00

ix. Distribution of NPLs by region

During the reporting period, the Group's NPLs in Bohai Rim and Yangtze River Delta increased somewhat, whereas those in Pearl River Delta, Western China and Northeastern China decreased slightly.

Region	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	5,599	14.57	5,006	15.45
Pearl River Delta	4,516	11.75	5,160	15.94
Bohai Rim	9,196	23.94	5,281	16.30
Central	4,477	11.65	4,483	13.84
Western	4,398	11.45	4,727	14.59
Northeastern	2,419	6.30	2,827	8.73
Head Office	7,808	20.32	4,900	15.13
Overseas	8	0.02	8	0.02
Total NPLs	38,421	100.00	32,392	100.00

Discussion and Analysis of Operations

x. Distribution of NPLs by industry

As at the end of the reporting period, the Group's NPLs were mainly concentrated in manufacturing and wholesale and retail trade sectors.

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Manufacturing	15,086	39.27	11,111	34.30
Wholesale and retail trade	6,862	17.86	7,646	23.60
Accommodation and catering	1,252	3.26	223	0.69
Construction	693	1.80	989	3.05
Real estate	576	1.50	275	0.85
Mining	574	1.49	1,164	3.59
Information transmission, computer services and software	336	0.88	140	0.43
Production and supply of power, gas and water	278	0.72	136	0.42
Transportation, storage and postal service	146	0.38	269	0.83
Agriculture, forestry, animal husbandry and fishery	133	0.35	435	1.34
Others	135	0.35	397	1.24
Subtotal of corporate loans	26,071	67.86	22,785	70.34
Personal loans	12,350	32.14	9,607	29.66
Discounted bills	—	—	—	—
Total NPLs	38,421	100.00	32,392	100.00

Note: "Others" consist of health, social security and social welfare; scientific research, technical services and geological prospecting; finance; public administration and social organization; water, environment and public utility management; leasing and commercial services and education.

xi. Distribution of NPLs by collateral type

Unit: RMB million, %

Item	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Unsecured loans	9,764	25.41	7,597	23.45
Guaranteed loans	14,327	37.30	11,280	34.83
Mortgage loans	12,465	32.44	11,218	34.63
Pledged loans	1,865	4.85	2,297	7.09
Total NPLs	38,421	100.00	32,392	100.00

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	31 December 2018	31 December 2017
Reposessed assets	469	494
Land, buildings and structures	469	494
Less: provision for impairment	(11)	(18)
Net value of reposessed assets	458	476

xiii. Provision for loan impairment losses and write-off

The Group's provision for loan impairment losses includes provision for impairment of corporate loans and personal loan measured at amortized cost as well as provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income

The Group conducts credit risk test on financial instruments on the balance sheet date, and made provision for the estimated credit loss for loans of varied risk levels according to their potential risk. The provision for impairment losses was recognized through profit or loss for the current period.

Item	Unit: RMB million	
	31 December 2018	31 December 2017
Balance at the end of last year	51,238	43,634
Adjustment at the beginning of the year according to IFRS 9	6,833	N/A
Balance at the beginning of the year ¹	58,071	43,634
Charge for the year ²	38,867	20,937
Release for the year	(4,153)	(1,237)
Recoveries due to written-off loans and advances for the year	1,527	884
Unwinding of discount ³	(792)	(1,015)
Write-offs during the year	(16,162)	(6,007)
Disposal in the year	(10,149)	(5,958)
Balance at the end of the year ¹	67,209	51,238

Notes:

1. It excludes provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income.
2. It includes provision for impairment of loans made due to change of stage and change in cash flow resulting in loan contract being not derecognized.
3. It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

xiv. Major measures for non-performing assets management and write-off policies for bad debts

The Bank further improved its asset quality management mechanism, strengthened the over-procedure monitoring process in respect to asset quality, and intensified efforts in NPL recovery. It accelerated the building of a special assets resolution information system to improve the efficiency of NPL disposal and maximize the value of NPLs. It also adopted new approaches of NPL disposal and pushed forward the implementation of market-oriented debt-for-equity swaps, so as to support the development of private enterprises and serve the real economy.

Pursuant to the requirements of the *Administrative Measures on Write-off of Bad Debts for Financial Enterprises (2017 revision)* issued by MOF, the Bank referred to the principle of conforming to identified conditions, providing with efficient evidence, strengthened the review of written-off debts and improved the efficiency of bad debt write-off. With assets written down but creditor's rights kept while debts under consistent recovery, the Bank shored up its efforts in recovering written-off debts to maximize the recovery value.

During the reporting period, the Bank recovered NPLs in cash amounting to RMB11,152 million, wrote off bad debts of RMB16,160 million and completed the transfer of creditor's rights valuing RMB13,416 million.

VI. CAR ANALYSIS

Please refer to Section Five "Key Accounting Data and Financial Indicators" and *Capital Adequacy Ratio Report 2018* issued by the Bank for details.

Discussion and Analysis of Operations

VII. SEGMENT PERFORMANCE

The Group divided its business into different segments by geographical area and business line for management purpose. Fund lending between different regional and business segments was conducted at an internal transfer price determined on the basis of market interest rate, and interest income and interest expenses among segments were recognized.

i. Performance by regional segment

Unit: RMB million

Item	2018		2017	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	18,056	5,381	14,011	5,864
Pearl River Delta	14,180	3,680	8,811	2,113
Bohai Rim	16,163	929	13,093	2,041
Central	16,125	3,493	12,787	5,548
Western	12,111	2,727	8,659	2,548
Northeastern	5,198	93	3,752	(536)
Head Office	26,901	23,527	29,818	22,459
Overseas	1,652	1,022	1,087	609
Total	110,386	40,852	92,018	40,646

ii. Performance by business segments

Unit: RMB million

Item	2018		2017	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking	44,836	7,958	42,593	15,599
Retail banking	46,518	16,855	35,572	14,041
Financial market business	18,935	16,034	13,735	11,047
Other business	97	5	118	(41)
Total	110,386	40,852	92,018	40,646

Please refer to “Notes to Consolidated Financial Statements” for details.

VIII. OTHERS

i. Changes in major financial indicators and reasons for these changes

Unit: RMB million, %

Item	31 December 2018	31 December 2017	Increase/ (Decrease)	Major reasons for change
Precious metals	23,628	40,352	-41.45	The precious metals held scaled down.
Placements with banks and other financial institution	96,685	148,816	-35.03	The scale of inter-bank assets was compressed, and the placements with non-deposit-taking financial institutions was reduced.
Derivative financial assets	15,212	4,513	237.07	The revalued gain of derivative products rose.
Financial assets held under resale agreements	37,773	91,441	-58.69	Bonds held under resale agreements decreased.
Interest receivable	N/A	28,576	N/A	The items recognized were adjusted, of which the charged interest on financial instruments was recognized in the book balance of the corresponding financial instruments, and the interest that has been due but not yet received at the balance sheet date was recognized under "other assets".
Financial assets at fair value through profit or loss	222,737	24,196	N/A	Affected by the adoption of IFRS 9, the reclassification of some assets resulted in adjustments to the items recognized in the statements
Debt instruments at fair value through other comprehensive income	153,987	N/A	N/A	same as above
Equity instruments at fair value through other comprehensive income	367	N/A	N/A	same as above
Financial investments measured at amortized cost	923,989	N/A	N/A	same as above
Available-for-sale financial assets	N/A	414,547	N/A	same as above
Held-to-maturity investments	N/A	344,617	N/A	same as above
Debt securities classified as receivables	N/A	514,576	N/A	same as above
Deferred tax assets	10,794	7,596	42.10	Deferred tax assets increased.

Discussion and Analysis of Operations

Item	31 December 2018	31 December 2017	Increase/ (Decrease)	Major reasons for change
Placements from banks and other financial institutions	152,037	106,798	42.36	Placements from overseas peers and domestic deposit-taking financial institutions increased.
Derivative financial liabilities	14,349	6,552	119.00	The revalued loss of derivative products rose.
Interest payable	N/A	40,206	N/A	The items recognized were adjusted, of which the charged interest on financial instruments was recognized in the book balance of the corresponding financial instruments, and the interest that has been due but not yet paid at the balance sheet date was recognized under “other liabilities”.
Other comprehensive income	1,655	(1,845)	N/A	Affected by the adoption of IFRS 9, changes in fair value of financial assets at fair value through other comprehensive income and impairment allowance led to increase in other comprehensive income.
Net gains/(losses) arising from investment securities	9,862	(193)	N/A	Affected by the adoption of IFRS 9, financial assets at fair value through profit or loss generated more net earnings from investment securities
Net trading gains/(losses)	1,071	(2,751)	N/A	The items recognized were adjusted, of which gains/(losses) arising from foreign exchange derivative financial instruments was moved from “net trading gains/(losses)” to “net foreign exchange (losses)/gains”.
Net foreign exchange (losses)/gains	724	2,464	N/A	same as above
Impairment losses on assets	35,828	20,570	74.18	More credit allowance was set aside.
Other comprehensive income	2,776	(2,354)	N/A	Affected by the adoption of IFRS 9, changes in fair value of financial assets at fair value through other comprehensive income and impairment allowance led to increase in other comprehensive income.

ii. Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue or outstanding debts.

iii. Interest receivable and provision for bad debts related

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the year	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance-sheet interest receivable	28,628	164,989	160,736	32,881

Note: According to the Format for 2018 Financial Statements of Financial Enterprises promulgated by MOF, "interest receivable" is no longer recognized as an item, of which the charged interest on financial instruments was recognized in the book balance of the corresponding financial instruments, and the interest that has been due but not yet received at the balance sheet date was recognized under "other assets".

2. Provisioning of allowance for bad debts of interest receivable

Unit: RMB million

Item	31 December 2018	31 December 2017	Increase
Balance of allowance for bad debts of interest receivable	4	52	(48)

iv. Other receivables and provisioning of allowance for bad debts related

1. Change in other receivables

Unit: RMB million

Item	31 December 2018	31 December 2017	Increase
Other receivables	13,738	8,693	5,045

2. Provisioning of allowance for bad debts of other receivables

Unit: RMB million

Item	31 December 2018	31 December 2017	Increase
Balance of allowance for bad debts of other receivables	632	566	66

Discussion and Analysis of Operations

IX. PERFORMANCE OF BUSINESS SEGMENTS

i. Corporate banking

1. Corporate deposits and loans

Following the new regulatory requirements, the Bank introduced a series of innovative liability products, improved the deposit structure and kept increasing core deposits. In improving the industry mix, the Bank actively aligned itself with the country's significant strategic projects and placed focus upon supporting the environmental, tourism, health care and advanced technological products. The Bank extended bigger support to private enterprises and the real economy, brought into existence the tools for support of private enterprises' bond financing, and completed the first market-oriented debt-for-equity swap project. With refined management in place, the Bank strengthened cost control, deepened the re-lending after collections, upgraded the allocation of credit resources, and raised the interest margin and the return on assets. As at the end of the reporting period, the balance of corporate deposits (including the corporate business related portion in other deposits) amounted to RMB1,943.678 billion, representing an increase of RMB142.730 billion or 7.93% over the end of the previous year. Among the above, the core corporate RMB deposits increased by 2.32%; the balance of corporate loans was RMB1,332,629 million, an increase of RMB152,966 million or 12.97% year on year.

2. Inclusive finance

The Bank improved the institutional framework of inclusive finance by setting up the Inclusive Finance Department at the Head Office and the inclusive finance management committee and the inclusive finance department at all 39 branches in the mainland. It extended the pilot program of the "Credit Factory" model, made attempts to try various supply chain financial activities and creatively premiered online inclusive products to create better financing experience for customers. It sorted out the key risk points of credit business in inclusive finance and strengthened the management and control of related risks. At the end of the reporting period, the Bank achieved total compliance with CBIRC's indicators on "two increases and two controls". Specifically, the loans to small and micro enterprises with the total loans of no more than RMB10 million for each enterprise was RMB128,176 million, representing a year-on-year increase of 30.74%; there were 308,900 small and micro enterprise customers with a loan balance, 51,600 more than the end of last year.

3. Investment banking

The Bank took investment banking business as an important channel of shifting to the mix of "commercial banking and investment banking" and diversifying financial services, and made great efforts to develop bond financing and M&A financing. During the reporting period, the Bank underwrote bonds up to RMB245.90 billion. It successfully issued special anti-poverty bonds, social impact bonds and many other kinds of innovative bond products, and created the first group of Credit Risk Mitigation Warrants (CRMW) which can support private enterprise to issue bonds. M&A financing business grew swiftly, and formed varied innovative business models. The new financing for private enterprises M&As accounted for 59.63% of the total, indicating that the Bank actively served the real economy.

4. Trade finance

The Bank actively transformed its trade finance modal to transactional banking. It created the "Sunshine Supply Chain" product lines, and leveraged the advantages of capital-efficient assets and product innovation to stimulate the growth of fee-based business income. The Bank picked up speed in establishment of overseas institutions and FTZ-based institutions, increased the business linkage between domestic institutions and overseas institutions, and FTZ-based institutions, and installed a comprehensive financial services platform across China and the rest of the world, in and out of the FTZs. On the basis of consolidating traditional settlement and financing business, the Bank adopted technological means to carry forward online supply chain business and cross-border e-commerce payment business, and put in place a cross-border fund pooling system and an e-service platform for international settlement and trade finance in a bid to expand the customer base. As at the end of the reporting period, the overall balance of the on- and off-balance-sheet trade finance increased by 29.65% over the end of the previous year.

ii. Retail banking

1. Personal deposits

Adhering to the strategy of “developing via deposit business”, the Bank strengthened product innovation, deepened customer-oriented integrated operations and kept the scale of personal deposits expanded on a steady footing. In the course of retail banking outlet transformation, the number of inefficient outlets were reduced, and the capacity of outlets decreased. The Bank made debut an innovative personal CDs product featured with monthly interest payment and brought the driving force of key projects such as payroll service, third-party depository, fund custody service and “going abroad” finance into play. By the technological means of big data and cloud computing, the Bank carried out targeted marketing procedures to increase customers’ comprehensive contribution. As at the end of the reporting period, the balance of personal deposits (including personal deposits in other deposits) of the Bank amounted to RMB595.030 billion, representing an increase of RMB123.313 billion or 26.14% as compared with the end of the previous year.

2. Personal loans

The Bank accelerated the transformation of personal loan business, advocated inclusive finance to support the private economy and improve customer experience. It actively innovated the product system, creating hit products of personal loan, meanwhile focused on other personal loans rather than housing loans, increasing the interest rates of new loans for higher profitability. The Bank further integrated data sources, using big data technology to capture effective information so as to improve the overall risk control system. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB652,699 million, representing an increase of RMB123,311 million or 23.29% as compared with the end of the previous year. The volume of personal loans granted by the Bank in 2018 was RMB449,705 million.

3. Private banking

Aiming to become the “partner of companies and families”, the Bank provided private banking customers with personalized and multi-dimensional family office solutions including wealth management, law & tax consultation and intergenerational education, etc. The private banking service system was updated mainly in the following four aspects: launching high-end financial services, issuing exclusive diamond cards, introducing exclusive mobile service channels and improving customer experience. Besides, in order to optimize private banking services, the Bank provides customers with asset allocation reports on a quarterly basis, and makes professional suggestions on how to allocate assets.

4. Bank card business

(1) Debit card business

The Bank devoted itself to innovating mobile payment functions and their application scenarios of debit card and intensifying the efforts in “Cloud Quick Pass” marketing. It introduced a mobile payment platform for medical insurance, organically coupling medical care with finance. Actively practicing the classified management of individual bank settlement accounts, the Bank improved the debit card control functions and enhanced the capability of risk management. By pooling internal resources, the Bank offered customers a package of its comprehensive financial products and services. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 65.08 million, including 4.42 million new cards issued in the year.

(2) Credit card business

Sticking to the innovation-driven development, the Bank offered credit card products featuring extensive customer coverage and diversification of consumption scenarios, and particularly concentrated efforts on enriching the product lines of “mega tourism” and “mega health care”. To cement brand-building with service improvement, the Bank launched thematic marketing campaigns fitting into the characteristics of specific customer groups, what was popular in the market and the timing, in an effort to make the brands more influential and the customer experience more optimal. Empowering risk control with technology, the Bank adopted big data and AI technologies, and enhanced its capabilities of risk monitoring, early warning and response. As at the end of the reporting period, 15,264,000 new credit cards were issued by the Bank in the year, with the total number of credit cards issued reaching

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60,527,300. The transactions volume at the end of the reporting period arrived at RMB2,288,675 million, up 36.70% over the end of last year. The overdraft balance at the end of the year (excluding the payment adjustment to transitional account) amounted to RMB401,432 million, up 32.51% over the end of last year. The Bank generated an operating income of RMB39,039 million during the reporting period, up 39.43% year on year.

5. E-banking

The Bank went digital at a faster speed. Being customer-centric and innovation-driven, the Bank promoted the transformation of electronic channel services to platform operations, and witnessed the rapid development of internet finance. As at the end of the reporting period, 97.91% transactions were handled through electronic channels, 0.92 percentage point higher than the last year. The Bank had 49.3733 million mobile banking customers and 528.5 thousand corporate online banking customers, up 14.0221 million and 125.6 thousand over the previous year end respectively. Direct banking saw a faster adoption of the B2B2C cooperation model, and the Bank partnered with more than 200 enterprises in over 10 industries. The transactions of “Cloud Payment” were valued at RMB4.65 trillion, and the balance of “Sunshine Loan” rose by RMB59.726 billion over the prior year end to RMB63.35 billion. Relying on the “Go Brilliant” E-commerce platform, the Bank opened up green channels for more than 40 state-level poverty-stricken counties in 11 provinces (autonomous regions) to sell their specialty goods.

6. Cloud Fee Payment

The Bank set up the Cloud Fee Payment Business Center in charge of convenient fee payment business development. This business has obtained key support in the construction of Beijing FinTech and Specialized Service Innovation Demonstration Zone. By integrating and opening fee payment resources, the Bank made its Cloud Fee Payment services cover over 4,000 items of 17 categories nationwide, and rolled out the business in Hong Kong allowing online payment of 289 items. Pursuing opening-up and cooperation, the Bank strengthened the cooperative relationships with important partners, and further increased its dominance as the provider of China’s biggest (open) fee payment platform. During the reporting period, there were accumulatively 4,041 payment business on “Cloud Fee Payment” platform, a year-on-year increase of 101.55%, including 2,036 payment business in 2018. The platform users, at 253 million, grew by 64.71% over the prior year. They made a total payment of RMB206,274 million, up by 136.61% over last year.



iii. Financial market business

1. Treasury business

To create more profits, the Bank strengthened fund management, ensured liquidity safety and improved capital operation efficiency. It moderately increased the investment in bonds, improved bond investment structure by buying more treasury bonds, local government bonds and policy financial bonds, and enhanced portfolio income. Moreover, the Bank increased the proportion of trading and franchise business in order to reduce the asset-dependent business. It promoted the high-quality development of gold leasing business, and increased the income of fee-based business. It improved the comprehensive risk management and control system to ensure the treasury business could run compliantly and orderly. As at the end of 2018, the balance of bonds in proprietary account amounted to RMB568,188 million, accounting for 13.04% of the Bank's total assets, 51.30% of which were government bonds and local government bonds. The Bank accumulatively scored RMB23.87 trillion in RMB bond settlement, which was at the forefront of joint-stock commercial banks.

2. Interbank business

The Bank continued to maintain a proper scale of interbank business, put interbank business under heightened franchised management, and guaranteed operational compliance. Consistent with the market trends, the Bank resumed the original mission of the business, strengthened the management of interbank asset and liability portfolios, adjusted the term structure of assets and liabilities, and met the needs of the bank-wide liquidity management. Besides, the Bank constantly improved its interbank investment structure, and increased the investment in standardized products to better serve the real economy. The Bank strengthened the relationship management of peer customers and enhanced business collaboration with other banks and non-bank financial institutions while exploring more opportunities for cooperation and making efforts to market and visit interbank customers so as to enlarge and optimize interbank customer base. As at the end of the reporting period, the balance of interbank deposits amounted to RMB490,091 million.

3. Asset management business

Following the regulatory guidance, the Bank improved its asset quality and endeavored to promote the issuance of net asset value wealth management products. It adjusted the structure of fund source and guided the shift of fixed-term products issued periodically to open-end products issued on a rolling basis. On the principle of "compliance foremost and complete coverage", the Bank strictly controlled risks and made the work more foresighted and refined. It improved the system and mechanism, actively prepared for the establishment of the wealth management subsidiary and stimulated the stable transformation and development of wealth management business. As at the end of the reporting period, the Bank accumulatively issued RMB5.85 trillion of wealth management products, an increase of RMB1.00 trillion or 20.62% over the end of last year; the Bank's wealth management products had a balance of RMB1.24 trillion. All products under "Sunshine Wealth Management" brand were honored upon maturity.

4. Asset custody services

With a focus on "market expansion, service improvement and risk prevention", the Bank rendered custody services and increased the efforts in marketing, thus scaling up the custody of wealth management products stably. The Bank upgraded the new-generation custody system, constructed a sound custody product system and business system and improved the capability of service provision in the market. The Bank strengthened risk management and ensured the stable operation of business. Through enhancing marketing campaigns, the Bank successively won several bids and became the occupational annuity custodian of central institutions and many institutions at the provincial and autonomous region levels, demonstrating strong capability in custody and the market's recognition of the business. As at the end of the reporting period, the Bank's income after tax from custody business amounted to RMB1,231 million, and RMB5,386,213 million of assets were under the Bank's custody.

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X. BUSINESS INNOVATION

The Bank vigorously carried forward product innovation and service innovation. It offered many kinds of innovative supply chain products including “Sunshine Refactoring” and “Sunshine Financing e Chain” in succession. It successfully completed the first market-oriented debt-for-equity swap project, and was the first joint-stock commercial bank to use the money saved from reserve requirement ratio cut to support the development of private economy. It creatively introduced “Sunshine e Loan” for small and micro enterprises, a kind of low-cost financing service. According to the new regulations on asset management, the Bank offered “Colorful Sunshine”, new-generation net worth-based wealth management product series. Besides, the Bank opened the “Bank-yi” supermarket to improve customer experience in an all-around way.

XI. INFORMATION TECHNOLOGY

During the reporting period, the Bank’s information systems ran stably, with no major security incidents happened.

The Bank successively rolled out a raft of major systems, which included the core business system (version 3.0), the new-generation corporate customer relationship management system, the new-generation wealth management platform, the new-generation precious metal trading system, the new-generation bonus point system, the new retail performance management system, smart counters, mobile PAD of outreach business and Everbright Supermarket. Applying new FinTech, the Bank built a smart financial brain, updated intelligent service channels, jointly established a “FinTech Innovation Laboratory” with the internet giant, laid out the platform for bank digitalization, created digital “knockout products” such as Cloud Fee Payment, Cloud Payment and “Reassuring Loan” product and digital “famous shops” including mobile banking, online banking and remote banking, launched the branch efficiency management, customer persona and behavioral analysis, fee payment cloud picture and other big data products, and kicked off the development of the block-chain technological platform.

XII. HUMAN RESOURCES MANAGEMENT

During the reporting period, keeping to the strategy of “building a first-class wealth management bank”, the Bank improved the official structure by adjusting the official selection & appointment mechanism and introducing open recruitment of principals of some branches and subsidiaries for the first time. The Bank improved the employee growth mechanism, and innovatively launched the “Talent Initiative” to retain a reasonable mobility of talents internally and optimize the allocation of human resources. It reasonably allocated staff costs, improved the performance assessment system, made the operation of the assessment & incentive mechanism more efficient and earnestly protected the employees’ rights and benefits. The Bank made further advance in training reform and innovation, brought more people under training, enhanced the capability and caliber of officials and employees and strove to create an organization in which everyone enjoys learning.

XIII. INVESTMENT ANALYSIS

i. As at the end of the reporting period, the balance of the Bank's long-term equity investments amounted to RMB7,383 million, representing an increase of RMB2,973 million or 67.41% as compared with the end of previous year.

ii. Material Equity Investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principal business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	468,000	531,000	90	54,480	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Village Bank Co., Ltd.	Commercial banking	10,500	10,500	70	1,103	Sany Group Co., Ltd., Hunan Poly Real Estate Development Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan City Construction Investment Company Limited.
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	Commercial banking	7,000	7,000	70	1,269	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiyi Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Co., Ltd.	Investment banking	HKD2.6 billion	-	100	HKD13.08 million	Nil
China Everbright Bank (Europe) S.A.	Full-licensed banking business	EUR20 million	2,000	100	EUR-2.93 million	Nil
Jiangxi Ruijin Everbright Village Bank Co., Ltd.	Commercial banking	10,500	10,500	70	-6.16	Ruijin Cultural Tourism Development and Investment Co. Ltd., Ruijin Hongdu Aquatic Food Co. Ltd., Ruijin Lyuyexuan Forestry Co., Ltd., Ruijin Tiancheng Agricultural Products Co., Ltd.
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	1,208,300	Other commercial banks, etc.

Discussion and Analysis of Operations

Notes:

1. All the above-mentioned major equity investments were made with unquoted equity.
2. All the above-mentioned major equity investments were long-term investments.
3. All the above-mentioned equity investments were not subject to any litigation.
4. The gain (loss) for the reporting period of China Union Pay Co., Ltd. are based on data as of 30 Sept. 2018.

iii. During the reporting period, the Bank had no material non-equity investment and conducted bond investment in the ordinary course of its businesses. Please refer to the afore-mentioned for details.

iv. Financial assets designated at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to “Notes to the Consolidated Financial Statements” for details.

XIV. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL DISPOSAL OF EQUITY INTEREST OF THE BANK.

XV. MAJOR COMPANIES IN WHICH THE BANK HELD EQUITY

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company engages in financial leasing business. It was registered in Wuhan City, Hubei Province with a registered capital of RMB5.9 billion. During the report period, the company mainly focused its financial leasing on fields related to national economy and people’s well-being, such as public utilities, infrastructure construction, urbanization construction as well as national strategic emerging industries such as new materials, new energy, high-end manufacturing, and clean energy etc. By now, it has formed certain brand advantages in aviation equipment and vehicle equipment. As at the end of the reporting period, its total assets, net assets and net profit were RMB72,707 million, RMB8,376 million and RMB545 million, respectively.

ii. Shaoshan Everbright Village Bank Co., Ltd.

Founded in September 2009, the village bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150million. During the reporting period, it continued to serve farmers, agriculture and rural areas as well as the local area. It helped support the growth of micro business and county economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets, net assets and net profit were RMB881 million, RMB215 million and RMB11.03 million, respectively.

iii. Jiangsu Huai'an Everbright Village Bank Co., Ltd.

Incorporated in February 2013, the village bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Huai'an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve farmers, agriculture and rural areas, developed the micro business, and achieved steady growth. As at the end of the reporting period, its total assets, net assets and net profit were RMB926 million, RMB129 million and RMB12.69 million, respectively.

iv. CEB International Investment Corporation Limited

Registered with a capital of HKD2.6 billion in Hong Kong in June 2015, the company has obtained the licenses for securities trading, securities consulting, financial consulting and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsor and underwriting, public offering and placement of new shares on secondary market, and enterprise refinancing. As at the end of the reporting period, its total assets, net assets and net profit were HKD9,480 million, HKD2,300 million and HKD13.08 million, respectively.

v. China Everbright Bank (Europe) S.A.

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it mainly engages in deposit taking, loan granting, bill and bond issuance and any other business that can be conducted by credit institutions according to local laws. During the reporting period, it focused its efforts on developing import and export refinance and domestic guarantee for overseas loans. As at the end of the reporting period, its total assets, net assets and net profit were EUR32.82 million, EUR15.49 million and EUR-2.93 million, respectively.

vi. Jiangxi Ruijin Everbright Village Bank Co., Ltd.

Incorporated on November 2018, the rural bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Ruijin City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it proactively served farmers, agriculture and rural areas, and developed the micro & SME business. As at the end of the reporting period, its total assets, net assets and net profit were RMB703 million, RMB150 million and RMB-61.6 thousand, respectively.

XVI. SPECIAL PURPOSE ENTITIES CONTROLLED BY THE BANK AND STRUCTURED PRODUCTS

- i. There are no special purpose entities controlled by the Bank.
- ii. The structured products whose equities are held by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to the Consolidated Financial Statements" for details.

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XVII. RISK MANAGEMENT

i. Credit risk management

The Bank continued to improve its comprehensive risk management system, performed its duties in relation to “three lines of defense”, and strengthened the coordinated management of various risks as per the unified management of policy, approval, monitoring and resolution. It refined the management system for credit orientation policies to highlight differentiated policies for different regions and industries. Besides, it upgraded risk control technology and stepped up system development so as to advance business progress. The Bank also enhanced its credit risk management of key group corporate customers and reinforced unified credit management for all such customers.

The Bank improved the credit structure and intensified support for private enterprises by treating them equally in terms of credit policies, product innovation, service efficiency, and internal assessment. For better serving micro businesses, and farmers, agriculture and rural areas, it capitalized on internet technologies to expand marketing channels, innovated products and services and developed inclusive finance. To support supply-side structural reform, the Bank intensified its support for environmental protection, tourism, healthcare and new technologies while promoting the clearing and overcapacity reduction of “zombie enterprises” in an orderly manner. In addition, it came up more ways to develop investment banking, did better in integrating funds, products and channels, and offered comprehensive financial services as actually needed by real economy.

The Bank improved the all-round, coordinated management system of asset quality, brought loans under rigid classified management, and classified risks in a prudent and consistent manner, so as to reveal risks arising from loans truthfully. Besides, it pursued the prudent, robust and objective provision policies while putting each potential asset loss under impairment test and provisioning according to the new accounting standards for financial instruments.

Please refer to “Notes to Consolidated Financial Statements” for further details.

ii. Liquidity risk management

The Bank held a prudent and stable attitude towards the liquidity risk management policy and upheld “daytime liquidity security and regulatory attainment” as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within an appropriate range. Acting on regulatory policies and changes in the market, the Bank made reasonable arrangement for its business volume and term structure and lifted its refined management to higher level. At the same time, the Bank made preventive arrangements, adjusted internal fund transfer price dynamically, explored diversified liability channels, and reserved high quality liquidity assets, thereby enhancing its ability to withstand liquidity risk.

Please refer to “Notes to the Consolidated Financial Statements” for further details.

iii. Market risk management

The Bank continued to improve the investment decision-making mechanism and market risk management procedures and clarified market risk management strategies of a variety of businesses. Based on the adjustment of new accounting standards, it improved the structure of market risk limit, continuously monitored, controlled, and reported the implementation of relevant market risk exposures. As a result, all market risk monitoring indicators were within the range of risk appetite. At the same time, the Bank endeavored to predict and analyze the interest rate risk and exchange rate risk and followed up with the risk exposure and change trend of market-oriented businesses. It established a bond early monitoring system to prevent the default of debentures, and carried out stress tests to assess the risk it would face in extreme scenarios.

Please refer to the “Notes to the Consolidated Financial Statements” for further details.

iv. Operational risk management

The Bank focused its efforts on layered management, based its work on the three lines of defense, and emphasized responsibilities of all business lines and functional departments as the “first line of defense” in operational risk management. By implementing three operational tools including risk and control self-assessment (RCSA), loss data collection (LDC) and key risk indicator (KRI), the Bank consistently carried on relevant operational managements, such as identifying, monitoring, collecting, analyzing, warning, handling and reporting operational risk in a bid to forestall the occurrence of material operational risk events. Besides, the Bank continuously stepped up efforts to investigate whether there was abnormal information on financial transactions carried out by employees and customers and gave full play to unannounced inspections in order to effectively forestall the occurrence of risk cases.

Please refer to “Notes to Consolidated Financial Statements” for further details.

v. Compliance risk management

The Bank proactively established a first-class internal control management mechanism and constantly improved the internal control compliance system including organization, accountability, policies, assessment, monitoring, supervision, case prevention and training, etc. It increased the compliance management effectiveness of primary-level branches by setting up Legal & Compliance departments inside second-level branches. It conducted special compliance and audit inspections, checked the rotation duty performance of sub-branch general managers and urged the rectification of any deficiencies detected. Moreover, it stepped up efforts on the publicity and training and helped all employees raise their awareness of compliance through multiple means such as competition, guidance, lecture and online micro-lecture.

vi. Reputational risk management

The Bank attached great importance to reputational risk management which was demonstrated via its revised rules and regulations and upgraded management system. It strengthened the capacity of risk identification and early warning and improved risk prevention and resolution. In addition, with the aim to control reputational risk at earlier steps, it screened regularly to prevent problems before they occur. For better serving customers, the Bank effectively linked reputational risk management and complaint handling. Meanwhile, it conducted internal training and emergency drills so as to help entire staff raise their reputational risk awareness.

No material public opinion events that seriously affected the Bank’s reputation or management occurred in the whole year.

vii. Anti-money laundering (AML) management

The Bank comprehensively carried on centralized AML operation model while setting up AML centers inside branches. It improved the internal control policies and the self-assessment regulations on money laundering risk and upgraded the AML system to enhance the capacity of AML monitoring. Moreover, it strengthened money laundering risk assessment of financial products and timely released risk warning. The Bank also launched AML publicity and education activities to strengthen the AML awareness among employees and the public and fulfilled its AML obligations across the board.

XVIII. OUTLOOK OF THE BANK

i. Competition landscape and development trend of the industry

In 2019, guided by the principle of “Six Stabilities”, namely stability in employment, finance, foreign trade, foreign capital, investment, expectation, the Chinese banking industry will serve the supply-side structural reform and make steady progress in structural deleveraging. Besides, it will step up the building of a comprehensive risk management system in a bid to prevent and diffuse financial risk and forestall systematic financial risk. The industry will proactively support the implementation of national major strategies, make solid progress in inclusive finance and continuously improve the ability to serve the real economy.

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ii. Development strategy

The Bank will adhere to reform and innovation, seek development amid stability, strive to develop itself into a first-class wealth management bank that bears vision and value, seeks for quality, featured and innovative development, never oversteps its bottom line, and is reputable, dynamic and responsible, in order to create greater value for the shareholders and customers. The Bank will change its mode of growth, gather its pace in strategic transformation, develop wealth E-SBU (CEB Ecological Collaborative Strategy), consolidate its management foundation, and enhance its profitability. At the same time, it will make greater strides in Fin Tech innovation, hold on to the bottom line of risk management and deliver higher-quality services and better experience to customers.

iii. Business plan

In 2019, the Bank will focus on the operation of key business and strengthen the capacity for high-quality development. It will gather its pace in the transformation towards an “efficient, technology-driven and ecological” banking, raise service awareness and enhance market competitive advantage. Besides, it will hold on to the bottom line of risk management, increase shareholders’ return and improve market value management. In sum, the Bank is moving towards the goal of becoming a first-class wealth management bank. If there should be no significant change in current operating environment and regulatory policies, the Bank will strive to achieve a loan growth rate of no lower than 10%. This business plan does not constitute a performance commitment of the Bank to investors, who shall maintain sufficient risk awareness and understand the discrepancy between business plan and performance commitment.

iv. Capital demand plan

The Bank will formulate capital plans based on its financial budget, strategic planning and stress testing results. Based on its actual conditions, the Bank will further consolidate its capital base by replenishing capital via internal and external channels. Besides, it will implement counter-cyclical capital management to smooth the influence of economic fluctuation and changes in regulatory policies and ensure sustainable development.

v. Potential risk and countermeasures

In 2019, the international economic situation is complicated and geopolitics risks remain high. There are uncertainties in the trend of monetary policies in major developed economies. Domestically, China’s economy is steady as a whole while facing downward pressure.

With a commitment to the general principle of pursuing progress while ensuring stability, the Bank will make steady progress, adjust business structure, improve performance, actively prevent and diffuse financial risks and constantly enhance the ability to serve the real economy. Meanwhile, it will transform itself into a bank with light assets, strengthen the capacity for sustainable development and give priority to the following work. First, the Bank shall maintain strategic focus and put strategies into place. Second, the Bank shall implement the innovation-driven development strategy, deepen the integration of information technology and management, and speed up the replacement of old growth drivers. Third, the Bank shall deepen the reform of system and mechanism, integrate and improve resource allocation and business procedures. Fourth, the Bank shall improve its comprehensive risk management framework and the risk governance system to advance the sustainable, healthy development of businesses.



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阳光金系列
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阳光富系列
主要投资于高信用等级债券资产

阳光衡系列
主要投资于结构化理财产品

阳光盈系列
主要投资于权益类资产

阳光创系列
主要投资于创新类资产

阳光薪系列
主要投资于货币类资产

阳光美系列
主要投资于海外资产



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Significant Events

I. FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY

i. Profit Distribution Policy

In accordance with the profit distribution principle, specific policies and procedure of consideration stipulated in the *Articles of Association* of the Bank, the Bank shall prioritize cash dividends in profit distribution. Except for special situations, the profit to be distributed in cash each year shall be no less than 10% of the distributable profit of the year if both the profit for the year and the accumulated undistributed profit are positive.

ii. The Profit Distribution Plan for 2018

Taking into account the interests of all shareholders, sustainable development of the Bank's business and the requirements of regulators on capital adequacy ratio, and pursuant to the provisions of *the Company Law of the People's Republic of China*, *the Securities Law of the People's Republic of China* and the relevant requirements of the *Articles of Association* of the Bank, the Bank hereby formulates its 2018 profit distribution plan as follows:

1. Taking the net profit of the Bank of RMB33,168.1555 million in 2018 as base, a statutory surplus reserve of RMB3,316.8156 million was drawn at a rate of 10%.
2. According to the relevant provisions of *Management Measures for Provision of Reserves by Financial Institutions promulgated by the Ministry of Finance*, a general reserve of RMB1,701.6101 million was set aside at 1.5% of risk assets in 2018.
3. Distribution of dividends to shareholders of preference shares amounted to RMB1,450 million (RMB1,060 million distributed on 25 June 2018 and RMB390 million distributed on 13 August 2018).
4. Cash dividends was distributed to all shareholders of ordinary shares, with RMB1.61 (before tax) per 10 shares. Based on the Bank's issued shares of 52,489.2654 million as at the end of 2018, the total cash dividends amounted to RMB8,450.7717 million, accounting for 25.11% of the net profit attributable to equity shareholders of the Bank under scope of consolidation. As the convertible bonds issued by the Bank are in the Conversion Period, the total cash dividends actually distributed will be determined based on the total number of shares registered on the date of record. The cash dividends were denominated and declared in RMB, paid to shareholders of A shares in RMB and paid to shareholders of H shares in HKD. The actual amount paid in HKD shall be calculated based on the average benchmark exchange rate of RMB against HKD announced by the People's Bank of China one week prior to the shareholders' general meeting (including the date of the shareholders' general meeting).
5. In 2018, the Bank did not implement capitalization of capital reserve funds.
6. The retained undistributed profits will be used to replenish capital in order to meet the capital adequacy ratio requirements of regulators.

The above profit distribution plan is subject to the approval of the Shareholders General Meeting 2018.

The profit distribution plan for 2018 of the Bank did not make any adjustment or amendments to the existing cash dividend policy of the Bank. The profit distribution plan complied with the *Articles of Association* of the Bank, which defined clear and definite standards and proportion for dividend distribution as well as complete decision-making procedures and mechanism. The Board of Directors and the Board of Supervisors discussed and considered the profit distribution plan, and Independent Non-executive Directors performed their duties to safeguard the legitimate rights and interests of minority shareholders. The above profit distribution plan will be submitted to the Annual General Meeting of the Bank where all of the ordinary shareholders including minority shareholders have right to participate in and express their views and demands. The Annual General Meeting of the Bank shall open online voting, when the votes of minority shareholders in relation to the profit distribution plan will be counted separately as to fully protect the lawful rights interests of minority shareholders.

iii. Profit Distribution of Ordinary Shares and Cash Dividends for the Last Three Years

Item	Unit: RMB million, %		
	2018	2017	2016
Cash dividends	8,450.77	9,500.53	4,574.55
Proportion to net profit attributable to shareholders of the Bank	25.11	30.12	15.08

II. IMPORTANT UNDERTAKINGS AND PERFORMANCE OF UNDERTAKINGS GIVEN BY THE BANK, THE BANK'S DE FACTO CONTROLLER AND SHAREHOLDER AND OTHER RELATED PARTIES

- i. CHI, substantial shareholder of the Bank, undertook that as long as CHI is the controlling shareholder or de facto controller of the Bank, CHI shall not be engaged in competitive business with the Bank. However, since CHI has been the investment arm of the Chinese government specialized in investing in banks and other financial institutions, the business of companies under CHI is not obligated with this undertaking. CHI's undertaking in this regard is effective for a permanent term. As at the end of the reporting period, there was no breach of undertakings committed by CHI.
- ii. Pursuant to the relevant provisions of the CSRC, to ensure the Bank shall effectively implement remedy measures in relation to the proposed public issuance of convertible bonds, all directors and senior management members of the Bank promised to faithfully and diligently perform their duties, safeguard the legitimate rights and interests of the Bank and all shareholders, and made the following commitments:
 1. No interests shall be transferred to other entities or individuals for free or in an unfair way, and not to jeopardize the interests of the Bank by other means;
 2. They shall be thrifty, their work duty-related consumption shall be under restriction in strict compliance with the relevant requirements at the national, local and the Bank level, and they shall refrain from over-consumption and extravagance and waste;

Significant Events

3. They will never utilize the Bank's assets in any investment or consumption activities irrelevant with the performance of their duties;
4. The remuneration policy formulated by the Board of Directors or the Remuneration Committee shall be linked to the implementation of remedy measures for the return by the Bank;
5. If the Bank launches any equity incentive scheme in the future, the conditions for exercising its rights under the intended equity incentive scheme shall be linked to the implementation of remedy measures for the return by the Bank.

The commitments shall be effective from the public issuance of A-share convertible bonds on 17 March 2017 to the maturity of the bonds (16 March 2023) or the completion of conversion of all the bonds to equity shares. As at the end of the reporting period, there had been no violation of the commitments above by the directors and senior management members of the Bank.

iii. According to the Bank's plan on non-public issuance of H shares, China Everbright Group and Overseas Chinese Town Holdings Company respectively undertook that the H shares they subscribed from this issuance shall not be transferred within 60 months after the issuance ended.

On 22 December 2017, the Bank issued 4.2 billion H shares to Overseas Chinese Town Holdings Company and 1.61 billion H shares to China Everbright Group. As at the end of the reporting period, there was no breach of undertakings committed by either of the aforesaid two companies.

As far as the Bank is aware, other than the above matters, there is no material undertaking given by the Bank and the Bank's shareholders, directors, supervisors, senior management members or other related parties.

III. RESERVE

Please refer to "Consolidated Statement of Changes in Equity" for details about reserve change of the Bank.

IV. FIXED ASSETS

Please refer to "Notes to Consolidated Financial Statements" for details about the changes in fixed assets of the Bank as at the end of the reporting period.

V. PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

VI. PRE-EMPTIVE RIGHTS

The *Articles of Association* of the Bank does not provide on pre-emptive rights, and shareholders of the Bank have not been granted any pre-emptive right.

VII. RETIREMENT AND BENEFITS

Please refer to “Notes to Consolidated Financial Statements” for details about the retirement and benefits provided by the Bank to its employees.

VIII. MAJOR CUSTOMERS

As at the end of the reporting period, the operating income contributed by the top 5 major customers of the Bank did not exceed 30% of the Bank’s operating income.

IX. USE OF CAPITAL BY THE CONTROLLING SHAREHOLDER OR OTHER RELATED PARTIES OF THE BANK FOR NON-OPERATING PURPOSES

During the reporting period, there was no non-operational capital occupation by the controlling shareholder or other related parties of the Bank. Ernst & Young Hua Ming LLP has issued a special audit opinion.

X. CHANGES IN ACCOUNTING POLICIES

The Ministry of Finance released the new accounting standards for financial instruments and revenue in 2017, and required the companies listed as both A shares and H shares to adopt these new standards since 1 January 2018. While preparing its financial statements for 2018, the Bank has implemented the above-mentioned accounting standards. According to the related transitional provisions for the execution of these standards, the retained income and other comprehensive income at the beginning of 2018 were adjusted as affected by related data, so there is no need to restate the comparable data for previous periods.

XI. APPOINTMENT AND RESIGNATION OF ACCOUNTING FIRM

i. Appointment of Accounting Firm for Auditing the 2018 Financial Statements

On 22 June 2018, the Bank convened the 2017 Annual General Meeting, deciding to engage Ernst & Young Hua Ming LLP as the accounting firm in charge of the Bank’s domestic audits for 2018 (Gu Jun and Leung Shing Kit as certified public accountants for signature) and to engage Ernst & Young as the accounting firm in charge of the Bank’s overseas audit for 2018 (Kam Cheong Geoffrey as certified public accountant for signature). The audit fees payable to the two firms amounted RMB8.20 million (inclusive of reimbursement and value-added tax). Both of the two accounting firms shall provide the Bank with auditing services for three consecutive years.

ii. Engagement of Accounting Firm for Internal Control Audit

On 22 June 2018, the Bank convened the 2017 Annual General Meeting, deciding to appoint Ernst & Young Hua Ming LLP as its internal control auditor for 2018, and the audit fees payable stood at RMB0.80 million (inclusive of reimbursement and value-added tax).

XII. MATTERS CONCERNING BANKRUPTCY OR REORGANIZATION

During the reporting period, no bankruptcy or reorganization took place at the Bank.

Significant Events

XIII. MATERIAL LITIGATION AND ARBITRATION MATTERS

The Bank was involved in some litigation and arbitration cases in its regular course of business, most of which were initiated by the Bank for the purpose of collecting non-performing loans. As at the end of the reporting period, the Bank is involved in 495 sued litigation and arbitration cases pending final judgment, which involved RMB2.4 billion. The above litigation and arbitration cases will not have a significant adverse impact on the financial position or operating performance of the Bank.

XIV. PENALTY IMPOSED ON THE BANK OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management members, controlling shareholder and de facto controller was subject to any investigation by the competent authorities, any mandatory measures by the judicial authorities or the disciplinary departments, transferal to the judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by CSRC, or public censure by any stock exchange, or any penalty with significant impact on the Bank's operation imposed by any other regulatory body.

XV. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, the Bank, its controlling shareholder and de facto controller did not fail to comply with effective court judgments or repay significant matured debts.

XVI. IMPLEMENTATION OF STOCK INCENTIVE PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN

As at the end of reporting period, the Bank did not implement any stock incentive plan or employee stock ownership plan.

XVII. MATTERS CONCERNING CONNECTED TRANSACTIONS OF THE BANK UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON HKEX (HEREINAFTER REFERRED TO AS "THE HONG KONG LISTING RULES")

In accordance with the *Hong Kong Listing Rules*, the transactions between the Bank and its connected persons (as defined in the *Hong Kong Listing Rules*) constitute connected transactions of the Bank. The Bank has monitored and managed these connected transactions in accordance with the *Hong Kong Listing Rules*.

i. Non-exempt Connected Transactions

1. Establishment of a joint-stock company with China CYTS Tours Holding Co., Ltd. and other parties

On 14 September 2018, upon the approval of the Board of Directors, the Bank signed an agreement with China CYTS Tours Holding Co., Ltd. and O-Bank Co., Ltd. (independent third parties other than the Group and connected persons of the Group) on establishing Beijing Sunshine Consumer Finance Co., Ltd. (the "Consumer Finance Company"). The Consumer Finance Company had a registered capital of RMB1.0 billion, of which RMB600 million or 60% was contributed by the Bank in cash. The details were set out in the Bank's announcement dated 14 September 2018 on "Connected Transactions – Establishment of A Joint-stock Company".

The transaction constituted a connected transaction of the Bank since China CYTS Tours Holding Co., Ltd. is a connected person of the Bank, and one or more transactions under the agreement adopt a percentage ratio between 0.1% and 5%, so it was subject to reporting and announcement requirements under Chapter 14A of the *Hong Kong Listing Rules* but can be exempted from requirement for independent shareholders' approval.

In accordance with applicable laws and regulations, the establishment of Consumer Finance Company is subject to the approval by CBIRC, and such approval was not obtained as at the report date.

ii. Exemptible Connected Transactions

During the reporting period, a series of connected transactions were carried out between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the *Hong Kong Listing Rules*, such connected transactions were exempted from reporting, annual review, announcement and independent shareholders' approval requirements.

XVIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

i. Significant Events of Material Custody, Contracting or Leasing Assets of Other Companies, or Other Companies' Material Custody, Contracting or Leasing Assets of the Bank

Except for daily business, during the reporting period, there was no significant matter in relation to any material arrangement for custody, contracting and leasing of assets by or to the Bank.

ii. Significant Guarantee

The provision of guarantee is in the ordinary course of business at the Bank. During the reporting period, the Bank did not enter into any material guarantee which needed to be disclosed save for the financial guarantees within its business scope as approved by the People's Bank of China and former CBRC.

iii. Explanatory Notes and Independent Opinions of Independent Non-Executive Directors Concerning the Provision of External Guarantee by the Bank

In accordance with relevant regulations and requirements of the CSRC announcement [2017] No.16 *Circular on Certain Issues concerning Regulating the Capital Flow between Listed Companies and Their Related Parties and Listed Companies' Provision of Guarantee (2017 Revision)*, the independent non-executive directors of the Bank reviewed external guarantee provided by the Bank on a just, fair and objective basis and issued their opinion as follows:

It was verified that the provision of external guarantee is one of the routine operations within the Bank's business scope which has been approved by Central Bank and former CBRC. As at the end of the reporting period, the Bank has an guarantee outstanding for the RMB180 million payable interests of financial bonds issued by China Everbright Group, and China Everbright Group provided counter guarantee with its 67,500,000 shares of a large securities firm. Save as disclosed, for the balance of the guarantee business of the Bank, please refer to the "Notes to the Consolidated Financial Statements".

Significant Events

Attaching importance to the risk management of guarantee business, the Bank formulated specific business management measures and operating procedures, and effectively monitored and prevented risks in the guarantee business by on-site and off-site inspections. During the reporting period, no business in violation of the above-mentioned regulations took place in the Bank.

iv. Significant Authorization to Others in Matters Relating to Cash Assets Management

During the reporting period, there was no significant authorization to others in matters relating to cash assets management.

v. Other Material Contracts

During the reporting period, the Bank had no other material contracts, and all contracts regarding operations of ordinary business were duly performed.

XIX. FULFILLMENT OF SOCIAL RESPONSIBILITIES

i. **The Bank has disclosed the full text of the 2018 Corporate Social Responsibility Report. Please refer to the websites of SSE, HKEX and the Bank for details.**

ii. Targeted Poverty Alleviation

The Bank fully acted on the requirements of the CPC Central Committee, the State Council, Central Bank and CBIRC for reducing poverty with financial resources, gave full play to its strengths and explored new ways to reduce poverty. During the reporting period, the Senior Management of the Bank conducted several surveys in poverty-stricken regions and actively push forward the mission. It provided RMB5 million to poverty-stricken counties targeted by China Everbright Group for designated assistance. In addition, it took an active part in the drives to lift the designated regions out of poverty by sending cadres there to assist them. The Bank made full use of the E-Commerce serial platform “Go Shopping” to open up channels for the sales of specialty products of the poverty-stricken regions, and made concerted efforts to help reduce poverty through corporate charity procurement. While continuously promoting charitable poverty alleviation, the Bank supported the “Water Cellar for Mothers” for 14 consecutive years, a public charity program initiated by China Women’s Development Foundation. In 2018, it donated RMB3 million to the program to improve local access to safe drinking water, making its accumulative donations to the program reaching RMB37.42 million. Please refer to the 2018 Corporate Social Responsibility Report for more details on targeted poverty alleviation.



iii. Environment Information

The Bank vigorously developed green finance, supported the development of energy-saving and environment-friendly industries, persisted on green operation, and carried out environment-friendly public welfare activities. The Bank is not among the key polluters published by the Ministry of Environmental Protection. Please refer to the 2018 Corporate Social Responsibility Report for more details on environment information.

XX. OTHER SIGNIFICANT EVENTS

i. Second Issuance of the Preference Share

On 28 February 2018, the Shareholders' General Meeting of the Bank reviewed and approved the *Proposal on Re-granting the Specific Mandate to the Board of Directors to Handle Matters Relating to the Domestic Non-public Preference Shares Issuance*, with a validity period of 12 months from the effective date of the resolution of the Shareholders' General Meeting. On 27 February 2019, the Shareholders' General Meeting of the Bank reviewed and approved the *Proposal on Extending the Validity Period of Resolution in respect of Plan of Domestic Non-public Preference Shares Issuance*, and the validity period of resolution on the offering was extended by 24 months. In addition, it reviewed and approved the *Proposal on Re-granting the Specific Mandate to the Board of Directors to Handle Matters Relating to the Domestic Non-public Preference Shares Issuance* with a validity period of 12 months from the effective date of the resolution of the Shareholders' General Meeting. In December 2018, CBIRC approved the non-public issuance of up to 350 million domestic preference shares of the Bank with proceeds raised up to RMB35 billion, which shall be included in additional Tier-1 capital according to relevant regulations. The Public Offering Review Committee of CSRC approved the Bank's application for domestic non-public issuance of preference shares on 12 March 2019. As at the disclosure date of this report, this matter is in progress.

ii. Jiangxi Ruijin Everbright Village Bank Co., Ltd. Went into Operation

On 29 November 2018, the rural bank went into operation as the third rural bank of the Bank.

iii. Investment in the National Financing Guarantee Fund Co., Ltd.

On 25 December 2018, the Bank paid RMB250 million of the initial capital contribution to the National Financing Guarantee Fund Co., Ltd. The company, a policy guarantee institution jointly established by 21 shareholders including the Ministry of Finance, Industrial and Commercial Bank of China, China Life Insurance Company Ltd. was founded on 26 July 2018 in Beijing with a registered capital of RMB66.1 billion. The Bank committed a contribution of RMB1 billion, accounting for 1.5129% of the total shares. The remaining commitment will be paid in installments within three years from 2019 to 2021.

iv. Sydney Branch Went into Operation

In December 2018, the application for establishment of Sydney Branch of the Bank was approved by the Australian Prudential Regulation Authority after the application was approved by CBIRC. Sydney Branch went into operation on 25 February 2019.

v. Establishment of a Wholly-owned Wealth Management Subsidiary

On 22 June 2018, the Shareholders' General Meeting of the Bank reviewed and approved the *Proposal on the Establishment of an Independent Legal Institution for Asset Management Business*, which specified that the Bank would establish a wholly-owned wealth management subsidiary with a registered capital of RMB5 billion. As at the disclosure date of this Report, this matter is in progress.

Significant Events

XXI. SIGNIFICANT EVENTS OF SUBSIDIARIES

i. Everbright Financial Leasing Co., Ltd.

Upon the approval by former CBRC and CBIRC Hubei Bureau, the Bank made a capital increase of RMB990 million twice, totaling RMB1.98 billion, in July and November 2018 respectively to the company. At the end of the reporting period, the company had a registered capital of RMB5.9 billion. During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young Hua Ming LLP to audit its financial report.

ii. Shaoshan Everbright Village Bank Co., Ltd.

During the reporting period, Shaoshan Everbright Village Bank Co., Ltd. had no profit distribution. The village bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Baker Tilly China Certified Public Accountants to audit its financial report.

iii. Jiangsu Huai'an Everbright Village Bank Co., Ltd.

In August 2018, Jiangsu Huai'an Everbright Village Bank Co., Ltd. distributed cash dividends of RMB6 million among all shareholders. During the reporting period, the village bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Huai'an Xinrui Public Accounting Firm to audit its financial report.

iv. CEB International Investment Corporation Limited

Upon the approval by former CBRC, the Bank made a capital increase of HKD1 billion to the company in November 2018. During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young to audit its financial report.

v. China Everbright Bank (Europe) S.A.

During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young Société anonyme to audit its financial report.

vi. Jiangxi Ruijin Everbright Village Bank Co., Ltd.

As at the end of the reporting period, the rural bank had opened for business for only one month, and there was no material matter that shall be disclosed.

XXII. PROFESSIONAL LIABILITY INSURANCE FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the reporting period, the Bank established a professional liability insurance system for the Directors, Supervisors and Senior Management Members in accordance with relevant laws and regulations and the *Articles of Association* of the Bank. The *Articles of Association* of the Bank and such professional liability insurance system set out relevant permitted indemnity provisions, and such insurance policies shall cover compensations by the insured parties and relevant fees resulted from possible litigations which shall be paid accordingly.

XXIII. REVIEW OF ANNUAL RESULTS

Ernst & Young Hua Ming LLP and Ernst & Young respectively audited the Bank's financial statements, which were prepared according to the PRC GAAP and IFRS, and issued the standard unqualified auditor's reports. The Board of Directors and its Audit Committee have reviewed the annual results and financial reports of the Bank for 2018.

XXIV. PUBLICATION OF ANNUAL REPORT

The Annual Report, in Chinese and English, prepared by the Bank in accordance with the IFRS and the *Hong Kong Listing Rules*, are available at the websites of HKEX and the Bank.

Changes in Ordinary Share Capital and Shareholders

I. CHANGES IN SHARES

Unit: share, %

	Before change		Changes during the reporting period	After change	
	Number	Percentage		Number	Percentage
			Conversion of convertible bonds		
I. Shares subject to trading moratorium	5,810,000,000	11.07		5,810,000,000	11.07
Shares held by state-owned legal persons	5,810,000,000	11.07		5,810,000,000	11.07
II. Shares not subject to trading moratorium	46,679,127,138	88.93	138,216	46,679,265,354	88.93
1. RMB-denominated ordinary shares	39,810,391,638	75.84	138,216	39,810,529,854	75.84
2. Overseas listed foreign shares	6,868,735,500	13.09		6,868,735,500	13.09
III. Total shares	52,489,127,138	100.00	138,216	52,489,265,354	100.00

II. SECURITIES ISSUANCE AND LISTING

i. Securities Issuance

During the reporting period, a total of RMB593,000 A-share convertible bonds were converted to A-share ordinary shares of the Bank, and the accumulated number of shares converted was 138,216. As at the end of the reporting period, a total of RMB730,000 A-share convertible bonds had been converted to the Bank's A-share ordinary shares, and the accumulated number of shares converted reached 170,354.

At the end of the reporting period, the total shares of the Bank stood at 52,489,265,354 shares, including 39,810,529,854 A shares and 12,678,735,500 H shares.

ii. Bond Issuance and Redemption

During the reporting period, the Bank had no bond issuance and redemption.

iii. **There was no change in the total number of shares, shareholding structure or assets and liabilities structure of the Bank as a result of bonus issue, capitalization of capital reserves, rights issue, adoption or exercise of share incentive scheme, mergers, capital reduction, listing of employee shares, bond issuance or for other reasons.**

iv. **The Bank had no employee shares.**

III. NUMBER OF SHAREHOLDERS

	Unit: Shareholder	
	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	209,836	921
Total number of shareholders as at the last trading day of the month prior to the disclosure of the A share annual report	201,277	–

IV. SHAREHOLDING OF TOP TEN SHAREHOLDERS

							Unit: Share, %
Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/frozen	
China Everbright Group Ltd.	Domestic legal person	–	A shares	11,565,940,276	22.03	–	
		–	H shares	1,782,965,000	3.40	–	
Hong Kong Securities Clearing Company Nominees Limited including	–	177,000	H shares	12,673,271,480	24.14	Unknown	
Overseas Chinese Town Holdings Company	Domestic legal person	–	H shares	4,200,000,000	8.00	–	
Ocean Fortune Investment Limited	Overseas legal person	–	H shares	1,605,286,000	3.06	–	
China Life Reinsurance Company Ltd.	Domestic legal person	–	H shares	1,530,397,000	2.92	–	
Central Huijin Investment Ltd.	State	–	A shares	10,250,916,094	19.53	–	
China Everbright Limited	Overseas legal person	–	A shares	1,572,735,868	3.00	–	
China Securities Finance Corporation Limited	Domestic legal person	-131,574,659	A shares	1,550,215,694	2.95	–	
China Reinsurance (Group) Corporation	Domestic legal person	–	A shares	413,094,619	0.79	–	
		–	H shares	376,393,000	0.72	–	
Shenergy (Group) Co., Ltd.	Domestic legal person	–	A shares	766,002,403	1.46	–	
Zhuhai Shipping Corporation Limited	Domestic legal person	–	A shares	723,999,875	1.38	–	
Central Huijin Asset Management Ltd.	Domestic legal person	–	A shares	629,693,300	1.20	–	
Yunnan Hehe (Group) Co., Ltd.	Domestic legal person	–	A shares	626,063,556	1.19	–	

Changes in Ordinary Share Capital and Shareholders

Notes:

- As at the end of reporting period, 1,610 million H shares held by China Everbright Group and 4,200 million H shares held by Overseas Chinese Town Holdings Company were subject to trading moratorium. Besides them, all other ordinary shares were not subject to trading moratorium.
- The Bank was aware that as at the end of the reporting period, CHI held 55.67% and 71.56% interest in China Everbright Group and China Reinsurance (Group) Corporation, respectively. Central Huijin Asset Management Ltd. Is a wholly-owned subsidiary of CHI. China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group. China Life Reinsurance Company Ltd. Is a wholly-owned subsidiary of China Reinsurance (Group) Corporation. Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China Shipping (Group) Company. Save for the above, the Bank is not aware of any connected party relationship or concerted action among the above shareholders.
- The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institution a land individual investors that maintain an account with it was 12,673,271,480 H shares as at the end of the reporting period. Among them, 4,200,000,000, 1,605,286,000, 1,530,397,000, 1,782,965,000 and 376,393,000 H shares of the Bank were held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Everbright Group and China Reinsurance (Group) Corporation respectively. The number of remaining H shares of the Bank held under it was 3,178,230,480 H shares.

V. TIME OF LISTING AND TRADING FOR SHARES SUBJECT TO TRADING MORATORIUM

Unit: Share

Time	Number of shares available for listing and trading upon the expiration of trading moratorium	Remaining shares subject to trading moratorium	Remaining shares not subject to trading moratorium
22 December 2022	5,810,000,000	5,810,000,000	46,679,265,354

VI. SHAREHOLDING OF TOP TEN SHAREHOLDERS OF SHARES SUBJECT TO TRADING MORATORIUM AND SPECIFIC TRADING MORATORIUM

Unit: Share

Name of shareholder of shares subject to trading moratorium	Number of shares subject to trading moratorium	Date for trading	Number of shares newly available for listing and trading	Specific trading moratorium
Overseas Chinese Town Holdings Company	4,200,000,000	22 December 2022	–	H-share lock-up period
China Everbright Group Ltd.	1,610,000,000	22 December 2022	–	H-share lock-up period

VII. CONFIRMATION OF THE BANK'S COMPLIANCE WITH REQUIREMENT OF SUFFICIENCY OF PUBLIC FLOAT UNDER THE HONG KONG LISTING RULES

Based on publicly available information and to the knowledge of the Directors, as at 31 December 2018, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by HKEX.

VIII. PROFILE OF SUBSTANTIAL SHAREHOLDERS OF THE BANK

i. China Everbright Group Ltd.

1. Basic information

Company name:	China Everbright Group Ltd.
Legal representative:	Li Xiaopeng
Date of establishment:	12 November 1990
Registered capital:	RMB60 billion
Scope of business:	investment in and management of financial enterprises (Business activities shall be carried out subject to the Company's free choice according to law; business activities which are subject to relevant approval in accordance with applicable laws shall be carried out only after obtaining such approvals granted by competent regulatory authorities; and no business activities in the prohibited or restricted categories of the municipal industry policies shall be carried out).

2. Shareholding in other domestic and overseas listed companies

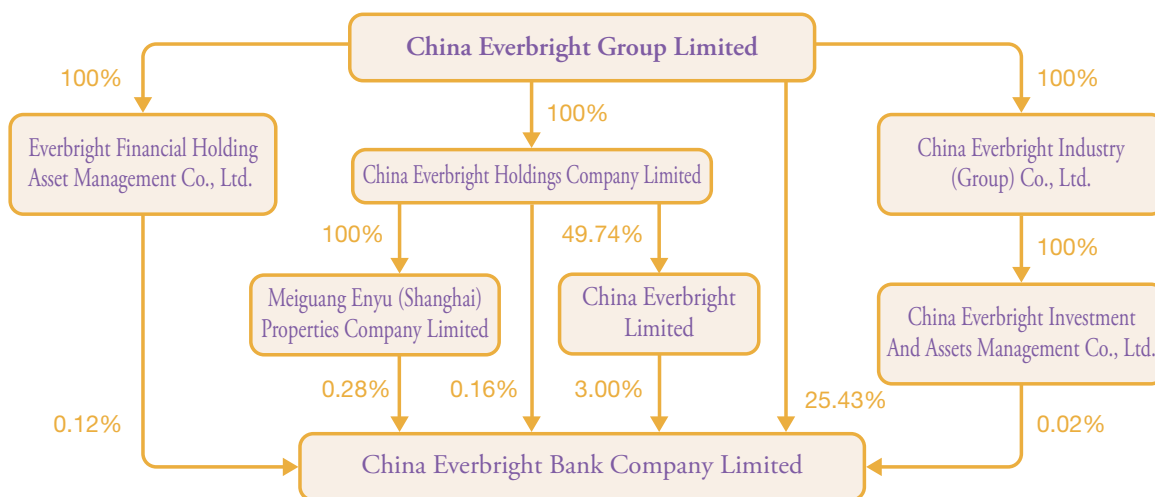
As at 31 December 2018, the shareholding of China Everbright Group in other domestic and overseas listed companies were listed as follows:

Company name	Stock exchanges for listing	Shareholding percentage	Unit: %
Everbright Securities Co., Ltd.	SSE, HKEX	46.45	
China Everbright Limited	HKEX	49.74	
China Everbright International Limited	HKEX	41.95	
China CYTS Tours Holding Co., Ltd.	SSE	20.00	
Cachet Pharmaceutical Company Limited	SZSE	16.72	
Shenwan Hongyuan Group Co., Ltd.	SZSE	4.43	
Everbright Grand China Assets Limited	HKEX	74.99	

3. The controlling shareholder of China Everbright Group is CHI with a shareholding percentage reaching 55.67%.

Changes in Ordinary Share Capital and Shareholders

4. The shareholding relationship between China Everbright Group and the Bank



5. There is no pledge or freezing of China Everbright Group's equity.

ii. Central Huijin Investment Ltd.

1. Basic information

Company name:	Central Huijin Investment Ltd.
Legal Representative:	Ding Xuedong ¹
Date of establishment:	16 December 2003
Registered capital:	RMB828,209 million
Business scope:	Equity investment in major state-owned financial enterprises in accordance with authorization by the State Council; other relevant businesses approved by the State Council.

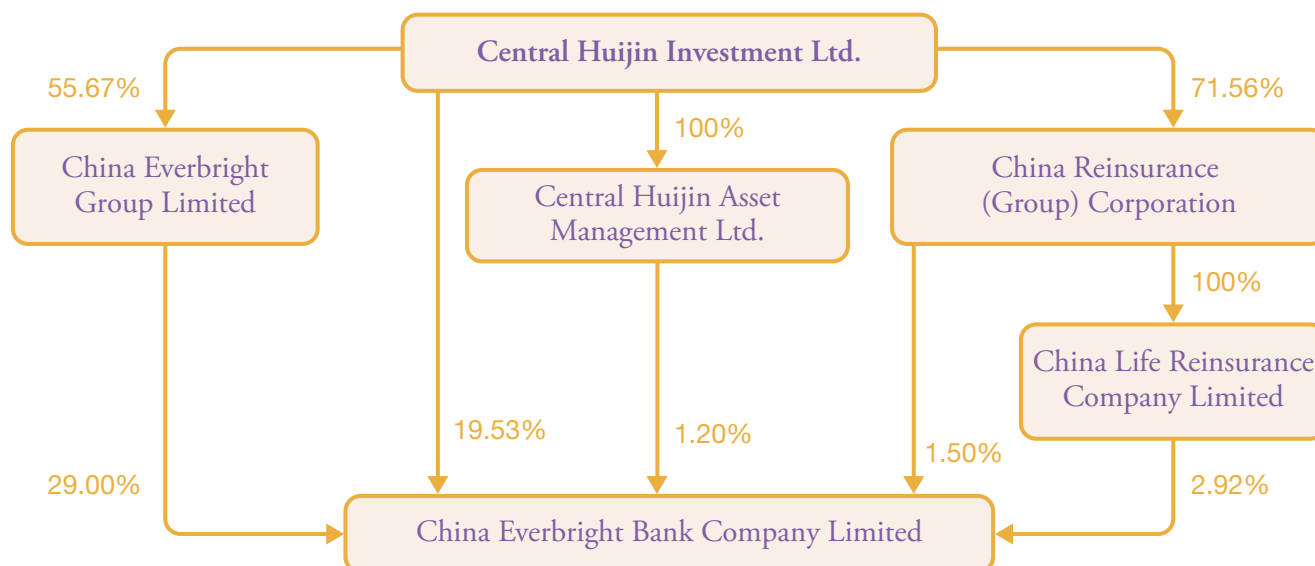
2. Shareholding in other domestic and overseas listed companies

Company Name	Stock Exchange for Listing	Shareholding Percentage
Industrial and Commercial Bank of China Limited	SSE, HKEX	34.71
Agricultural Bank of China Limited	SSE, HKEX	40.03
Bank of China Limited	SSE, HKEX	64.02
China Construction Bank Corporation	SSE, HKEX	57.11
China Reinsurance (Group) Corporation	HKEX	71.56
New China Life Insurance Company Limited	SSE, HKEX	31.34
Shenwan Hongyuan Securities Co., Ltd.	SZSE	22.28
China International Capital Corporation Limited	HKEX	55.68
CSC Securities Co., Ltd.	HKEX	31.21

Unit: %

¹ Ding Xuedong has been transferred to serve as the Deputy Secretary General of the State Council (at the ministerial level), and he authorized Tu Guangshao to exercise the powers of CIC's legal representative, the Chairman and legal representative of CHI, which took effect as of 2 March 2017, and the authorization would expire until the State Council makes new appointments. Tu Guangshao is currently the Vice Chairman and General Manager of CIC.

3. The controlling shareholder of CHI is CIC with a shareholding percentage of 100%.
4. The Shareholding relationship between CHI and the Bank



5. There is no pledge or freezing of CHI's equity.

iii. Other Shareholders Holding Shares of More than 5% or Having Significant Influence on the Bank

1. Overseas Chinese Town Holdings Company holds more than 5% shares at the Bank. As one of the Bank's substantial shareholders, the company has its controlling shareholder as the State-owned Assets Supervision and Administration Commission of the State Council of China, with the shareholding percentage up to 100%. The company was established in December 1987, with a registered capital of RMB12,000 million, and its legal representative is Duan Xiannian. It mainly engages in investment in tourism and related cultural industries (including performing arts, entertainment and its services), industry, real estate, commerce and trade, packaging, decoration and printing industries; tourism, warehouse rental, arts and culture, donated car bonded warehouse, and conference and exhibition services. There is no pledge or freezing of the company's equity.
2. Although China Reinsurance (Group) Corporation holds less than 5% of the shares of the Bank, it still constitutes a substantial shareholder of the Bank since it dispatches directors to the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%. China Reinsurance (Group) Corporation was established in August 1996, with a registered capital of RMB42,479 million and its legal representative is Yuan Linjiang. It mainly engages in the establishment of insurance enterprises through investment, investment business and domestic and international reinsurance business permitted by national laws and regulations. There is no pledge or freezing of the company's equity.

Changes in Ordinary Share Capital and Shareholders

3. Ocean Fortune Investment Limited and Zhuhai Shipping Corporation Limited, totally holding less than 5% of the shares of the Bank, are subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited (“COSCO Shipping”), which is patches its directors to the Bank (the nomination of the directors have been considered and approved by the Board of Directors and Shareholders’ General Meeting of the Bank, while the qualifications of the nominated directors are still to be ratified by the CBIRC). Therefore, the two companies are substantial shareholders of the Bank. COSCO Shipping was established in February 2016, with a registered capital of RMB11,000 million and its legal representative is Xu Lirong. It mainly engages in international shipping and auxiliary business of international shipping, import and export business of goods and technologies, maritime, land and aviation international freight forwarding business, self-owned ship leasing, dock and port investment, etc. There is no pledge or freezing of the company’s equity.
4. China Everbright Limited (Everbright Limited, stock code: 165.HK) holds less than 5% of the shares of the Bank but dispatches supervisors to the Bank, thus constituting one of the Bank’s substantial shareholders. Everbright Limited, which was founded in August 1972 (the name of “Everbright Limited” was adopted in 1997), has issued 1,685 million shares, and its Chairman is Cai Yunge. As China’s leading cross-border investment and asset management company, it provides diversified financial services for domestic and overseas investors through a number of private equity funds, venture capital funds, industry funds, mezzanine funds, parent funds, fixed income and equity funds it manages. There is no pledge or freezing of the company’s equity.
5. Shenergy (Group) Co., Ltd. holds less than 5% of the shares of the Bank but dispatches supervisors to the Bank, thus constituting one of the Bank’s substantial shareholders. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission. The company was established in November 1996, with a registered capital of RMB10,000 million and its legal representative Huang Di’nan. It mainly engages in the investment, development and management of basic industries of electric power and energy, investment in natural gas resources and urban gas pipe network, investment and management of real estate and high-tech industries, industry investment, asset management and domestic trade (except special provisions). There is no pledge or freezing of the company’s equity.

iv. Connected transactions of substantial shareholders

In accordance with to the *Interim Measures for Equity Management of Commercial Banks* (Decree No.1 of CBRC in 2018), the Bank has treated as its related parties about 1,700 enterprises including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries. During the reporting period, the Bank incurred 64 connected transactions with 52 related parties, involving a total amount of RMB111,660 million. The above connected transactions have been reported to the Board of Directors and its Related Party Transactions Control Committee for approval or filing purpose in accordance with related procedures.

IX. INTERESTS OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2018, as far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the *Securities and Futures Ordinance of Hong Kong* (“HKSF”) or which were required to be notified to the Bank:

Name of substantial shareholder	Notes	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of relevant shares in issue (%) ^{4,5}	Percentage of the total issued shares (%) ^{4,5}
China COSCO Shipping Corporation Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
China Shipping (Group) Company	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
COSCO Shipping Financial Holdings Co., Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
Ocean Fortune Investment Limited	1	H Shares	Beneficial owner	Long	1,605,286,000	12.66	3.06
Central Huijin Investment Ltd.	2	H Shares	Interest of controlled corporation	Long	3,773,385,000	29.76	7.19
China Everbright Group Ltd.	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.56
China Reinsurance (Group) Corporation	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.04	3.63
China Life Reinsurance Company Ltd.	2	H Shares	Beneficial owner	Long	1,530,397,000	12.07	2.92
Overseas Chinese Town Holdings Company		H Shares	Beneficial owner	Long	4,200,000,000	33.13	8.00
China Everbright Group Ltd.	3	A shares	Beneficial owner/Interest of controlled corporation	Long	15,352,744,557	38.56	29.25
Central Huijin Investment Ltd.	3	A shares	Beneficial owner/Interest of controlled corporation	Long	26,669,621,565	66.99	50.81

Notes:

- Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO Shipping Financial Holdings Co., Limited, which is wholly-owned by China Shipping (Group) Company. COSCO Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSF, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited are deemed to be interested in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.
- China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. China Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI, China Everbright Group Holdings Company Limited is wholly-owned by China Everbright Group, while 55.67% of the issued share capital of China Everbright Group is held by CHI. In accordance with the HKSF, China Reinsurance (Group) Corporation is deemed to be interested in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group is deemed to be interested in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to be interested in a total of 3,773,385,000 H shares of the Bank indirectly.

Changes in Ordinary Share Capital and Shareholders

3. China Everbright Group directly holds a long position in 13,586,625,426 A shares of the Bank, and is deemed to be indirectly interested in a long position in a total of 1,789,292,126 A shares of the Bank held by its subsidiaries as follows:
 - (1) China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.
 - (2) Meiguang Enyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.
 - (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.
 - (4) Everbright Financial Holding Asset Management Co., Ltd. directly holds a long position of 60,400,000 A shares of the Bank. Therefore, China Everbright Group directly and indirectly holds a long position of 15,375,917,552 A shares of the Bank in total. CHI directly holds a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of China Everbright Group are held by CHI respectively. In accordance with the HKSFO, CHI is deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,586,625,426 A shares held by China Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,669,621,565 A shares of the Bank in total.
4. As at 31 December 2018, the total issued share capital of the Bank was 52,489,256,354 shares, including 39,810,529,854 A shares and 12,678,735,500 H shares.
5. The percentage of shareholdings is rounded to two decimal places.

Save as disclosed above, as at 31 December 2018, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the HKSFO.

X. INTERESTS OR SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2018, as far as the directors and supervisors of the Bank were aware, none of the directors, supervisors or chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in the HKSFO) which were required to be recorded in the register required to be kept under Section 352 of the HKSFO, or which were required to be notified to the Bank and HKEX pursuant to Divisions 7 and 8 of Part XV of the HKSFO, or which are required to be notified to the Bank and HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* ("Model Code") set out in Appendix 10 to the Hong Kong Listing Rules nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Share Capital and Shareholders

I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN LAST THREE YEARS

Unit: %, Ten Thousand Shares

Code	Abbreviation	Date of issuance	Issuance price (RMB)	Coupon rate	Issuance volume	Date of listing	Approved volume for listing and trading	Approved volume for listing and trading
360013	Everbright P1	19 June 2015	100	5.30	20,000	21 July 2015	20,000	–
360022	Everbright P2	8 August 2016	100	3.90	10,000	26 August 2016	10,000	–

II. USE OF PROCEEDS

All of the proceeds the Bank raised from the issuance of preference shares were used to replenish the additional tier-1 capital.

III. TOTAL NUMBER OF PREFERENCE SHAREHOLDERS AND SHAREHOLDINGS OF TOP TEN PREFERENCE SHAREHOLDERS

i. Everbright P1 (Code 360013)

Unit: Share,%

Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen
Number of preference shareholders as at the end of the reporting period (shareholder)						18
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)						18
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	37,750,000	18.88	Domestic preference shares	–
China CITIC Bank Corporation Limited	Others	–	17,750,000	8.88	Domestic preference shares	–
Chuangjin Hexin Fund Management Limited	Others	–	15,510,000	7.76	Domestic preference shares	–
BOCI Securities Limited	Others	–	15,500,000	7.75	Domestic preference shares	–
Bank of Communications International Trust Co., Ltd.	Others	–	15,500,000	7.75	Domestic preference shares	–
Hwabao Trust Co., Ltd.	Others	–	13,870,000	6.94	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	13,870,000	6.94	Domestic preference shares	–
CCB Trust Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
China Ping An Property & Casualty Insurance Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
China Ping An Life Insurance Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–

Changes in Preference Share Capital and Shareholders

Note: China Ping An Property & Casualty Insurance Co., Ltd. and China Ping An Life Insurance Co., Ltd. have connected relations. Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected relations. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top ten shareholders of ordinary shares.

ii. Everbright P2 (Code 360022)

Unit: Share,%

Number of preference shareholders as at the end of the reporting period (shareholder)							23
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)							23
Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period			Percentage of shareholding	Type of shares	Number of shares pledged/frozen
AXA SPDB Investment Managers Co., Ltd.	Others	–	16,470,000	16.47	Domestic preference shares	–	
Shanghai Wisdom Asset Management Co., Ltd.	Others	–	13,090,000	13.09	Domestic preference shares	–	
China Everbright Group Ltd.	Others	–	10,000,000	10.00	Domestic preference shares	–	
China Life Insurance Company Limited	Others	–	8,180,000	8.18	Domestic preference shares	–	
Postal Savings Bank of China Co., Ltd.	Others	–	7,200,000	7.20	Domestic preference shares	–	
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–	
Bank of Communications International Trust Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–	
China Resources SZITIC Trust Co., Ltd.	Others	–	3,680,000	3.68	Domestic preference shares	–	
BOCI Securities Limited	Others	–	3,270,000	3.27	Domestic preference shares	–	
HuaAn Future Asset Management (Shanghai) Limited	Others	–	3,270,000	3.27	Domestic preference shares	–	
Bank of Hangzhou Co., Ltd.	Others	–	3,270,000	3.27	Domestic preference shares	–	
China CITIC Bank Corporation Limited	Others	–	3,270,000	3.27	Domestic preference shares	–	

Note: Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected relations. China Everbright Group is one of the top ten holders of the ordinary shares of the Bank. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top ten shareholders of ordinary shares.

IV. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

i. Policy on profit distribution for preference shares

The first tranche under the first issuance of preference shares issued by the Bank in June 2015 (hereinafter referred to as the “First Tranche Preference Shares”) and the second tranche under the first issuance of preference shares issued in August 2016 (hereinafter referred to as the “Second Tranche Preference Shares”) are priced at coupon rates subject to adjustments at different intervals. The coupon rate shall remain unchanged for the first five years commencing from the issuance date. Subsequently, the coupon rate shall be adjusted once every five years. The coupon rate will remain unchanged for each new period. Through market consultation, the first coupon rate for the First and Second Tranche Preference Shares was determined at 5.30% and 3.90% respectively.

The dividends on the First and Second Tranche Preference Shares are non-cumulative, and the dividends shall be paid in cash annually. Under the circumstance that the Bank decides to cancel part of or all of the dividend payment of the Preference Shares, the undistributed dividends shall not be carried forward to the following dividend period. The Preference Shareholders are not entitled to the distribution of the remaining profit along with ordinary shareholders after receiving dividends at the agreed rate.

ii. Scheme on profit distribution for preference shares

The Bank distributed the dividends for the First Tranche Preference Shares on 25 June 2018 at a dividend rate of 5.30% (before tax). The dividends for the Second Tranche Preference Shares was distributed on 13 August 2018 at a dividend rate of 3.90% (before tax). All these above-mentioned distribution proposals have been implemented.

As agreed, the Bank shall convene a board meeting at least ten working days prior to the dividend payment date of the First Tranche Preference Shares (i.e. 25 June 2019) and the Second Tranche Preference Shares (i.e. 11 August 2019) to consider issues relating to the dividend payment and issue announcements to notify the preference shareholders.

iii. Amount and proportion of the distributed dividends on preference shares in last three years

Item	Unit: RMB million,%		
	2018	2017	2016
Dividend amount	1,450	1,450	1,060
Proportion of distribution	100.00	100.00	100.00

Note: Pro portion of distribution is based on the declared dividends and the agreed dividends payable for the year.

V. DURING THE REPORTING PERIOD, THERE WAS NO REDEMPTION OF PREFERENCE SHARES OR CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES BY THE BANK.

VI. DURING THE REPORTING PERIOD, THERE WAS NO VOTING RIGHT RESTORATION OF THE PREFERENCE SHARES OF THE BANK.

VII. ACCOUNTING POLICIES FOR PREFERENCE SHARES OF THE BANK AND REASONS FOR ADOPTION

According to the provisions of the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, *Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments* and *Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF, the preference shares issued by the Bank were accounted for as an equity instrument.

Issuance of Convertible Corporate Bonds

I. OVERVIEW

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30.0 billion and the net funds stood at some RMB29,923 million after deducting the issuance expense. On 5 April 2017, the above-mentioned A share convertible bonds were listed on SSE (bond name: Everbright Convertible Bonds, stock code:113011).

II. HOLDERS OF CONVERTIBLE BONDS AND GUARANTORS DURING THE REPORTING PERIOD

	Unit: RMB, %	
Convertible bond holders at the period end	6,067	
Guarantors of convertible bonds of the Bank	Nil	
Top ten convertible bond holders	Par value of bond held at period end	Percentage of bonds held
China Everbright Group Ltd.	8,709,153,000	29.03
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Minsheng Banking Corporation Limited (CMBC))	3,618,667,000	12.06
Anbang Asset Management—China Merchants Bank—Anbang Asset—Gongying No.3 Collective Asset Management Product	1,956,305,000	6.52
Specific account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China)	1,742,026,000	5.81
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of China)	1,454,375,000	4.85
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank)	1,007,748,000	3.36
Anbang Asset—CMBC—Anbang Asset—Shengshi Jingxuan No.2 Collective Asset Management Product	857,198,000	2.86
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of Communications)	614,424,000	2.05
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank)	573,035,000	1.91
Specific account for collateralized bond repurchase in the securities depository and clearing system (Agricultural Bank of China)	524,566,000	1.75

III. CHANGES IN CONVERTIBLE BONDS

For the A share convertible bonds issued by the Bank, the conversion period commences from the first trading day after six months from the completion of the issuance (18 September 2017) and ends on the bond maturity date (16 March 2023). During the reporting period, a total of RMB593,000 “Everbright Convertible Bonds” were converted into A shares of the Bank, and the number of accumulated converted shares reached 138,216.

IV. PREVIOUS ADJUSTMENTS OF CONVERSION PRICE

On 26 July 2018 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2017. In accordance with the applicable provisions in the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the “Everbright Convertible Bonds” saw its initial conversion price adjusted from RMB4.31 per share to RMB4.13 per share as of 27 July 2018 (the ex-dividend date).

Previous adjustments of conversion price were as follows:

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website, website of the Bank, etc.	Due to profit distribution for ordinary A shares for 2016
26 December 2017	4.31	22 December 2017	Ibid.	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	Ibid.	Due to profit distribution for ordinary A shares for 2017
Conversion price as of the disclosure date of the reporting				4.13

V. THE BANK'S OUTSTANDING DEBTS, CREDIT WORTHINESS AND AVAILABILITY OF CASH FOR REPAYMENT OF DEBTS IN FUTURE YEARS

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin Securities Rating Co., Ltd. (herein after referred to as “China Chengxin” for short) to track and rate the credit standing of its A share convertible bonds issued in March 2017. China Chengxin issued the *Tracking and Rating Report on A Share Convertible Corporate Bonds (2018) of China Everbright Bank Company Limited*, maintaining the credit rating of the Bank's bond as AAA with as table outlook and the credit rating of the bond issuer as AAA, incurring no change. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt service.

Directors, Supervisors, Senior Management, Staff and Business Outlets

I. PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Li Xiaopeng	Chairman, Non-Executive Director	Male	59	Mar. 2018-Jun. 2019	–	Yes
Ge Haijiao	Executive Director, President	Male	47	Jan. 2019-Jun. 2019	–	Yes
Cai Yunge	Non-Executive Director	Male	47	May 2017-Jun. 2019	–	Yes
Fu Dong	Non-Executive Director	Male	59	Mar. 2018-Jun. 2019	–	Yes
Shi Yongyan	Non-Executive Director	Male	50	May 2018-Jun. 2019	–	Yes
Wang Xiaolin	Non-Executive Director	Male	56	Oct. 2018-Jun. 2019	–	Yes
He Haibin	Non-Executive Director	Male	44	May 2018-Jun. 2019	–	Yes
Zhao Wei	Non-Executive Director	Male	47	Feb. 2015-Jun. 2019	–	Yes
Qiao Zhimin	Independent Non-Executive Director	Male	66	Jan. 2013-Jan. 2019	39.00	Yes
Xie Rong	Independent Non-Executive Director	Male	66	Jan. 2013-Jan. 2019	37.00	No
Fok Oi Ling Catherine	Independent Non-Executive Director	Female	60	Jan. 2014-Jun. 2019	37.00	Yes
Xu Hongcai	Independent Non-Executive Director	Male	54	Feb. 2015-Jun. 2019	–	No
Feng Lun	Independent Non-Executive Director	Male	59	Feb. 2015-Jun. 2019	36.00	Yes
Wang Liguo	Independent Non-Executive Director	Male	61	Jan. 2017-Jun. 2019	34.00	Yes
Li Xin	Chairman of the Board of Supervisors	Male	58	Jun. 2015-Jun. 2019	132.31	No
Yin Lianchen	Shareholder Supervisor	Male	52	Dec. 2014-Jun. 2019	–	Yes
Wu Junhao	Shareholder Supervisor	Male	53	Nov. 2009-Jun. 2019	–	No
Yu Erniu	External Supervisor	Male	69	Nov. 2012-Jun. 2019	–	No
Wu Gaolian	External Supervisor	Male	66	Jun. 2016-Jun. 2019	–	No
Wang Zhe	External Supervisor	Male	58	Nov. 2016-Jun. 2019	29.00	Yes
Sun Xinhong	Employee Supervisor	Male	51	Jun. 2017-Jun. 2019	204.84	No
Jiang Ou	Employee Supervisor	Male	53	Jun. 2017-Jun. 2019	165.16	No
Huang Dan	Employee Supervisor	Female	45	Jun. 2017-Jun. 2019	211.18	No
Lu Hong	Executive Vice President	Male	55	Mar. 2009-	131.03	No
Wu Jian	Executive Vice President	Male	57	Jan. 2014-	131.03	No
Yao Zhongyou	Executive Vice President	Male	55	May 2014-	131.03	No
Huang Haiqing	Secretary of Discipline Committee	Male	54	Jun. 2016-	106.03	No
Sun Qiang	Executive Vice President	Male	50	Aug. 2016-	106.03	No
Li Jiayan	Secretary to the Board	Male	55	Jan. 2018-	95.41	No
Total remuneration received from the Bank					1,626.05	

Notes:

1. The remuneration of Directors and Supervisors is subject to approval of the general meeting of shareholders.
2. The remuneration of certain Directors, Supervisors, and Senior Management of the Bank has not been finalized and an announcement will be made for further disclosure in due course.
3. The remuneration of Directors, Supervisors and Senior Management serving in 2018 was calculated according to the actual term of office.

4. During the reporting period, none of the Directors, Supervisors and Senior Management held any share of the Bank;
5. During the reporting period, the Bank had not implemented any share incentive scheme, and none of the Directors, Supervisors and Senior Management held share option of the Bank's shares or was granted any restrictive shares;
6. None of the incumbent Directors, Supervisors and Senior Management of the Bank has been subject to any penalty by any securities regulatory authorities in the recent three years.
7. Due to expiration of their terms of office, Mr. Qiao Zhimin and Mr. Xie Rong resigned from the position of Independent Non-Executive Director on 7 January 2019. Before the qualifications of the two new nominees were approved by CBIRC, Mr. Qiao and Mr. Xie would continue to perform their duties.

II. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WHO RESIGNED DURING THE REPORTING PERIOD

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Gao Yunlong	Vice Chairman, Non-Executive Director	Male	60	Dec. 2014-Apr. 2018	–	Yes
Zhang Jinliang	Executive Director, President	Male	49	Aug. 2016-Aug. 2018	40.13	No
Ma Teng	Executive Director, Executive Vice President	Male	60	Mar. 2015-Apr. 2018	64.80	No
Li Jie	Executive Director, Executive Vice President	Female	60	Sep. 2016-Aug. 2018	86.40	No
Zhang Shude	Non-Executive Director	Male	55	Sep. 2016-Aug. 2018	–	Yes
Li Huaqiang	Non-Executive Director	Male	60	Sep. 2016-Jun. 2018	–	Yes
Zhang Huayu	Executive Vice Presidents	Male	60	Feb. 2006-Aug. 2018	97.20	No
Total remuneration from the Bank during the reporting period					288.53	

Notes:

1. The remuneration of resigned Directors and Senior Management of the Bank for 2018 was calculated according to their actual term of office.
2. Mr. Zhang Huayu serves as Chairman of the Board of Directors of Everbright Financial Leasing Co., Ltd. till Sept. 2018.
3. None of the Directors and Senior Management who resigned from the Bank has been subject to penalty from the securities regulatory authorities in the past three years.

Directors, Supervisors, Senior Management, Staff and Business Outlets

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

i. Changes of Directors

1. On 15 March 2018, former CBRC approved Mr. Fu Dong to serve as Director of the Bank.
2. On 16 March 2018, former CBRC approved Mr. Li Xiaopeng to serve as Chairman and Director of the Bank.
3. On 9 April 2018, due to job assignment, Mr. Gao Yunlong resigned from the positions of Vice Chairman, Non-Executive Director, and Director and member of the Strategy Committee of the Board of Directors of the Bank.
4. On 10 April 2018, due to job assignment, Mr. Ma Teng resigned from the positions of Executive Director and member of the Strategy Committee of the Board of Directors of the Bank.
5. On 21 May 2018, CBIRC approved Mr. Shi Yongyan to serve as Director of the Bank.
6. On 21 May 2018, CBIRC approved Mr. He Haibin to serve as Director of the Bank.
7. On 21 June 2018, Mr. Li Huaqiang resigned from the positions of Non-Executive Director and member of the Strategy Committee and the Audit Committee of the Board of Directors of the Bank for reason of his age.
8. On 13 August 2018, due to his family reason, Mr. Zhang Shude resigned from the positions of Non-Executive Director, Director and member of the Risk Management Committee, member of the Strategy Committee, and member of the Remuneration Committee of the Board of Directors of the Bank.
9. On 22 August 2018, due to job assignment, Mr. Zhang Jinliang resigned from the positions of Executive Director, Director and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.
10. On 31 August 2018, Ms. Li Jie resigned from the positions of Executive Director and member of the Risk Management Committee of the Board of Directors of the Bank for reason of her age.
11. On 12 October 2018, CBIRC approved Mr. Wang Xiaolin to serve as Director of the Bank.
12. On 21 December 2018, the 2018 Second Extraordinary General Meeting agreed to elect Mr. Ge Haijiao as Executive Director of the Seventh Session of the Board of Directors of the Bank. On 22 January 2019, CBIRC approved Mr. Ge Haijiao to serve as Executive Director of the Bank.
13. On 7 January 2019, due to expiration of his term of office, Mr. Qiao Zhimin resigned from the positions of Independent Non-Executive Director, Director and member of the Remuneration Committee, member of the Nomination Committee, member of the Risk Management Committee, member of the Audit Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. But he would continue to perform his duties before the qualifications of the new nominee were approved by CBIRC.
14. On 7 January 2019, due to expiration of his term of office, Mr. Xie Rong resigned from the positions of Independent Non-Executive Director, Director and member of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. But he would continue to perform his duties, before the qualifications of the new nominee were approved by CBIRC.

ii. Changes of Supervisors

There was no change in the Bank's supervisors during the reporting period.

iii. Changes of Senior Management

1. On 10 January 2018, former CBRC approved Mr. Li Jiayan to serve as Secretary to the Board of the Bank.
2. On 15 March 2018, former CBRC approved Mr. Sun Qiang to serve as Executive Vice Presidents of the Bank.
3. On 10 April 2018, due to job assignment, Mr. Ma Teng resigned from the position of Executive Vice President of the Bank.
4. On 22 August 2018, due to job assignment, Mr. Zhang Jinliang resigned from the position of President of the Bank.
5. On 31 August 2018, Ms. Li Jie resigned from the position of Executive Vice President of the Bank for reason of her age.
6. On 31 August 2018, Mr. Zhang Huayu resigned from the position of Executive Vice President of the Bank for reason of his age.
7. On 23 November 2018, the 31st Meeting of the Seventh Session of the Board of Directors of the Bank agreed to appoint Mr. Ge Haijiao as President of the Bank, whose appointment qualifications were approved by CBIRC on 22 January 2019.

IV. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

1. Mr. He Haibin, Non-Executive Director of the Bank, served as Standing Member of CPC Committee, Chief Accountant, and Board Secretary of Overseas Chinese Town Holdings Company, Chairman of Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd., Chairman of Overseas Chinese Town (HK) Company Limited, Board Chairman of Overseas Chinese Town (Asia) Holdings Limited, and Vice Chairman of Huaneng Capital Services Co., Ltd..
2. Mr. Zhao Wei, Non-Executive Director of the Bank, served as Vice President of China Reinsurance (Group) Co., Ltd. (ceased to serve as its Assistant President), Secretary of CPC Committee, Vice Chairman and General Manager of China Re Asset Management Company Ltd., Chairman of China Re Asset Management (Hong Kong) Co., Ltd., and Chairman of China Re Asset Management Company Ltd..
3. Mr. Xie Rong, Independent Non-Executive Director of the Bank, concurrently served as Independent Director of Baoshan Iron & Steel Co., Ltd., and ceased to concurrently serve as Director of SAIC Motor Corporation Limited (SAIC Motor) and Director of Shanghai Electric Group Co., Ltd.
4. Mr. Feng Lun, Independent Non-Executive Director of the Bank, concurrently serves as Independent Director of Youzu Interactive Co., Ltd., Independent Director of Shanghai Jiada Only Co., Ltd., and Director of Shanghai Cura Investment & Management Co., Ltd. He ceased to serve as Chairman of Beijing Vantone Citylogic Investment Corp., and Director of China Capital Investment Group.

Directors, Supervisors, Senior Management, Staff and Business Outlets

V. PROCEDURES FOR DETERMINING THE REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, BASIS FOR DETERMINING THE REMUNERATION AND THE ACTUAL REMUNERATION PAID

Remuneration of Directors and Senior Management of the Bank are verified and paid in accordance with the *Articles of Association* of the Bank. The remuneration plan for Directors and Senior Management is reviewed by the Remuneration Committee of the Board of Directors before it is submitted to the Board of Directors for approval. The remuneration plan for Directors is further subject to the shareholders' general meeting for approval.

Remuneration of Supervisors of the Bank is verified and paid in accordance with the *Articles of Association* of the Bank. The remuneration plan is reviewed by the Nomination Committee of the Board of Supervisors and then is considered by the Board of Supervisors, before it is subject to the shareholders' general meeting for approval.

Details about the Remuneration for the Directors, Supervisors and Senior Management of the Bank are available in part I of this section.

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

Name	Name of shareholder	Position	Terms of Office
Li Xiaopeng	China Everbright Group Ltd.	Secretary of CPC Committee, Chairman,	Dec. 2017 to the present
	China Everbright Group Holdings Limited	Chairman	Dec. 2017 to the present
Ge Haijiao	China Everbright Group Ltd.	Member of CPC Committee	Oct. 2016 to the present
		Deputy General Manager Executive Director	Dec. 2016 to Dec. 2018 Dec. 2018 to the present
Cai Yunge	China Everbright Group Ltd.	Member of CPC Committee	Jul. 2016 to the present
	China Everbright Group Holdings Limited	Deputy General Manager Executive Director, Vice Chairman, General Manager	Oct. 2016 to the present Dec. 2016 to the present
		China Everbright Limited	Executive Director, Chairman
Fu Dong	Central Huijin Investment Ltd.	Designated Director	Dec. 2014 to the present
	China Everbright Group Ltd.	Director	Dec. 2014 to the present
Shi Yongyan	Central Huijin Investment Ltd.	Designated Director	Jan. 2018 to the present
	China Everbright Group Ltd.	Director	Jan. 2018 to the present
Wang Xiaolin	Central Huijin Investment Ltd.	Designated Director	Jul. 2018 to the present
	China Everbright Group Ltd.	Director	Jul. 2018 to the present
He Haibin	Overseas Chinese Town Holdings Company	Standing Member of CPC Committee, Chief Accountant, Board Secretary	Feb. 2018 to the present
Zhao Wei	China Reinsurance (Group) Corporation	Vice President	Aug. 2018 to the present
Yin Lianchen	China Everbright Limited	Chief Investment Officer Executive Director	Apr. 2012 to the present Jun. 2017 to the present
Wu Junhao	Shenergy (Group) Co., Ltd.	Manager of Financial Management Department	Apr. 2011 to the present

VII. WORKING EXPERIENCE, APPOINTMENT AND CONCURRENT APPOINTMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

i. Directors

Mr. Li Xiaopeng

Mr. Li Xiaopeng joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also Secretary of CPC Committee and Chairman of China Everbright Group Ltd., Principal of Party School at China Everbright Group Ltd., Chairman of the Board of Directors at China Everbright Group Holdings Limited, and Vice President of China Tourism Association. He was Member of CPC Committee and Deputy General Manager of Henan Provincial Branch of ICBC, General Manager of the Banking Department of the Head Office of ICBC, Secretary of CPC Committee and General Manager of ICBC Sichuan Provincial Branch, Member of CPC Committee and Vice President of China Huarong Asset Management Corporation, Member of CPC Committee and Assistant President of the Head Office of ICBC, Secretary of CPC Committee and General Manager of ICBC Beijing Municipal Branch, Member of CPC Committee, Executive Vice President and Executive Director of the Head Office of ICBC, Deputy Secretary of CPC Committee and Chairman of the Board of Supervisors of China Investment Corporation, and Deputy CPC Committee Secretary, Vice Chairman and General Manager and of China Merchants Group. He was also Chairman of ICBC International Holdings Limited, Chairman of ICBC Financial Leasing Co., Ltd., Chairman of ICBC Credit Suisse Asset Management Co., Ltd., Vice Chairman of China Merchants Bank Co., Ltd., Chairman of China Merchants Energy Shipping Co., Ltd., Chairman of China Merchants Port Holdings Company Limited, Chairman of China Merchants Huajian Highway Investment Co., Ltd., Chairman of China Merchants Capital Investment Co., Ltd., Chairman of China Merchants Joint Development Co., Ltd., and Chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University, holds a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. Ge Haijiao

Mr. Ge Haijiao joined the Bank as Executive Director and President in January 2019 and has served as Deputy Secretary of CPC Committee of the Bank since November 2018. Currently, he is also Member of CPC Committee and Executive Director of China Everbright Group Ltd. He was Assistant General Manager, Deputy General Manager and General Manager of the International Banking Department at Liaoning Provincial Branch of Agricultural Bank of China (ABC), Secretary of CPC Committee and General Manager of Liaoyang Municipal Branch of Liaoning Province at ABC, Member of CPC Committee and Deputy General Manager of Dalian Municipal Branch at ABC, General Manager of Singapore Branch at ABC, Deputy General Manager (Departmental General Manager level) of the International Banking Department at ABC, Secretary of CPC Committee and General Manager of Heilongjiang Provincial Branch at ABC (concurrently Senior Executive of Sydney Branch at ABC), Deputy to the 12th Heilongjiang Provincial People's Congress, Deputy General Manager of China Everbright Group Ltd. (concurrently Chairman of China Everbright Industry Group Limited, Director of Everbright Securities Co., Ltd., Director of Shanghai Headquarters of China Everbright Group Ltd., Chairman of China Everbright Xinglong Trust Co., Ltd. (incoming), and General Manager of the Cultural, Tourism and Health Business Department of China Everbright Group Ltd. He is a graduate of Nanjing Agricultural University majoring in Management of Agricultural Economy, holds a Doctoral degree in Management, and is a senior economist.

Mr. Cai Yunge

Mr. Cai Yunge has served as Director of the Bank since May 2017. He currently serves as Member of CPC Committee and Deputy General Manager of China Everbright Group Ltd., Executive Director, Vice Chairman and General Manager of China Everbright Group Holdings Limited, Executive Director and Chairman of the Board of Directors of China Everbright Limited, Executive Director and Chairman of the Board of Directors of China Everbright International Limited, and Vice President of Hong Kong Chinese Enterprises Association. He was Clerk of the Planning and Funding Department, Deputy Chief Clerk of the Credit Management Department, and Chief Clerk of the Banking Supervision Department II at the PBOC; Chief Clerk and Deputy Division Chief of the Supervision Department II, and Division Chief of the General Office of the CBRC; Member of CPC Committee and Deputy Director of Guangdong Provincial Development and Reform Commission; and General Manager of the General Office, Director of the CPC Committee Office, Member of CPC Committee (Executive Vice President Level) and Secretary to the Board of Directors of the Bank. He graduated from the Research Institute of Finance of the PBOC. He holds a Doctoral degree and he is a senior economist.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Fu Dong

Mr. Fu Dong has served as Director of the Bank since March 2018. Mr. Fu is currently employed by CHI while serving as Director of both China Everbright Group Ltd. and China Everbright Industrial Group Limited. He ever served successively as a clerk in Science Education Section, a senior clerk and a principal clerk of Science Section in Cultural, Educational and Administrative Department, Deputy Director and Director of Cultural Section, Director of Administrative and Financial Section in Cultural, Educational, Administrative and Financial Department, Director of Integrated Section in Public Expenditure Department, Director and Assistant Counsel of General Affairs Section in Educational, Science and Cultural Department of the Ministry of Finance, Chief Editor, Secretary of CPC Committee, President and Senior Editor at China State Finance Magazine, Counsel of Department of Treaty and Law at the Ministry of Finance. He graduated from Central University of Finance and Economics in the Finance Faculty with a Bachelor's degree. He also receives Special Government Allowances of the State Council.

Mr. Shi Yongyan

Mr. Shi Yongyan has served as Director of the Bank since May 2018. Currently, he works at Central Huijin Investment Ltd., while serving as Director of China Everbright Group Ltd. He was Deputy Head of the AML Division of the Management and Inspection Department at State Administration of Foreign Exchange, Deputy Head and Researcher of the General Affairs Division of the AML Bureau at PBOC, Head of the Research Support Division of the Banking Department, Head of the Research Support Division of the Banking Institution Management Department I, Designated Director of the Comprehensive Management Department/Banking Institution Management Department II at Central Huijin Investment Ltd. (designated to China Export & Credit Insurance Corporation), and Member of Party Working Committee and Deputy Director (temporary) of the Management Committee of Lanzhou New Area in Gansu Province. He is a graduate of Peking University School of Economics, and holds a Doctoral degree in Economics from Singapore Nanyang Technological University Nanyang Business School.

Mr. Wang Xiaolin

Mr. Wang Xiaolin has served as Director of the Bank since October 2018. Currently, he works at Central Huijin Investment Ltd., while serving as Director of China Everbright Group LTD. He was Deputy General Manager of the Securities Management Headquarters at Shandong International Trust Co., Ltd., General Manager Assistant of Shandong High-Tech Investment Corp., Head of the General Office at Shandong Lucion Investment Holdings Group Co., Ltd., Secretary of CPC Committee and General Manager of Shandong International Trust Co., Ltd., Member of CPC Committee and Deputy General Manager at Shandong Lucion Investment Holdings Group Co., Ltd., Deputy Head (temporary) of the International Department at China Banking Regulatory Commission, and Deputy Secretary of CPC Committee and General Manager of Shandong Development Investment Holding Group Co., Ltd. He is a graduate of Fudan University School of Management majoring in Enterprise Management, holds a Master's degree in Economics, and is a senior economist.

Mr. He Haibin

Mr. He Haibin has served as Director of the Bank since May 2018. Currently, he is Standing Member of CPC Committee, Chief Accountant, Board Secretary of Overseas Chinese Town Holdings Company, Chairman of Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd., Chairman of Overseas Chinese Town (HK) Company Limited, Vice Chairman of Huaneng Capital Services Co., Ltd., Director of Konka Group Co., Ltd., and Board Chairman of Overseas Chinese Town (Asia) Holdings Limited. He was Head of the Audit Department and the Financial Accounting Department of Overseas Chinese Town Holdings Company, Chief Financial Officer of Overseas Chinese Town Seaview Hotel Limited, Deputy Head and Head of the Financial Accounting Department of Overseas Chinese Town Holdings Company, and Chief Accountant of Shenzhen Overseas Chinese Town Co., Ltd.. He is a graduate of Sun Yat-Sen University majoring in Accounting Audit, holds the Master's degree in Accountancy from Chinese Academy of Fiscal Sciences, affiliated to the Ministry of Finance of China, and is a senior accountant.

Mr. Zhao Wei

Mr. Zhao Wei has served as Director of the Bank since February 2015. He is currently Vice President of China Reinsurance (Group) Co., Ltd., and Council Member of Asia Reinsurance Corporation. He successively served as General Manager of China Life Insurance (Hong Kong) Asset Management Co., Ltd., President of China Life Franklin Asset Management Co., Limited, Vice President of New China Asset Management Co., Ltd., and CPC Committee Secretary and General Manager of China Re Asset Management Company Ltd. He graduated from the Research Institute for Fiscal Science of the Ministry of Finance with a Doctoral degree in Finance.

Mr. Qiao Zhimin

Mr. Qiao Zhimin has served as Independent Non-Executive Director of the Bank since January 2013. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd.. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the First Banking Supervision Department of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of the CBRC; and Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a Master's degree and a certificate of senior accountant.

Mr. Xie Rong

Mr. Xie Rong has served as Independent Non-Executive Director of the Bank since January 2013. Currently, he is Independent Director of Shenwan Hongyuan Group Co., Ltd., China Traditional Chinese Medicine Co., Ltd., Shanghai Bairun Investment Holding Group Co., Ltd. and Shanghai International Trust Corp. Ltd.. He served as Associate Professor, Professor, Doctorial Tutor and Deputy Head of the Accounting Institute of Shanghai University of Finance and Economics (during that period, Mr. Xie visited and conducted research at University of Warwick in the United Kingdom for one year), and became a partner of KPMG Huazhen and Deputy Dean of Shanghai National Accounting Institute. He also served as a part-time certified accountant of Da Hua Certified Public Accountants, Pricewaterhouse Da Hua Certified accountant and Independent Director of China CITIC Bank. He graduated from Shanghai University of Finance and Economics and majored in accounting. He holds a Doctoral degree in Economics. He is a senior non-practicing certified public accountant and a recipient of the Special Government Allowances of the State Council.

Ms. Fok Oi Ling Catherine

Ms. Fok Oi Ling Catherine has served as Independent Non-Executive Director of the Bank since January 2014. Currently, she is a consultant of Siya International Consultancy Service Co. Ltd., a senior member of the Hong Kong Institute of Directors, a voting member of the Hong Kong Professionals and Senior Executives Association and a member of its Finance and Economics Group and Economic Affairs Committee, and a member of the Hong Kong Women Professionals & Entrepreneurs Association. She served successively in the Hong Kong and Shanghai Banking Corporation Limited ("HSBC") as Manager of the International Trade Financing Division and the Commercial Credit Division, Regional Director of Industrial and Commercial Banking and Trade Finance, Head of the Risk Management Department of Retail Banking, and Regional Director of Retail Banking and Director of Wealth Management and Investment Products for the Retail Banking Business. She also served as Director of Business Integration of Asia-Pacific Region of HSBC, and a Marketing and Management Advisor to the Retail Banking Business of BOCC. She was Honorary Chairman of the Hong Kong Chamber of Commerce in China – Shanghai. She holds a Master's degree in Business Administration from the Chinese University of Hong Kong. She is an associate of the Hong Kong Institute of Bankers and a certified financial management planner.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Xu Hongcai

Mr. Xu Hongcai has served as Independent Non-Executive Director of the Bank since February 2015. He is currently Deputy Chief Economist and researcher of China Center for International Economic Exchanges, and a visiting scholar of the University of British Columbia, Canada. He successively served as Assistant Engineer of China National Petrochemical Corp., Clerk at the Financial Claims Office of the Head Office of the PBOC, Deputy General Manager at Shanghai Office of GF Securities, Vice President at Beijing Venture Capital Co., Ltd. and Professor of Capital University of Economics and Business. He graduated from Renmin University of China with a Master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. Feng Lun

Mr. Feng Lun has served as Independent Non-Executive Director of the Bank since February 2015. He is Executive Director of Beijing Sifang Yufeng Investment Co., Ltd.. He served as a lecturer of the Party School of the Central Committee of CPC, Deputy Department Director of the Research Institute of the State Economic System Reform Commission, Senior Vice President of the Research Center of the Hainan Reform and Development Research Institute and Director of China Minsheng Banking Corp., Ltd. He founded the Vantone Group in 1991. He obtained a Bachelor's degree in Economics from Northwest University, a Master's degree in Law from the Party School of the Central Committee of CPC, a Doctorate degree in Law from the Graduate School of Chinese Academy of Social Sciences and a Master of Public Policy (MPP) degree from Lee Kuan Yew School of Public Policy at the National University of Singapore.

Mr. Wang Liguo

Mr. Wang Liguo has served as Independent Non-Executive Director of the Bank since January 2017. He currently works as Professor (National Second Class) of the Dongbei University of Finance and Economics, a Doctoral Tutor, Chief Expert of Major Bidding Projects of the National Social Science Fund, Director of China Investment Association, Executive Director of Construction Economics Branch of China Construction Industry Association, Vice Chairman of Dalian Engineering Consulting Association and Chairman of Dalian Yadong Investment Consulting Co., Ltd. He has served as Lecturer and Associate Professor of Dongbei University of Finance and Economics, Dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of the Evaluation Committee of Higher Education Engineering Management of the Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a Bachelor's degree and a Master's degree in Economics and then a Doctorate degree in Industrial Economics.

ii. Supervisors

Mr. Li Xin

Mr. Li Xin has served as Supervisor of the Bank since May 2015, and became Chairman of the Board of Supervisors of the Bank in June 2015. He successively served as an Assistant Engineer of Beijing 304 Research Institute of the Ministry of Aviation Industry, Secretary of the General Office of the Ministry of Aviation Industry, Secretary, Secretary (Deputy Division Chief Level), Secretary (Division Chief Level) and Deputy Director of the Secretariat of the General Office of the Ministry of Finance, Head of Division 1 of Economic Affairs Department of Xinhua News Agency Hong Kong Branch, Deputy Managing Director of Good Ocean Development Limited in Hong Kong, Deputy Director of the General Office and Head of Finance Division of Commission of Science, Technology and Industry for National Defense, Director of Human Resources Department, Chief of Organization Department of the CPC Committee and Senior Managing Director of China Investment Corporation, and concurrently served as Employee Representative Director of China Investment Corporation, Deputy Secretary of CPC Working Committee of China Investment Corporation, and Vice Chairman of the Working Committee of the Labor Union of China Investment Corporation. He graduated from Shenyang Aviation Industrial College with a Bachelor's degree in Aviation Machinery Processing Technology.

Mr. Yin Lianchen

Mr. Yin Lianchen has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and Non-Executive Director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration Department, Director of the Securities Brokerage Department and Director of the Corporate Communications Department of China Everbright Limited, Chief Representative of China Desk of Moody's KMV, Deputy General Manager of Beijing Yonder Investment Group, Division Chief in the Executive Office of China Everbright (Group) Corporation and Assistant General Manager of China Everbright Limited. He graduated from Nankai University with a Master's degree in Western Financial Accounting.

Mr. Wu Junhao

Mr. Wu Junhao has served as Supervisor of the Bank since November 2009. He is Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a Master's degree in Enterprise Management at East China Normal University.

Mr. Yu Erniu

Mr. Yu Erniu has served as External Supervisor of the Bank since November 2012. He successively served as a staff member, Deputy Director-General and Director-General of the Department of Personnel and Education of the Ministry of Finance. Mr. Yu was appointed as Designated Director of CHI to BOC, a member of the Board of Directors, Director of the Human Resources Department, Chief of the Organization Department of the CPC Committee and Chairman of the Labor Union of China Investment Corporation, and Director of the Bank. He is a graduate of Economic Management studies from the PLA Air Force Political College majoring in Economic Management. He also obtained a Master's degree in Economic Laws from Capital University of Economics and Business.

Mr. Wu Gaolian

Mr. Wu Gaolian has served as External Supervisor of the Bank since June 2016. He successively served as a committee member of County Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County, Jilin, General Manager of Tonghua Branch, Jilin, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group LTD. He graduated from the Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a Master's degree and is a senior economist.

Mr. Wang Zhe

Mr. Wang Zhe has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Non-Executive Director of Boill Healthcare Holdings Limited. He successively served as a staff member of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Center, Vice General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Center, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Party Secretary of Shanghai Gold Exchange, and CPC Committee Secretary of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a Master's degree.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Sun Xinhong

Mr. Sun Xinhong has served as Employee Supervisor of the Bank since June 2017. He is currently General Manager of the Finance and Accounting Department of the Bank. He successively served as Clerk of the Finance and Accounting Department, Section Chief, Deputy Division Chief and Division Chief of the Funding Division of the Financial Management Department, Assistant General Manager and Deputy General Manager of the Financial Management Department, and member of the Party Discipline Committee of the Headquarters of China Everbright (Group) Corporation and Deputy General Manager of the Financial Management Department and Employee Supervisor of China Everbright Group LTD. He graduated from the School of Economics and Management of Tsinghua University. He holds a Bachelor's degree and a certificate of senior accountant.

Mr. Jiang Ou

Mr. Jiang Ou has served as Employee Supervisor of the Bank since June 2017. He is currently Senior Business Director of the Office of Board of Supervisors of the Bank. He successively served as Clerk of the Research Institute and Deputy Director of the Comprehensive Management Office of Beijing Combustion Engine General Factory, Clerk, Deputy Section Chief and Section Chief of the Examination and Recruitment Division of the Ministry of Personnel, Director (Deputy Division Chief Level) of the Career Service Management Center and Director (Deputy Division Chief Level) of the Job Introduction Service Center of Hainan Yangpu Economic Development Zone, Deputy Division Chief and Division Chief of the Personnel Division, Assistant General Manager and Deputy General Manager of the Human Resources Department of the Bank, Deputy Director of the Office of the Performance Management Committee of the Bank, Deputy Head of the Preparatory Group of Wuxi Branch (Deputy General Manager Level) of the Bank, Member of CPC Committee, Secretary of Discipline Committee and Deputy General Manager of Wuxi Branch of the Bank, and Deputy General Manager of the Office of Board of Supervisors of the Bank. He graduated from the College of Automotive Engineering of Jilin University and holds a Master's degree.

Ms. Huang Dan

Ms. Huang Dan has served as Employee Supervisor of the Bank since June 2017. She is currently Deputy General Manager of the Card Center of the Bank. She successively served as Clerk of Gaoxian Sub-branch of PBOC, Deputy Manager of the Card Issue Management Division of the Private Banking Department, Deputy General Manager (Acting) and General Manager (Senior Manager Level) of the Business Department of Credit Card Center, Head of the Planning and Marketing Department of Credit Card Center, and Assistant General Manager of Credit Card Center of the Bank. She graduated from Beihang University with a Master's Degree. She holds a certificate of economist.

iii. Senior Management

Mr. Ge Haijiao

Please refer to the section "Directors".

Mr. Lu Hong

Mr. Lu Hong has served as Executive Vice President of the Bank since December 2010 and Member of CPC Committee of the Bank since March 2009. He joined the Bank in 1994 and successively served at various positions of the Bank, including Manager of the Securities Department, Division Chief in the Office of the Board of Directors, Assistant General Manager of the Planning and Treasury Department, General Manager of the Planning and Finance Department of Beijing Branch of the Bank, Deputy General Manager of the Finance and Accounting Department, Deputy General Manager and General Manager of the Planning and Finance Department and Secretary of the Board of Directors. He was an engineer in the Planning Institute of the Ministry of Railways and Manager in the Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute and holds a Master's degree in Railway Engineering and a Doctoral degree in Applied Economics of Xi'an Jiaotong University. He holds a certificate of senior economist.

Mr. Wu Jian

Mr. Wu Jian has served as Executive Vice President of the Bank since December 2014 and Member of CPC Committee of the Bank since January 2014. He joined the Bank in December 1997 and successively served as Deputy General Manager (Acting) of the Market Development Department of the Head Office, General Manager of the Credit Card Business Department, Deputy General Manager of Nanjing Branch, General Manager of the Retail Banking Department, General Manager of the R&D Department, General Manager of the Strategic Management Department, General Manager of Shenyang Branch, General Manager of the SME Business Department, General Manager of the Human Resources Department, Secretary of Discipline Committee (Executive Vice President Level), and Secretary of CPC Committee and General Manager of Beijing Branch of the Bank. He used to work as Deputy Head (Deputy Division Chief Level) and Director (Division Chief Level) of Economic Research Team of the Research Division of General Office of the NPC Standing Committee, Division Chief of Foreign Capital Management Center of the State Council Poverty Alleviation Office, Division Chief of Comprehensive Analysis Division of Balance of Payments Department of SAFE. Mr. Wu graduated from Renmin University of China with a Master's degree in Economics. He holds a certificate of senior economist.

Mr. Yao Zhongyou

Mr. Yao Zhongyou has served as Executive Vice President of the Bank since August 2014 and Member of CPC Committee of the Bank since May 2014. He used to work as Clerk and Deputy Manager of the International Banking Department of Hebei Provincial Branch, General Manager and Secretary of CPC Committee of Chengde Branch, Director of the General Office, Deputy General Manager and a Member of CPC Committee of Hebei Provincial Branch of China Construction Bank ("CCB"), Deputy General Manager of the Equity Management Department of China Everbright (Group) Corporation, Executive Director, a member of CPC Committee and Vice President of Everbright Financial Holding Asset Management Co., Ltd. as well as General Manager of the Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University and holds a Master's degree. He holds a certificate of senior economist.

Mr. Huang Haiqing

Mr. Huang Haiqing has served as Member of CPC Committee and Secretary of Discipline Committee of the Bank since he joined the Bank in June 2016. He successively served as Deputy Chief of Jiangxi Province Yichun Area Hardware, Electric Material and Chemical Equipment Company, Director of the Xinhua North Office of Haikou branch, Deputy Division Chief of the Deposits Department and Deputy Director (Division Chief Level) of the General Office of Hainan Provincial Branch of ICBC, Senior Manager of the General Management Department, Director of the CPC Committee Office and Head of Organization Department of the CPC Committee of the Haikou Office of China Huarong Asset Management Co., Ltd, Deputy General Manager of the Banking Department of the Head Office and Deputy General Manager of Pudong Branch of Bank of Shanghai, and Assistant Mayor, Vice Mayor and member of the CPC Committee of Xi'an City. He graduated from Southwest University of Finance and Economics. He holds a Doctoral degree in Economics and a certificate of senior economist.

Mr. Sun Qiang

Mr. Sun Qiang has served as Executive Vice President of the Bank since March 2018 and Member of CPC Committee of the Bank since August 2016. After joining the Bank since 1997, he successively served as Deputy General Manager of Zhuhai Sub-branch, General Manager of Shantou Sub-branch of Guangzhou branch, Assistant General Manager of the Inspection and Security Department of the Head Office, Assistant General Manager and Deputy General Manager of the Corporate Banking Department, Deputy General Manager (Acting) and General Manager of the Financial Institutions Department, and General Manager of the Corporate Banking Department, Assistant President of the Bank. He used to work in the Survey and Statistics Department and the General Office of the PBOC, Head Office of SAFE, and the PBOC Shantou Office in Guangdong Province. He graduated from Peking University with a Bachelor's degree in Probability Statistics and afterwards acquired a Master's degree in Money and Banking from the School of Finance, Renmin University of China.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Li Jiayan

Mr. Li Jiayan has served as Secretary to the Board of Directors of the Bank since January 2018 and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005. He successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of the Office of the Board of Directors (the Listing Office), Representative of Securities Affairs (General Manager Level), and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Chief of the Project Approval Division of the Foreign Investment Office, Director of the Foreign Investors' Complaints Center, Chief of the Coordination and Management Division of the Foreign Investment Office, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. Of Wuhan Municipal Government. He graduated from School of Law, Wuhan University with a Bachelor's degree and a Master's degree in Law. Then he went to the University of California, Berkeley, School of Law for further study, where he obtained a Master's degree and a Doctoral degree in Law.

VIII. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and Supervisors of the Bank had interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

IX. FINANCIAL, BUSINESS AND KINSHIP RELATIONSHIPS AMONG MEMBERS OF THE BOARD OF DIRECTORS

Saved as disclosed in this Report, there is no financial, business, kinship relationships or other material relationships among the members of the Board of Directors.

X. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

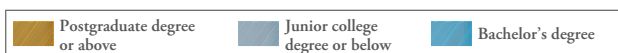
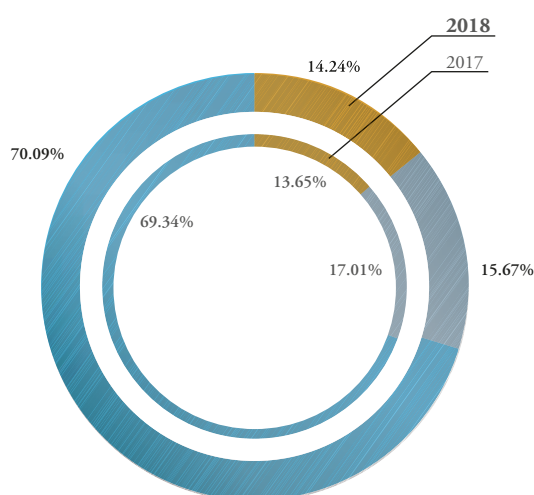
None of the Directors or Supervisors of the Bank or connected parties had any material interest in any material transaction, arrangements or contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the Directors or Supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to Director or Supervisor if the contract for each year is terminated for the Bank's reason (excluding statutory compensation).

XI. EMPLOYEES

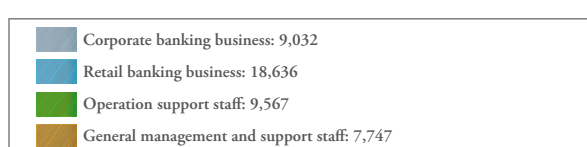
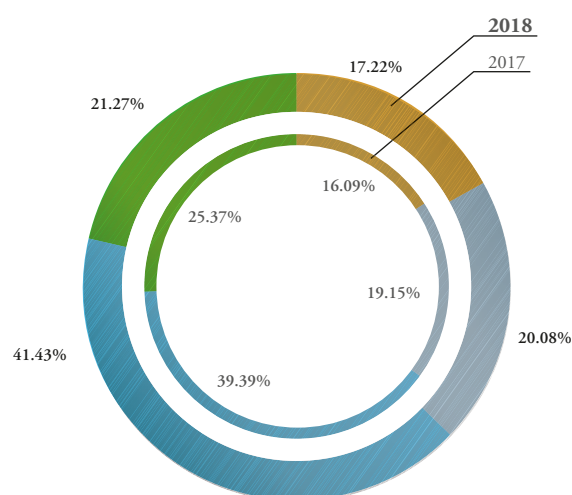
i. Overview

At the end of the reporting period, the Bank had 44,982 employees (exclusive of those of subsidiaries) and 1,044 retired employees. In terms of educational background, 7,048 incumbent employees hold a junior college degree or below, accounting for 15.67% of the total employees, 31,527 incumbent employees hold a bachelor's degree, accounting for 70.09%, and 6,407 incumbent employees hold a postgraduate degree or above, accounting for 14.24%. In terms of profession, there were 9,032 employees in the corporate banking business, accounting for 20.08%; 18,636 employees in the retail banking business (including the credit card business and e-banking business), accounting for 41.43%; 9,567 operation support employees (including tellers), accounting for 21.27%; and 7,747 general management and support employees, accounting for 17.22%.

The educational background structure of employees of the Bank



The profession structure of employees of the Bank



ii. Remuneration Policies for Employees

In response to performance orientation and market competition, the Bank's remuneration policies follow the principles of "efficiency and fairness". The remuneration of employees is comprised of three components, namely basic salary, performance-based salary and fringe benefits. The Bank gives preferential treatment to the frontline employees and profit centers to attract and motivate key and core personnel.

iii. Training Plans

In order to highlight the requirements for strategic transformation, and center on building up the post-required competence, the Bank has established a host of targeted, widely-covered, well-structured, and content-rich training programs by closely linking its strategic mechanism and performance-based target. In 2018, the Bank organized 7,051 training courses and sessions of all sorts, with a participation of total 453,201 person-times.

Directors, Supervisors, Senior Management, Staff and Business Outlets

iv. Employees of Main Subsidiaries at the End of the Reporting Period

1. Everbright Financial Leasing Co., Ltd. had 133 formal employees, including 29 administrative staff, 61 business staff and 43 supporting staff, with 93% of them holding a Bachelor's degree or above.
2. Shaoshan Everbright Village Bank Co., Ltd. had 31 formal employees, including 7 administrative staff members, 8 business staff and 16 supporting members, with 71% of them holding a Bachelor's degree or above.
3. Jiangsu Huai'an Everbright Village Bank Co., Ltd. had 50 formal employees, including 12 administrative staff, 25 business staff and 13 supporting staff, with 64% of them holding a Bachelor's degree or above.
4. CEB International Investment Corporation Limited had 80 formal employees, including 4 administrative staff, 35 business staff and 41 supporting staff, with 98% of them holding a Bachelor's degree or above.
5. China Everbright Bank (Europe) S.A. had 20 formal employees, including 8 administrative staff, 6 business staff and 6 supporting staff, with 100% of them holding a Bachelor's degree or above.
6. Jiangxi Ruijin Everbright Village Bank Co., Ltd. had 30 formal employees, including 8 administrative staff, 16 business staff and 6 supporting staff, with 97% of them holding a Bachelor's degree or above.

XII. INSTITUTIONS

During the reporting period, seven tier-2 branches (Loudi Branch, Yichun Branch, Liaocheng Branch, Bijie Branch, Yancheng Branch, Tonghua Branch, and Huangshi Branch) were open for business; one branch (Beijing Tongzhou Branch) was promoted to a tier-2 branch; and 48 banking outlets were put into operation. As at the end of the reporting period, the Bank had 1,252 branches and outlets in Chinese mainland, which included 39 tier-1 branches, 97 tier-2 branches and 1,116 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking departments of branches). The outlets of the Bank in Chinese mainland managed to cover all provincial administrative regions and extended their business reach to 136 economic center cities across the country. In the meantime, the Bank accelerated the pace of setting up overseas institutions. As at the disclosing date of this report, Sydney Branch has opened for business. At present, the Bank has altogether four overseas branches in Hong Kong, Seoul and Luxembourg and Sydney respectively.

Details of the Bank's employees and business outlets are as follows:

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)
Head Office	1	6,801	2,974,341
Beijing Branch	70	2,679	465,222
Shanghai Branch	56	1,821	234,121
Tianjin Branch	34	1,014	77,115
Chongqing Branch	27	942	85,602
Shijiazhuang Branch	52	1,342	110,078
Taiyuan Branch	34	1,062	90,206
Huhhot Branch	20	593	39,506
Dalian Branch	24	715	39,593
Shenyang Branch	37	1,201	72,501
Changchun Branch	39	964	52,347
Heilongjiang Branch	38	1,083	40,883
Nanjing Branch	49	1,488	188,938
Suzhou Branch	20	873	84,867
Wuxi Branch	9	327	66,170
Hangzhou Branch	39	1,285	191,356
Ningbo Branch	19	755	57,812
Hefei Branch	51	1,369	143,846
Fuzhou Branch	41	1,333	77,079
Xiamen Branch	17	534	44,686
Nanchang Branch	27	735	60,718
Ji'nan Branch	35	954	59,731
Qingdao Branch	35	1,043	79,500
Yantai Branch	15	488	38,158
Zhengzhou Branch	48	1,352	104,904
Wuhan Branch	37	1,071	84,714
Changsha Branch	61	1,538	102,351
Guangzhou Branch	88	2,486	182,527
Shenzhen Branch	50	1,230	229,217
Nanning Branch	28	870	61,983
Haikou Branch	22	748	45,770
Chengdu Branch	27	957	88,900
Kunming Branch	23	751	39,402
Xi'an Branch	38	1,122	65,557
Urumqi Branch	7	190	12,192
Guiyang Branch	14	370	27,907

Directors, Supervisors, Senior Management, Staff and Business Outlets

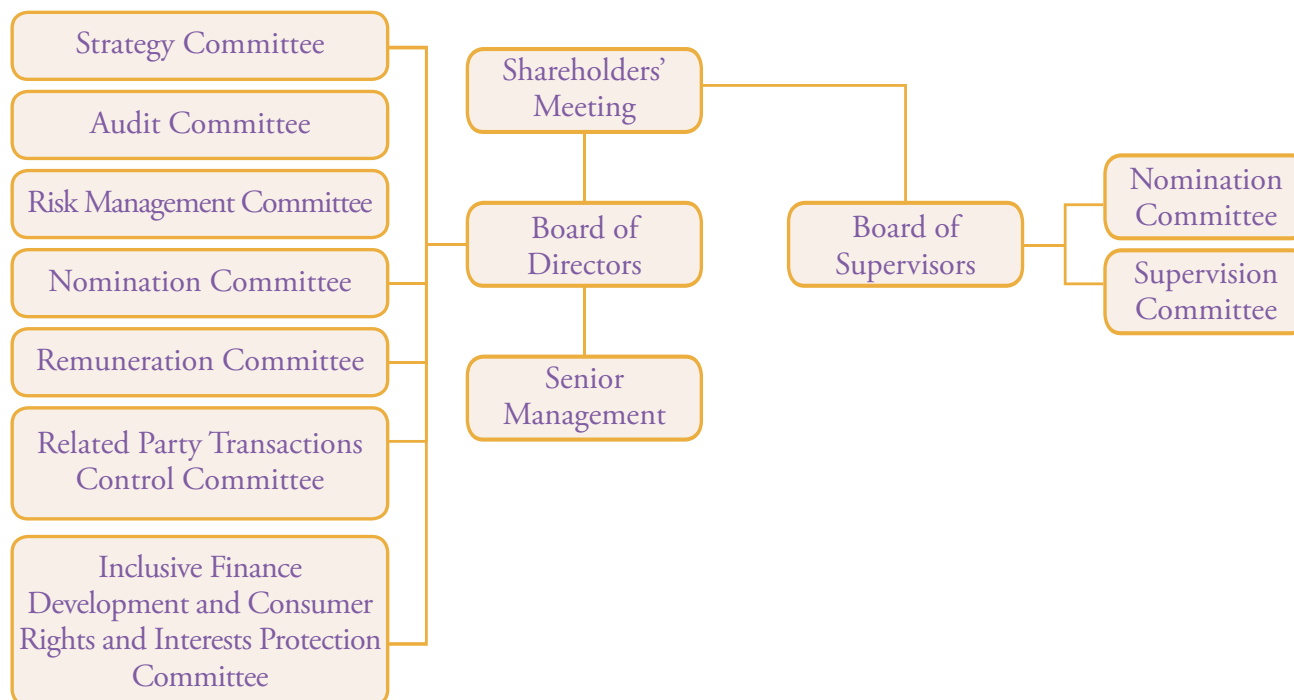
Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)
Lanzhou Branch	12	329	17,873
Yinchuan Branch	5	137	4,300
Xining Branch	2	92	4,320
Lhasa Branch	2	62	1,681
Hong Kong Branch	1	179	132,046
Seoul Branch	1	34	12,586
Luxembourg Branch	1	40	24,850
Sydney Branch	1	23	495
Adjustment on consolidation			(2,330,496)
Total	1,257	44,982	4,287,455

Notes:

1. The employees of the Head Office of the Bank included 2,981 staff in the Credit Card Center and 1,850 persons in the Remote Banking Center.
2. The number of outlets, employees and the total assets listed in the above table excluded those of the subsidiaries of the Bank.

Corporate Governance

I. CORPORATE GOVERNANCE STRUCTURE



II. OVERVIEW

Aiming at the best practice of corporate governance in the capital market, the Bank has established a sound corporate governance framework and policy system meeting the requirements on modern corporate system, leading to steady improvement in corporate governance of the Bank. In 2018, the Bank strictly complied with the *Company Law*, the *Securities Law*, the *Law on Commercial Banks*, the *Code of the Corporate Governance for Listed Companies*, the *Guidance on the Corporate Governance of Commercial Banks*, the *Guidelines for the Board of Supervisors of Commercial Banks*, the Hong Kong Listing Rules and other requirements. The Bank's corporate governance had no major deviation from normative documents regulating the corporate governance of listed companies issued by CSRC.

The Board of Directors of the Bank performed the duties as set out in Rule D.3.1 of Appendix 14 of the *Hong Kong Listing Rules* including reviewing the Bank's corporate governance policies and practices, the training and continuous professional development of Directors and the Senior Management, the Bank's policies and practices in respect of observance of law and regulatory requirements, the Bank's compliance with the *Model Code* and the compliance manual for employees, the Bank's compliance with the provisions of Appendix 14 of the *Hong Kong Listing Rules* and the content disclosed in the section headed "Corporate Governance" in this Report.

During the reporting period, the Board of Directors took an active part in reviewing and improving the strategic plan. After thoroughly analyzing the external environment and its own characteristics, the Board discussed and adopted the *Mid-to-long-term Development Strategy (2018-2027)*, which sets out the vision of "building a top-grade wealth management bank", and points out the transformation towards comprehensive, featured, light-asset, and digitalized operations. In response to the regulatory requirements and work needs, the Board further revised the *Articles of Association*, by refining the provisions relating to the shareholder obligations, shareholders' general meetings, and special committees under the Board of Directors. Meanwhile, the Board of Directors earnestly acted on the requirements raised in the *Interim Measures on Equity Management at Commercial Banks*, made further revisions to the *Administrative Measures for Related Party Transactions*, explored how to carry out the equity management, and reviewed major related party transactions stringently. To improve the inclusive finance system, the Bank set up the Inclusive Finance Department, and put the newly-created Inclusive Finance Development and Consumer Rights and Interests Protection Committee into operation. Additionally, measures were adopted to adjust the member composition of special committees under the Board of Directors, so that the Board and its

Corporate Governance

committee could get their work done in a coordinated way. To adapt to the new regulations on asset management, it supported the efforts to set up an wealth management subsidiary, urged the Senior Management to continuously strengthen capital management and planning, and reviewed and adopted the *Capital Planning Report (2018-2022)*.

During the reporting period, the Bank safeguarded the minority shareholders' rights of being well-informed, participation and decision-making through proper policy and procedure arrangements. At the shareholders' general meetings, both on-site voting and online voting were adopted. When material matters concerning the interests of medium and small investors were involved, the votes made by medium and small investors were counted and disclosed separately. The Bank and its substantial shareholders were independent in terms of their business, personnel, asset, organization and financial affairs, ensuring the Bank's full autonomy in its operation.

The Bank won *the Special Contribution Award for Board of Directors Governance* in the 14th Gold Round Table Award for Boards of Chinese Listed Companies sponsored by the Directors & Boards magazine.

The Board of Directors of the Bank has reviewed its work during the reporting period and solicited the opinions of the Senior Management during its reviewing process, who considered that the Board of Directors has effectively performed its duty and safeguarded the rights and interest of the shareholders and the Bank.

III. SHAREHOLDERS' GENERAL MEETINGS

i. Convening of Shareholders' General Meetings

During the reporting period, the Bank held one annual general meeting, two extraordinary general meetings, one A shareholders' class meeting, one H shareholders' class meeting, and one preference share class meeting, all in conformity with the procedures specified in the *Articles of Association* of the Bank.

On 28 February 2018, the Bank convened the 2018 First Extraordinary General Meeting, 2018 First A Shareholders' Class Meeting, 2018 First H Shareholders' Class Meeting and 2018 First Preference Share Class Meeting.

On 22 June 2018, the Bank convened the 2017 Annual General Meeting.

On 21 December 2018, the Bank convened the 2018 Second Extraordinary General Meeting.

The announcement on the above meetings was published on the websites of SSE, HKEX and the Bank.

ii. Implementation of the Resolutions of the Shareholders' General Meetings by the Board of Directors

During the reporting period, the Board of Directors of the Bank earnestly and fully implemented resolutions considered and approved at the shareholders' general meetings of the Bank.

The Board of Directors of the Bank earnestly implemented the profit distribution plan for 2017, distributed dividends to shareholders in time, and safeguarded shareholders' interests properly. The profit distribution plan has been completed in August 2018.

In accordance with the proposal on establishing an independent legal entity for asset management business as considered and approved by the 2017 Annual General Meeting, the Bank worked hard to apply for the establishment of such wealth management subsidiary with CBIRC, and started to make related preparations of all sorts.

Upon consideration and approval of the proposal regarding the election of Directors of the Seventh Session of the Board of Directors at the 2018 First and Second Extraordinary General Meetings, the Bank timely reported to CBIRC and obtained its approval on the qualifications of new Directors.

The 2018 Second Extraordinary General Meeting considered and approved the proposal on revising the *Articles of Association* of the Bank. The Bank timely submitted the revised version to CBIRC.

iii. Attendance of Directors at Shareholders' General Meetings

Name	Number of meetings	Attendance in person
Li Xiaopeng	2	1
Cai Yunge	3	1
Fu Dong	2	2
Shi Yongyan	2	2
Wang Xiaolin	1	1
He Haibin	2	0
Zhao Wei	3	0
Qiao Zhimin	3	2
Xie Rong	3	2
Fok Oi Ling Catherine	3	1
Xu Hongcai	3	1
Feng Lun	3	0
Wang Ligu	3	2

Notes:

- In accordance with Rule A.6.7 of Appendix 14 of the Hong Kong Listing Rules, Independent Non-Executive Directors should attend shareholders' general meetings of the Bank. Some Independent Non-Executive Directors of the Bank were unable to attend relevant general meetings in 2018 due to other official duties.
- Mr. Fu Dong started to perform his duty after his appointment qualification for Director was approved by former CBRC on 15 March 2018.
- Mr. Li Xiaopeng started to perform his duty after his appointment qualification for Director was approved by former CBRC on 16 March 2018.
- Mr. Shi Yongyan started to perform his duty after his appointment qualification for Director was approved by CBIRC on 21 May 2018.
- Mr. He Haibin started to perform his duty after his appointment qualification for Director was approved by CBIRC on 21 May 2018.
- Mr. Wang Xiaolin started to perform his duty after his appointment qualification for Director was approved by CBIRC on 12 October 2018.

IV. DIRECTORS AND BOARD OF DIRECTORS

i. Board Composition

As at the end of the reporting period, the Board of Directors consisted of 13 directors, including 7 Non-Executive Directors (Mr. Li Xiaopeng, Mr. Cai Yunge, Mr. Fu Dong, Mr. Shi Yongyan, Mr. Wang Xiaolin, Mr. He Haibin and Mr. Zhao Wei), and 6 Independent Non-Executive Directors (Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun and Mr. Wang Ligu).

The Bank has paid special attention to the diversity of the members of the Board of Directors. In accordance with the *Policy on Membership Diversity of the Board of Directors* of the Bank, upon examining the director candidates and submitting its recommendation to the Board of Directors, the Nomination Committee comprehensively evaluated the candidates' gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc. The Nomination Committee is also responsible for evaluating the structure, number of members and composition of the Board of Directors, and recommending to the Board on any adjustments that correspond with the strategy of the Bank. As at the end of the reporting period, out of the 13 directors of the Bank, 1 is female, 12 hold a postgraduate degree or above with 8 holding a doctoral degree. The Non-Executive Directors have held key positions in their respective institutions and possess extensive managerial experience. The Independent Non-Executive Directors are experts in economy, finance, accounting, auditing and other aspects who can provide the Bank with professional advice in different areas.

For the details of the biographies of directors, please refer to "Directors, Supervisors, Senior Management, Staff and Business Outlets".

Corporate Governance

ii. Duties and Powers of the Board of Directors

As the decision-making body of the Bank, the Board of Directors is responsible for convening the shareholders' general meeting, reporting to and implementing resolutions passed at the shareholders' general meeting. The Board of Directors shall also set out strategies, operation plans and investment plans and formulate various proposals on financial budget, final accounts, risk capital allocation, and profit distribution plan and appoint members of senior management. Please refer to the *Articles of Association* of the Bank for details.

iii. Board Meetings and Resolutions

During the reporting period, the Board of Directors held 16 meetings, including 8 on-site meetings and 8 meetings via written resolutions. The Board of Directors considered a total of 96 proposals and heard 16 reports, playing an effective role in scientific decision-making.

The Board of Directors highly valued the strategy adjustment, so as to make clear the direction and path for future development; It deepened the reform of corporate governance and continuously improved its standards. It paid attention to operation transformation and business structure adjustment to actively serve the real economy, and continuously intensified risk and capital control with an aim to forestall and mitigate various risks. The Board of Directors strengthened fairness review on major related party transactions, and further improved the standard of the management over related party transactions. Besides, it performed information disclosure obligations prudently, and disclosed information in strict compliance with regulatory requirements to continuously enhance the management of information insider.

The announcements of resolutions of all Board Meetings of the Bank are published on the websites of SSE, HKEX and the Bank.

iv. Attendance of Directors at Board Meetings

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Li Xiaopeng	13	11	2	0
Cai Yunge	16	14	2	0
Fu Dong	13	13	0	0
Shi Yongyan	11	11	0	0
Wang Xiaolin	4	3	1	0
He Haibin	11	9	2	0
Zhao Wei	16	14	2	0
Qiao Zhimin	16	15	1	0
Xie Rong	16	16	0	0
Fok Oi Ling Catherine	16	16	0	0
Xu Hongcai	16	14	2	0
Feng Lun	16	10	6	0
Wang Ligu	16	16	0	0

Notes:

1. Mr. Fu Dong started to perform his duty after his appointment qualification for Director was approved by former CBRC on 15 March 2018.
2. Mr. Li Xiaopeng started to perform his duty after his appointment qualification for Director was approved by former CBRC on 16 March 2018.
3. Mr. Shi Yongyan started to perform his duty after his appointment qualification for Director was approved by CBIRC on 21 May 2018.
4. Mr. He Haibin started to perform his duty after his appointment qualification for Director was approved by CBIRC on 21 May 2018.
5. Mr. Wang Xiaolin started to perform his duty after his appointment qualification for Director was approved by CBIRC on 12 October 2018.

v. Appointment, Re-election and Removal of Directors

In accordance with the *Articles of Association* of the Bank, directors shall be elected and replaced at the shareholders' general meeting, and the term of office for directors (including Non-Executive Directors) is three years starting from the date when the appointment qualifications are approved by CBIRC. Directors can be re-elected and re-appointed when the term of office has expired and the term of office of the re-elected and re-appointed Directors commences from the date when such re-election and re-appointments are approved at the shareholders' general meeting.

The term of office for the Independent Non-Executive Directors is the same as that of other directors. The term of office for the Independent Non-Executive Directors shall conform to applicable laws and provisions of regulatory authorities.

The *Articles of Association* of the Bank stipulates the procedures for appointing, re-electing and removing directors. The Nomination Committee of the Board of Directors preliminarily reviews the qualification and conditions of each director candidate and submits a proposal to the Board of Directors, which will consider and approve the proposal on the nomination of director candidates and further submit it for election at the general meeting.

vi. Board Statement on the Financial Statements

The Senior Management has provided sufficient explanation and information for the Board of Directors to make well-informed judgments in respect to the submitted financial statements and other data for approval. The directors of the Bank acknowledge that they are responsible to prepare the financial statements of the Bank which truly represent the operating results of the Bank for the year of 2018. To the best knowledge of the directors, there was no material uncertain event or condition that might have a material adverse effect on the continuing operation of the Bank.

V. THE CHAIRMAN AND THE PRESIDENT

The roles and work of the Chairman of the Board and the President are performed by different individuals, and their respective responsibilities are clearly defined and divided, which is in compliance with the provisions of the Hong Kong Listing Rules. During the reporting period, Mr. Li Xiaopeng, the Chairman of the Board of Directors of the Bank, was responsible for convening and presiding the meetings of the Board of Directors, ensuring that all Directors attending the Board meetings were properly informed of the issues to be reviewed or reported, managing the operation of the Board of Directors, making sure that all key and relevant issues were discussed by the Board of Directors in a constructive and timely manner. From January to August 2018, Mr. Zhang Jinliang served as the President of the Bank to preside over the overall operation and management work, implement the resolutions of the Board of Directors, and carry out the strategies and business plans of the Bank. In November and December 2018, Mr. Ge Haijiao served as the President of the Bank to preside over the overall operation and management work, implement the resolutions of the Board of Directors, and carry out the strategies and business plans of the Bank.

VI. DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

i. Independence of the Independent Non-executive Directors

The six Independent Non-Executive Directors of the Bank are not involved in any factors influencing their independence mentioned in Rule 3.13 of the Hong Kong Listing Rules. The Bank has received the letter of annual confirmation about his or her independence issued from each Independent Non-Executive Director according to Rule 3.13 of the Hong Kong Listing Rules. The Bank holds that all Independent Non-Executive Directors have met the independence requirements of the *Hong Kong Listing Rules*.

ii. Attendance of shareholders' general meetings by Independent Non-Executive Directors

Please refer to "III. iii" of this section for details.

iii. Attendance of Board meetings by Independent Non-executive Directors

Please refer to "IV. iv" of this section for details.

Corporate Governance

iv. Independent Non-Executive Directors' objections to any issues of the Bank

During the reporting period, none of the Independent Non-Executive Directors of the Bank had raised any objections to the proposals of the Board of Directors or other issues.

v. Duty Performance of Independent Non-Executive Directors

As at the end of the reporting period, the Bank had six Independent Non-Executive Directors, accounting for one-third of the Board members. The Remuneration Committee, the Nomination Committee, the Related Party Transactions Control Committee and the Audit Committee of the Board of Directors were all chaired by Independent Non-Executive Directors. During the reporting period, they expressed their independent opinions on all issues involving the interests of minority shareholders, such as profit distribution plans, remuneration of the senior management, and major related party transactions in accordance with the *Articles of Association* of the Bank. In all Board committees, each of the Independent Non-Executive Directors, based on their expertise, provided professional and constructive opinions and recommendations on issues under discussion. When the Board of Directors is not in session, the Independent Non-Executive Directors kept themselves updated of the Bank's internal documents and information on the Bulletin of the Board and participated in the director communication meetings and the theory-discussing meetings for the Board of Directors, so as to be well informed of internal control audit, strategic transformation, business development, and risk prevention and control. They communicated actively with other directors, supervisors, senior management members and external auditors, so as to obtain necessary information to perform their duties. Independent Non-Executive Directors maintained close contacts with the Bank via emails and phone calls. The Independent Non-Executive Directors' recommendations were highly valued and some were adopted, playing a positive role in defining strategic direction, and improving the risk prevention & control and profitability of the Bank.

VII. DUTY PERFORMANCE OF BOARD COMMITTEES

The Board of Directors of the Bank has set up the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Remuneration Committee, the Related Party Transactions Control Committee, and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. During the reporting period, the special committees held 35 meetings including 3 meetings of the Strategy Committee, 5 meetings of the Audit Committee, 4 meetings of the Risk Management Committee, 6 meetings of the Nomination Committee, 4 meetings of the Remuneration Committee, 11 meetings of the Related Party Transactions Control Committee, and 2 meetings of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. During these meetings, 77 proposals were reviewed and 25 reports were considered. The Board Committees, based on the division of duties and powers, carefully considered material issues in the Bank's operation and provided professional support for the Board of Directors to make well-informed decisions.

i. Strategy Committee

At the end of the reporting period, the Strategy Committee consisted of 5 members including Non-Executive Directors Mr. Li Xiaopeng (Chairman), Mr. Fu Dong and Mr. Wang Xiaolin, and Independent Non-Executive Directors Mr. Xu Hongcai and Mr. Feng Lun.

Primary duties and responsibilities of the Strategy Committee include reviewing and discussing plans on capital management and replenishment, annual operation plan and major investment programs, conducting researches on the Bank's business objectives together with medium and long-term development strategies as well as advising the Board accordingly.

During the reporting period, the Strategy Committee reviewed and approved proposal on the Bank's business plans and financial budget plans for 2018, the 2018 annual fixed assets investment budget plan, the *Mid-to-long-term Development Strategy (2018-2027)*, and proposals on the establishment of an independent legal entity for asset management business, the contribution to the incorporation of the national financing guarantee fund, and the revision to subsidiary management measures. The Committee also heard and discussed the report on strategy implementation in 2017.

During the reporting period, the Strategy Committee convened 3 meetings (including 2 on-site meetings and 1 meeting via written resolutions), reviewed 7 proposals and heard 1 report. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Li Xiaopeng	2	2	0	0
Fu Dong	2	2	0	0
Wang Xiaolin	—	—	—	—
Xu Hongcai	3	3	0	0
Feng Lun	3	1	2	0

Notes:

- On 27 April 2018, the 21st Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Li Xiaopeng and Mr. Fu Dong as members of the Strategy Committee.
- On 1 June 2018, the 22nd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Approving the Chairman of the Strategy Committee, the Nomination Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Seventh Session of the Board of Directors, agreeing to appoint Mr. Li Xiaopeng as the Chairman of the Strategy Committee.
- On 30 October 2018, the 29th Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Wang Xiaolin as member of the Strategy Committee.
- On 10 January 2019, the 33rd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Ge Haijiao as member of the Strategy Committee in place of Mr. Wang Xiaolin.

ii. Audit Committee

At the end of the reporting period, the Audit Committee consists of 7 members, of which the majority and the Chairman were Independent Non-Executive Directors. Its members include Independent Non-executive Directors Mr. Xie Rong (Chairman), Mr. Qiao Zhimin, Ms. Fok Oi Ling Catherine and Mr. Wang Liguu, and Non-executive Directors Mr. Cai Yunge, Mr. Wang Xiaolin and Mr. He Haibin.

Primary duties of the Audit Committee include examining the Bank's internal control policy and monitoring its implementation; inspecting and monitoring the Bank's risk management and compliance conditions; examining and monitoring the Bank's internal audit policy and guiding the work of the internal audit departments; recommending the engagement of external auditors; guiding and monitoring the work of external auditors; and overseeing the Bank's annual audit.

During the reporting period, the Audit Committee considered the annual financial reports for A shares and H shares, the interim review report, the quarterly reports on the implementation of agreed-upon procedures, the internal control assessment report and the audit report on internal control. The Committee also heard the internal audit work summary, the Proposal for Management of 2017 and the report on related rectifications; and observed and discussed the performance of the annual, interim and quarterly operation. The Committee also invited Ernst & Young Hua Ming LLP to make presentations on review and outlook of listed banks in 2017, as well as share its experience in cross marketing.

Corporate Governance

In accordance with the requirements of the *Annual Report Procedures of the Audit Committee of the Board of Directors*, the Audit Committee of the Bank earnestly carried out annual audit, reviewed the work plan for annual audit prepared by the auditor, and came up with major issues meriting particular attention in the audit process. In March 2019, the Audit Committee convened its 17th meeting to review the 2018 auditor's report on financial statements of the Bank submitted by the auditor. The Committee held that the auditor's report reflected the overall situation of the Bank in a truthful, accurate and complete manner, and formed a resolution which was submitted to the Board of Directors for review.

During the reporting period, the Audit Committee convened 5 meetings (including 4 on-site meetings and 1 meetings via written resolutions), considered 11 proposals and heard 15 reports. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Xie Rong	5	5	0	0
Cai Yunge	5	1	4	0
Wang Xiaolin	–	–	–	–
He Haibin	3	2	1	0
Qiao Zhimin	5	4	1	0
Fok Oi Ling Catherine	5	5	0	0
Wang Ligu	5	5	0	0

Notes:

- On 27 April 2018, the 21st Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. He Haibin as member of the Audit Committee.
- On 30 October 2018, the 29th Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Wang Xiaolin as member of the Audit Committee.

iii. Risk Management Committee

At the end of the reporting period, the Risk Management Committee consisted of 4 members, including Non-Executive Directors Mr. Cai Yunge and Mr. Zhao Wei, and Independent Non-Executive Directors Mr. Qiao Zhimin and Mr. Feng Lun.

Primary duties of the Risk Management Committee of the Board of Directors include: determining the risk management policies of the Bank and the overall risk tolerance; supervising the duty performance of the senior management in controlling risks of credit, market, operation, liquidity, compliance and market reputation, etc.; evaluating the basic risk management policy and management mechanism of the Bank; recommending the Bank's management objective of capital adequacy ratio, reviewing and supervising the implementation of the Bank's capital plan and the monitoring of the capital adequacy ratio, and taking charge of the implementation of Basel III, data quality management and anti-money laundering management.

During the reporting period, the Risk Management Committee considered and approved the risk management reports, capital planning reports, capital adequacy assessment reports, stress testing reports, case prevention working reports, risk appetite indicators, and other proposals submitted by the senior management, and paid constant attention to the review and adjustment of credit policies, anti-money laundering (AML) management, data quality management, credit approval, and other aspects of work.

During the reporting period, the Risk Management Committee of the Board of Directors convened 4 meetings (including 3 on-site meetings and 1 meeting via written resolutions), reviewed 7 proposals and heard 4 reports. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Cai Yunge	4	3	1	0
Zhao Wei	4	2	2	0
Qiao Zhimin	4	4	0	0
Feng Lun	4	1	3	0

Notes:

- On 10 January 2019, the 33rd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Ge Haijiao, Mr. Fu Dong and Mr. Wang Xiaolin as members of the Risk Management Committee.
- On 27 February 2019, the 34th Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Approving the Chairman of the Risk Management Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Seventh Session of the Board of Directors, agreeing to appoint Mr. Wang Xiaolin as the Chairman of the Risk Management Committee.

iv. Nomination Committee

At the end of the reporting period, the Audit Committee consists of 6 members, of which the majority and the Chairman were Independent Non-Executive Directors. Its members include Independent Non-executive Directors Mr. Xu Hongcai (Chairman), Mr. Qiao Zhimin and Ms. Fok Oi Ling Catherine and Non-executive Directors Mr. Li Xiaopeng and Mr. Shi Yongyan.

Primary duties and responsibilities of the Nomination Committee include: building the talent pool of qualified candidates for Directors and Senior Management; drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the position qualifications and conditions of candidates, and advising the Board accordingly; making the suggestions on the composition of other special committees for the Board's approval based on the nomination of the Chairman of the Board of Directors and taking into account the expertise and willingness of the Director as well as the actual needs of the Board of Directors; making assessment of the Board structure, the number of Board members and the Board composition each year and offering recommendations on the adjustment of the Board of Directors according to the Bank's strategy; evaluating the training and professional development of the Director and the Senior Management.

During the reporting period, the Nomination Committee provided recommendations on some members of special committees under the Seventh Session of the Board of Directors, made preliminary review on qualifications of new Directors and Senior Management members and offered suggestions to the Board of Directors.

During the reporting period, the Nomination Committee convened 6 meetings (including 4 on-site meetings and 2 meetings via written resolutions) and considered 8 proposals. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Xu Hongcai	6	5	1	0
Li Xiaopeng	4	3	1	0
Shi Yongyan	4	4	0	0
Qiao Zhimin	6	5	1	0
Xie Rong	6	6	0	0
Fok Oi Ling Catherine	6	6	0	0

Corporate Governance

Notes:

- On 27 April 2018, the 21st Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Members of the Nomination Committee of the Seventh Session of the Board of Directors, agreeing to add Mr. Li Xiaopeng and Mr. Shi Yongyan as members of the Nomination Committee.
- On 1 June 2018, the 22nd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Approving the Chairman of the Strategy Committee, the Nomination Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Seventh Session of the Board of Directors, agreeing to appoint Mr. Xu Hongcai as the Chairman of the Nomination Committee.

v. Remuneration Committee

At the end of the reporting period, the Remuneration Committee consisted of 6 members, of which the majority and the Chairman were Independent Non-Executive Directors. The members include Independent Non-executive Directors Mr. Qiao Zhimin (Chairman), Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Feng Lun and Mr. Wang Ligu and Non-Executive Director Mr. Li Xiaopeng.

Primary duties and responsibilities of the Remuneration Committee include: drafting the remuneration management policy for the Directors and the Senior Management, making recommendations to the Board and overseeing the implementation of the policy; reviewing the duty performance of Directors and the Senior Management and making recommendations to the Board on the examination and evaluation of them; making proposal of the remuneration plan of Directors and the Senior Management and submit the same to the Board for approval; reviewing the basic policies involving salaries and benefits of the Bank's employees, advising the Board accordingly and supervising the implementation of these policies, etc.

During the reporting period, the Remuneration Committee considered and approved the Board of Directors' Report on the Evaluation of General Performance of Duties by Directors for 2017 and the 2017 Remuneration Standard for Directors, heard the work reports made by the Senior Management one by one, and studied and proposed the assessment and evaluation results of the Senior Management in 2017 and the remuneration plan for them.

During the reporting period, the Remuneration Committee convened 4 meetings in total (including 2 on-site meetings and 2 meetings via written resolutions), and considered 4 proposals. The attendance of Committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Qiao Zhimin	4	4	0	0
Li Xiaopeng	2	1	1	0
Xie Rong	4	4	0	0
Fok Oi Ling Catherine	2	2	0	0
Feng Lun	4	3	1	0
Wang Ligu	4	4	0	0

Notes:

- On 27 April 2018, the 21st Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Li Xiaopeng and Ms. Fok Oi Ling Catherine as members of the Remuneration Committee.
- On 10 January 2019, the 33rd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Members of Some Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Fu Dong as a member of the Remuneration Committee.

vi. Related Party Transactions Control Committee

At the end of the reporting period, the Related Party Transactions Control Committee is composed of 7 members, of which the majority and the Chairman were Independent Non-Executive Directors. Its members include Independent Non-executive Directors Ms. Fok Oi Ling Catherine (Chairman), Mr. Qiao Zhimin, Mr. Xie Rong, Mr. Xu Hongcai, Mr. Feng Lun and Mr. Wang Ligu, and Non-executive Director Mr. Zhao Wei.

Primary duties and responsibilities of the Related Party Transactions Control Committee include: filing the common related party transactions; reviewing the significant related party transactions and submitting the same to the Board of Directors for consideration; providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; identifying and reporting the related parties of the Bank to the Board of Directors and the Board of Supervisors, and timely announcing the identities of such related parties to the relevant staff of the Bank.

During the reporting period, the Related Party Transactions Control Committee reviewed and approved proposals on the 2017 Report on Related Party Transactions, 36 major related party transactions, and revisions to the *Administrative Measures for Related Party Transactions*, and received the reports on filing of 27 general related party transactions.

During the reporting period, the Related Party Transactions Control Committee held 11 meetings in total (including 4 on-site meetings and 7 meetings via written resolutions), considered 39 proposals, and heard 1 work report. The attendance of Committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Fok Oi Ling Catherine	11	11	0	0
Zhao Wei	11	8	3	0
Qiao Zhimin	11	11	0	0
Xie Rong	11	11	0	0
Xu Hongcai	11	9	2	0
Feng Lun	11	7	4	0
Wang Ligu	11	11	0	0

vii. Inclusive Finance Development and Consumer Rights and Interests Protection Committee

At the end of the reporting period, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee is composed of 3 members, which are Non-Executive Directors Mr. Fu Dong, Mr. Shi Yongyan and Mr. He Haibin.

Primary duties and responsibilities of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: formulating a development strategic plan for the Bank's inclusive finance business; reviewing the Bank's general policy for inclusive finance, and assessing evaluation measures and annual business plan; guiding and supervising the Senior Management on the development of inclusive finance work; formulating strategies, policies, and objectives of the Bank's protection of consumer rights and interests; urging the Senior Management to effectively implement consumer rights and interests protection related work; and supervising and evaluating consumer rights and interests protection work of the Bank.

During the reporting period, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee reviewed the proposal on electing its Chairman, and heard and discussed a host of reports on the work plans and risk control measures for inclusive finance business, the summary of the consumer rights and interest protection work in 2017 and the first half of 2018, and the protection work evaluation and assessment results for 2017 and rectification plans.

Corporate Governance

During the reporting period, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee convened 2 meetings (both on-site meetings), considered 1 proposal and heard 4 reports. The attendance of Committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Fu Dong	2	2	0	0
Shi Yongyan	2	2	0	0
He Haibin	2	0	2	0

Notes:

- On 27 April 2018, the 21st Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Members of certain special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Zhang Jinliang, Mr. Fu Dong, Mr. Shi Yongyan and Mr. He Haibin as members of the committee.
- On 1 June 2018, the 22nd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Approving the Chairman of the Strategy Committee, the Nomination Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Seventh Session of the Board of Directors, agreeing to appoint Mr. Zhang Jinliang as the Chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. On 22 August, Mr. Zhang Jinliang resigned from the position of the Chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee.
- On 10 January 2019, the 33rd Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors, agreeing to add Mr. Ge Haijiao and Mr. Wang Ligu as members of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee and that Mr. Fu Dong ceased to be a member of the Committee.
- On 27 February 2019, the 34th Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Approving the Chairman of the Risk Management Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Seventh Session of the Board of Directors, agreeing to appoint Mr. Ge Haijiao as the Chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee.

VIII.SUPERVISORS AND THE BOARD OF SUPERVISORS

The Board of Supervisors earnestly executed the regulatory requirements and collaborated with the Board of Directors and the Senior Management, while performing various supervisory duties in accordance with the law. It prudently and objectively provided the supervision and evaluation opinions on the Board of Directors, the Senior Management and their members, and conducted evaluation on its duty performance, in order to facilitate their effective duty performance; focused on the Bank's major financial decision-making and related implementation and reviewed the financial statements and the profit distribution plans so as to achieve targeted financial supervision; enhanced the supervision on the risk management, internal control, and supervision of strategies management and remuneration management and promoted the compliant and steady operation of the Bank by attending to reports, investigations and researches, and conducting interviews with various departments. During the reporting period, based on its surveys and studies on the Bank's business development, implementation of strategies, internal control compliance and risk governance, the Board of Supervisors provided relevant recommendations for the decision-making of the Board of Directors and the Senior Management, thus playing an active role in improving the Bank's corporate governance and healthy and sustainable development.

i. Composition of the Board of Supervisors

At the end of the reporting period, the Board of Supervisors consists of 9 members, including 3 Shareholder Supervisors (Mr. Li Xin, Mr. Yin Lianchen, Mr. Wu Junhao), 3 External Supervisors (Mr. Yu Erniu, Mr. Wu Gaolian, Mr. Wang Zhe) and 3 Employee Supervisors (Mr. Sun Xinhong, Mr. Jiang Ou, Ms. Huang Dan). The members of the Board of Supervisors, with rich experience in finance, accounting and business management, have demonstrated sufficient expertise and independence, thus ensuring the effective functioning of the Board of Supervisors.

The Board of Supervisors has set up the Nomination Committee and the Supervision Committee.

ii. Performance of Its Supervisory Duties by Board of Supervisors

The primary ways for the Board of Supervisors to perform its supervising duties include: holding regular meetings, attending the shareholders' general meetings, the meetings of the Board of Directors and Board committees as non-voting delegates, attending relevant meetings of the Senior Management as voting or non-voting delegates, reviewing business management reports, attending to the reports of all business lines and branches, conducting interviews with persons in charge of various branches and departments, conducting collective or individual inspections on the Bank's branches and outlets, and providing its supervision recommendations and meetings minutes to the Board of Directors and the Senior Management. In this way, the Board of Supervisors supervised the Board of Directors and Senior Management in terms of their duty performance, financial management, risk management, internal control management, strategic management and remuneration management.

iii. Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors, in accordance with the relevant provisions in the *Articles of Association* of the Bank and the rules of procedures, convened 6 meetings of the Board of Supervisors, including 4 on-site meetings and 2 meetings via written resolutions, and reviewed 19 proposals and considered 9 reports, including regular reports of the Bank, the reports on the evaluation of the duty performance of the Board of Directors and the Senior Management, the internal control report, the profit distribution plan and remuneration of the Supervisors, and formed clear opinions on relevant proposals.

During the reporting period, the supervisors attended all the shareholders' general meetings and all the meetings of the Board of Directors as non-voting delegates and supervised the compliance and legality of the aforementioned meetings, the voting procedures and the attendance, speeches and voting of the directors.

iv. Attendance of Supervisors at Meetings of the Board of Supervisors

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Li Xin	6	6	0	0
Yin Lianchen	6	4	2	0
Wu Junhao	6	5	1	0
Yu Erniu	6	5	1	0
Wu Gaolian	6	6	0	0
Wang Zhe	6	4	2	0
Sun Xinhong	6	4	2	0
Jiang Ou	6	6	0	0
Huang Dan	6	6	0	0

Corporate Governance

v. Special Committees of the Board of Supervisors

The two committees under the Board of Supervisors are the Nomination Committee and the Supervision Committee. The Nomination Committee consists of 6 members while the Supervision Committee consists of 6 members. The Chairmen of both committees are External Supervisors.

1. Nomination Committee

At the end of the reporting period, the members of the Nomination Committee include Mr. Yu Erniu (Chairman), Mr. Li Xin, Mr. Yin Lianchen, Mr. Wu Gaolian, Mr. Wang Zhe and Mr. Jiang Ou.

Primary duties of the Nomination Committee include making suggestions to the Board of Supervisors regarding the size and composition of the Board of Supervisors; drafting the procedures and criteria for selecting Supervisors and advising the Board of Supervisors accordingly; conducting preliminary review of the qualifications and conditions of the supervisor candidates and advising the Board of Supervisors accordingly; supervising the procedures of the selection and appointment of Directors; drafting the plan of supervising the duty performance of Directors, Supervisors and Senior Management, making a comprehensive evaluation in this regard and reporting to the Board of Supervisors; supervising the rationality of the remuneration management policies of the Bank and the remuneration plan of the senior management.

During the reporting period, the Nomination Committee considered and approved the proposals on the Board of Supervisors' appraisal report on the overall duty performance of the Board of Directors, Senior Management, Directors and Supervisors in 2017, and the 2017 remuneration standards for Supervisors.

During the reporting period, the Nomination Committee convened 3 meetings (including 2 on-site meetings and 1 meeting via written resolution) and reviewed 7 proposals. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Yu Erniu	3	3	0	0
Li Xin	3	3	0	0
Yin Lianchen	3	1	2	0
Wu Gaolian	3	3	0	0
Wang Zhe	3	3	0	0
Jiang Ou	3	3	0	0

2. Supervision Committee

At the end of the reporting period, the members of the Supervision Committee include Mr. Wu Gaolian (Chairman), Mr. Wu Junhao, Mr. Yu Erniu, Mr. Wang Zhe, Mr. Sun Xinhong and Ms. Huang Dan.

Primary duties of the Supervision Committee include developing the plan for supervising the Bank's operation and decision-making, risk management and internal control, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; developing the plan for supervising the financial activities of the Bank, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; supervising the Board of Directors in building up the concept of prudent business operation and the principles of value for the Bank and in formulating the development strategy that works best for the Bank; keeping itself informed of the preparation of the regular reports by the Board of Directors and relevant material adjustments and reporting the same to the Board of Supervisors; maintaining good communication with relevant special committees of the Board of Directors, relevant departments of the Bank and external intermediaries, and providing supervision recommendations on the Bank's appointment of its external auditors when the Committee deems it necessary.

During the reporting period, the Supervision Committee of the Board of Supervisors considered and approved regular reports of the Bank, internal control assessment report, etc.

During the reporting period, the Nomination Committee convened 4 meetings (including 3 on-site meetings and 1 meeting via written resolution) and reviewed 6 proposals. The attendance of committee members is as follows:

Name	Number of meetings	Attendance in person	Attendance by proxy	Absence
Wu Gaolian	4	4	0	0
Wu Junhao	4	3	1	0
Yu Erniu	4	4	0	0
Wang Zhe	4	3	1	0
Sun Xinhong	4	3	1	0
Huang Dan	4	3	1	0

vi. Supervision by the Board of Supervisors

The Board of Supervisors had no objection to the supervision matters during the reporting period.

IX. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the Hong Kong Listing Rules as the code of conduct to govern the securities transactions by Directors and Supervisors of the Bank. Having been enquired by the Bank, all Directors and Supervisors confirmed that they had always complied with the *Model Code* for the year ended 31 December 2018. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less lenient than the *Model Code*. It has not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

X. SENIOR MANAGEMENT

As at the end of the reporting period, the Senior Management of the Bank consisted of 7 members, who are responsible for the operation and management of the Bank: implementing the resolutions of the Board of Directors, the strategic plans, the business plan and investment plans approved by the Board of Directors, developing plans of setting up internal managerial bodies and the basic management rules and regulations, and formulating specific administrative measures.

During the reporting period, the Senior Management, in accordance with the development strategy of the Bank, actively and effectively carried out the Bank's operation and management, earnestly implemented the business plan and the financial budget determined by the Board of Directors, better achieved the development targets set at the beginning of year and ensured the steady growth of business and continuous increase of profits.

XI. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

In accordance with the *Provisional Measures on Performance Assessment of Senior Management*, the Remuneration Committee of the Board of Directors is responsible of formulating the implementation plan for the performance assessment of Senior Management. During the reporting period, by taking into consideration the overall operation of the Bank and the duty performance of the Senior Management, the Remuneration Committee of the Board of Directors formulated the proposal of the 2017 performance evaluation grade of each Senior Management member and the remuneration plan, which were considered and approved by the Board of Directors before implementation.

Corporate Governance

XII. TRAINING OF DIRECTORS AND SUPERVISORS

During the reporting period, some Directors participated in special training for directors of listed companies under the jurisdiction of Beijing organized by the Beijing Association for Public Companies. Some Supervisors participated in the special training for supervisors held by CSRC Beijing Office and the senior seminar for the actual work of the board of supervisors organized by ZQLP Enterprise Management Center. Legal advisor of the Board of Directors and external auditor of the Bank gave the Directors and Supervisors special lectures on the implementation of laws on equity management at commercial banks, management of related party transactions, cross marketing, and other themes.

The participation by the Bank's Directors and Supervisors in the training programs on corporate governance, policies, laws and regulations, and business operation and management, complied with Provision A.6.5 of Appendix 14 of the *Hong Kong Listing Rules*.

XIII. AUDITOR'S REMUNERATION

Please refer to "Significant Events" of this Annual Report for details.

XIV. INFORMATION DISCLOSURE

During the reporting period, the Bank, as a company listed in both Shanghai and Hong Kong, fully apprehended their regulatory requirements for information disclosure, timely disclosed various information, and ensured that the information disclosed was true, accurate and complete. Regarding the disclosure of regular reports, the Bank properly completed the preparation and disclosure of the 2017 Annual Report, the 2018 half-year report (interim report) and quarterly reports. In terms of the disclosure of ad hoc announcements, during the year, the Bank published 115 A share ad hoc announcements (including online non-announcement documents) and 146 H share ad hoc announcements (including A share overseas regulatory announcements). Pursuant to the requirements on the issuance of POWL by the Japanese securities regulator, the Bank proactively disclosed information on H shares so as to satisfy its information disclosure requirements.

XV. INVESTOR RELATIONSHIP

During the reporting period, the Bank managed investor relationships through various activities so as to enhance its communication with investors. Specifically, it held the 2017 financial results (A+H shares) announcement and press conference in Beijing and Hong Kong. Over 100 institutional investors, bank analysts and media correspondents from home and abroad participated in this communication event. Besides, the Bank actively participated in the investors open day organized by listed companies in Beijing for 2018, sharing with the investors its information on competitive edges, development strategies, operating results, capital replenishment status, annual dividend distribution plans, and debt-for-equity swaps, and other aspects. Besides, the 42 visiting and on-site surveys were arranged for 410 domestic and overseas investors and analysts. The Bank participated in the strategy seminars for investment institutions, and held 20 on-site group meetings to receive 390 investors in total. Additionally, it answered over 370 phone calls from domestic and overseas investors and replied over 260 emails for inquiry. It interacted with investors via interactive online platforms such as "SSE e-interaction". The contents of the Bank's website in both Chinese and English versions have been updated in a timely manner to inform investors about the Bank. Also, it actively communicated with minority shareholders attending the shareholders' general meetings to answer their questions.

XVI. COMPANY SECRETARY AND ASSISTANT TO COMPANY SECRETARY UNDER THE HONG KONG LISTING RULES

During the reporting period, Mr. Li Jiayan served as the Secretary to the Board of the Bank and the Company Secretary under the Hong Kong Listing Rules, and Ms. Lee Mei Yi (Tricor Services Limited) acted as the Assistant to Company Secretary. Mr. Li Jiayan was the main contact person of the Bank. Mr. Li Jiayan and Ms. Lee Mei Yi had participated in relevant vocational training for no less than 15 hours in compliance with Rule 3.29 of the *Hong Kong Listing Rules*.

XVII. SHAREHOLDERS' RIGHTS

- i. Shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank shall have the right to request the Board of Directors to convene an extraordinary general meeting. Such request shall be made in writing to the Board of Directors.
- ii. Shareholders who individually or jointly hold more than three percent of voting shares of the Bank may provide an interim proposal and submit it in writing to the Board of Directors ten days before the shareholders' general meeting is convened. The Board of Directors shall issue a supplementary notice for the shareholders' general meeting within two days upon receipt of the proposal and submit such proposal to the shareholders' general meeting for approval.
- iii. An extraordinary Board meeting shall be convened and presided over by the Chairman within ten days since it is proposed by the shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank.
- iv. Unless there are specified provisions regarding the rights of the holders of preference shares in laws, regulations, rules, regulatory documents and the *Articles of Association* of the Bank, all the shareholders of the Bank shall have the following rights:
 1. Collecting dividends and other forms of benefits distributed on the basis of the number of shares held by them;
 2. Attending or entrusting proxy to attend meetings of shareholders and exercise the voting rights;
 3. Supervising business operation of the Bank and putting forward recommendations or inquiries accordingly;
 4. Transferring shares in accordance with laws, regulations, rules, regulatory documents, relevant regulations of the securities regulatory authority of the jurisdiction where shares of the Bank are listed and the *Articles of Association* of the Bank;
 5. Obtaining relevant information according to the *Articles of Association* of the Bank, including the Bank's financial and accounting statements; status of share capital of the Bank; minutes of the shareholders' general meetings, resolutions of meetings of Board of Directors and resolutions of meetings of the Board of Supervisors, etc.;
 6. Participating in the distribution of the Bank's remaining assets in proportion to the number of shares held by the shareholders when the Bank is terminated or liquidated.

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v. Holders of preference shares of the Bank shall be entitled to the following special rights:

1. Rights to dividends in priority to holders of ordinary shares;
2. Rights to distribution of residual assets of the Bank upon liquidation in priority to holders of ordinary shares;
3. Rights to attend and vote at shareholders' general meetings upon occurrence of prescribed events;
4. Upon occurrence of prescribed events, to have its voting rights restored.

Please refer to the *Articles of Association* of the Bank for more details about shareholders' rights.

As to the contact details for shareholders to communicate with and enquire of the Board, please refer to "Company Profile" of this report.

VIII. STATEMENT OF COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

The Bank has prepared the 2018 H share financial statements in accordance with the *Banking (Disclosure) Rules* by the Hong Kong Monetary Authority.

XIX. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE HONG KONG LISTING RULES

Since its listing on the HKEX, the Bank has applied the principles as stipulated in Appendix 14 to the Hong Kong Listing Rules (*the Corporate Governance Code*). Except for the relevant disclosures made in the section, the Company has fully complied with all the Code Provisions during the reporting period.

XX. INTERNAL CONTROL SELF-ASSESSMENT REPORT

Based on the outcome of the review of material defects in the internal control over financial reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2018) for the internal control self-assessment report, had not discovered any material deficiencies in the internal control over financial reporting, and had maintained an effective internal control over financial reporting in accordance with the standards for enterprise internal control in all material aspects.

Based on the outcome of the review of internal control unrelated to financial reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2018) for the internal control self-assessment report, had not discovered any material defects in internal control on non-financial reports.

From the reference date of internal control self-assessment report to the date of release of the internal control self-assessment report, there was no factor which may affect the assessment conclusion of the effectiveness of internal control.

The full text of the *2018 Internal Control Self-Assessment Report* of the Bank has been published on the websites of SSE, HKEX (in the form of overseas regulatory announcement) and the Bank.

The internal control policy system of the Bank is primarily based on the *Articles of Association* of the Bank and is divided into three tiers including general policy, specific policies and evaluation policies. The policy system covers seven major business lines such as corporate banking, retail banking, financial market, internal control of risk, financial operation, comprehensive management and IT, and covers various aspects including the management of front-line businesses, intermediate and back-office risk control, supervision and evaluation. Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Please refer to the “Discussion and Analysis on the Operations” for details of information relevant to the risk management system of the Bank and work during the reporting period.

The Board of Directors periodically reviews and assesses the corporate governance, risk management and internal control of the Bank. The Board of Directors deems that the system of corporate governance, risk management and internal control of the Bank is sufficient and effective during the reporting period.

XXI. AUDIT REPORT ON INTERNAL CONTROL

EY Hua Ming audits the internal control of the Bank and issues an audit opinion every year. In 2018, its audit opinion goes as, on 31 December 2018, the Bank has maintained an effective internal control over financial reporting in all material aspects in accordance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. The full text of the audit opinion has been published on the websites of SSE, HKEX (in the form of overseas regulatory announcement) and the Bank.

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Independent Auditors' Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="145 368 831 405"><i>Impairment assessment of loans and advances to customers</i></p> <p data-bbox="145 433 831 534">In 2014, the IASB released IFRS 9 – Financial Instruments (hereinafter referred to as “IFRS 9”). IFRS 9 was adopted by the Group on 1 January 2018.</p> <p data-bbox="145 562 831 728">IFRS 9 requires that the impairment measurement for financial assets be changed from “incurred loss model” to “expected credit loss model”. The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:</p> <ul data-bbox="145 756 831 1489" style="list-style-type: none"> <li data-bbox="145 756 831 950">• Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk are highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; <li data-bbox="145 978 831 1144">• Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions. <li data-bbox="145 1172 831 1295">• Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; <li data-bbox="145 1323 831 1489">• Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. 	<p data-bbox="831 433 1465 664">We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.</p> <p data-bbox="831 692 1465 922">We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors’ repayment capacity and evaluated the Group’s loan grading, taking into consideration post-lending investigation reports, debtors’ financial information, collateral valuation reports and other available information.</p> <p data-bbox="831 950 1465 1144">With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management’s major judgements and related assumptions, mainly focusing on the following aspects:</p> <ol data-bbox="831 1172 1465 1892" style="list-style-type: none"> <li data-bbox="831 1172 1465 1892">1. Expected credit loss model: <ul data-bbox="895 1237 1465 1892" style="list-style-type: none"> <li data-bbox="895 1237 1465 1431">• Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk; <li data-bbox="895 1459 1465 1653">• Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; <li data-bbox="895 1681 1465 1875">• Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management’s estimated future cash flows, especially cash flows from collateral.

Independent Auditors' Report

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of loans and advances to customers</i> (continued)	
<p>Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2018, gross loans and advances to customers amounted to RMB2,428.487 billion, representing 55.73% of total assets, and impairment allowance for loans and advances to customers amounted to RMB67.682 billion), impairment of loans and advances is considered a key audit matter.</p>	<p>2. Design and operating effectiveness of key controls:</p> <ul style="list-style-type: none"> • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.
<p>Relevant disclosures are included in Note III 1, Note VI 16 and Note VI 48(a) to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.</p>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="161 372 533 405"><i>Valuation of financial instruments</i></p> <p data-bbox="161 437 823 627">The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p data-bbox="161 659 823 1166">As at 31 December 2018, financial assets and financial liabilities measured at fair value amounted to RMB452.643 billion and RMB14.703 billion respectively, representing 10.39% and 0.36% of total assets and total liabilities respectively. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs, hence categorized within level 2 of the fair value hierarchy, represented 48.82% of total financial assets measured at fair value; financial instruments which required significant unobservable inputs, hence categorized within level 3 of the fair value hierarchy, represented 0.77% of total financial assets measured at fair value. Considering the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.</p> <p data-bbox="161 1198 823 1263">Relevant disclosures are included in Note III 2 and Note VI 49 to the consolidated financial statements.</p>	<p data-bbox="847 437 1457 562">We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved.</p> <p data-bbox="847 595 1457 784">We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p> <p data-bbox="847 817 1457 1006">We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.</p>

Independent Auditors' Report

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="129 372 504 405"><i>Unconsolidated structured entities</i></p> <p data-bbox="129 437 807 692">The Group established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of power arising from rights, variable returns, and link between power and returns.</p> <p data-bbox="129 724 807 1138">The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by the management, it is considered a key audit matter.</p> <p data-bbox="129 1170 807 1235">Relevant disclosures are included in Note III 6 and Note VI 41 to the consolidated financial statements.</p>	<p data-bbox="815 437 1437 562">We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities.</p> <p data-bbox="815 595 1437 976">We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyze whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities.</p> <p data-bbox="815 1009 1437 1106">Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its disclosures of unconsolidated structured entities.</p>

OTHER INFORMATION INCLUDED IN THE BANK'S 2018 ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

Independent Auditors' Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	2018	2017
Interest income		168,567	160,343
Interest expense		(107,524)	(99,393)
Net interest income	1	61,043	60,950
Fee and commission income		39,552	33,025
Fee and commission expense		(2,658)	(2,251)
Net fee and commission income	2	36,894	30,774
Net trading gains/(losses)	3	1,071	(2,751)
Dividend income		8	6
Net gains/(losses) arising from investment securities	4	9,862	(193)
Net foreign exchange gains		724	2,464
Other net operating income		784	768
Operating income		110,386	92,018
Operating expenses	5	(33,706)	(30,802)
Operating profit before impairment		76,680	61,216
Impairment losses on assets	8	(35,828)	(20,570)
Profit before tax		40,852	40,646
Income tax	9	(7,131)	(9,035)
Net profit		33,721	31,611
Net profit attributable to:			
Equity shareholders of the Bank		33,659	31,545
Non-controlling interests		62	66
		33,721	31,611
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.61	0.64
Diluted earnings per share (in RMB/share)	10	0.55	0.59

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	2018	2017
Net profit		33,721	31,611
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits	31(b)	(102)	63
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		3	–
– Related income tax effect	22(b)	(1)	–
Subtotal		(100)	63
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		2,982	–
– Changes in allowance for expected credit losses		(311)	–
– Reclassified to the profit or loss upon disposal		1,095	–
– Related income tax effect	22(b)	(957)	–
– Available-for-sale financial assets			
– Net change in fair value		–	(3,458)
– Reclassified to the profit or loss upon disposal		–	360
– Related income tax effect		–	768
– Exchange differences on translation of financial statements		66	(87)
Subtotal		2,875	(2,417)
Other comprehensive income, net of tax attributable to non-controlling interests		1	–
Other comprehensive income, net of tax		2,776	(2,354)
Total comprehensive income		36,497	29,257
Total comprehensive income attributable to:			
Equity shareholders of the Bank		36,434	29,191
Non-controlling interests		63	66
		36,497	29,257

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

Consolidated Statement of Financial Position

As at 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	31 December 2018	31 December 2017
Assets			
Cash and deposits with the central bank	11	366,575	353,703
Deposits with banks and other financial institutions	12	41,005	44,754
Precious metals		23,628	40,352
Placements with banks and other financial institutions	13	96,685	148,816
Derivative financial assets	14	15,212	4,513
Financial assets held under resale agreements	15	37,773	91,441
Interests receivable		–	28,576
Loans and advances to customers	16	2,361,278	1,980,818
Finance lease receivables	17	63,333	56,364
Financial investments	18	1,301,080	1,297,936
– Financial assets at fair value through profit or loss		222,737	24,196
– Debt instruments at fair value through other comprehensive income		153,987	–
– Equity instruments at fair value through other comprehensive income		367	–
– Financial investments measured at amortised cost		923,989	–
– Available-for-sale financial assets		–	414,547
– Held-to-maturity investments		–	344,617
– Debt securities classified as receivables		–	514,576
Fixed assets	20	18,241	14,929
Goodwill	21	1,281	1,281
Deferred tax assets	22	10,794	7,596
Other assets	23	20,447	17,164
Total assets		4,357,332	4,088,243
Liabilities and equity			
Liabilities			
Due to the central bank	25	267,193	232,500
Deposits from banks and other financial institutions	26	490,091	577,447
Placements from banks and other financial institutions	27	152,037	106,798
Financial liabilities at fair value through profit or loss	28	354	–
Derivative financial liabilities	14	14,349	6,552
Financial assets sold under repurchase agreements	29	40,411	45,581
Deposits from customers	30	2,571,961	2,272,665
Accrued staff costs	31	8,028	8,412
Taxes payable	32	5,666	4,932
Interests payable		–	40,206
Debt securities issued	33	440,449	445,396
Other liabilities	34	44,320	42,318
Total liabilities		4,034,859	3,782,807

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

Consolidated Statement of Financial Position

As at 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	31 December 2018	31 December 2017
Equity			
Share capital	35	52,489	52,489
Other equity instrument	36	35,108	35,108
of which: preference shares		29,947	29,947
Capital reserve	37	53,533	53,533
Other comprehensive income	38	1,655	(1,845)
Surplus reserve	39	24,371	21,054
General reserve	39	54,036	52,257
Retained earnings	40	100,296	92,164
Total equity attributable to equity shareholders of the Bank		321,488	304,760
Non-controlling interests		985	676
Total equity		322,473	305,436
Total liabilities and equity		4,357,332	4,088,243

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

Li Xiaopeng
Chairman of the Board
of Directors
Non-executive Director

Ge Haijiao
President
Executive Director

Xie Rong
Independent Non-executive
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

2018	Note VI	Attributable to equity shareholders of the Bank										
		Share capital	Other equity instrument		Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
			Preference shares	Others								
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		-	-	-	-	725	-	-	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the year:												
Net income		-	-	-	-	-	-	-	33,659	33,659	62	33,721
Other comprehensive income	38	-	-	-	-	2,775	-	-	-	2,775	1	2,776
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	265	265
Appropriation of profit:	40											
- Appropriation to surplus reserve		-	-	-	-	-	3,317	-	(3,317)	-	-	-
- Appropriation to general reserve		-	-	-	-	-	-	1,779	(1,779)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(9,501)	(9,501)	(3)	(9,504)
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,450)	(1,450)	-	(1,450)
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473

2017	Note VI	Attributable to equity shareholders of the Bank										
		Share capital	Other equity instrument		Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
			Preference shares	Others								
Balance at 1 January 2017		46,679	29,947	-	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the year:												
Net income		-	-	-	-	-	-	-	31,545	31,545	66	31,611
Other comprehensive income	38	-	-	-	-	(2,354)	-	-	-	(2,354)	-	(2,354)
Capital injection by ordinary shareholders		5,810	-	-	20,168	-	-	-	-	25,978	-	25,978
Equity component of convertible bonds		-	-	5,161	-	-	-	-	-	5,161	-	5,161
Appropriation of profit:	40											
- Appropriation to surplus reserve		-	-	-	-	-	3,103	-	(3,103)	-	-	-
- Appropriation to general reserve		-	-	-	-	-	-	810	(810)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(4,575)	(4,575)	(3)	(4,578)
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,450)	(1,450)	-	(1,450)
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Net profit	33,721	31,611
<i>Adjustments for:</i>		
Impairment losses on assets	35,828	20,570
Depreciation and amortisation	2,164	2,136
Unwinding of discount	(792)	(1,015)
Dividend income	(8)	(6)
Unrealised foreign exchange (gains)/losses	(400)	566
Net (gains)/losses on disposal of investment securities	(55,661)	193
Net (gains)/losses on disposal of trading securities	(922)	25
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(22)	2,726
Interest expense on debt securities issued	18,234	20,582
Net losses/(gains) on disposal of fixed assets	15	(45)
Income tax	7,131	9,035
	39,288	86,378
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank, banks and other financial institutions	53,454	81,409
Net decrease in placements with banks and other financial institutions	29,391	18,283
Net decrease in financial assets held for trading	14,954	–
Net increase in loans and advances to customers	(416,007)	(248,736)
Net decrease/(increase) in financial assets held under resale agreements	53,700	(24,442)
Net increase in other operating assets	(8,000)	(22,330)
	(272,508)	(195,816)
<i>Changes in operating liabilities</i>		
Net decrease in deposits from banks and other financial institutions	(90,295)	(252,907)
Net increase in placements from banks and other financial institutions	44,491	11,297
Net (decrease)/increase in financial assets sold under repurchase agreements	(5,182)	4,382
Net increase in amount due to central bank	30,550	45,500
Net increase in deposits from customers	266,043	151,778
Income tax paid	(8,200)	(10,066)
Net increase in other operating liabilities	15,327	16,733
	252,734	(33,283)
Net cash flows from operating activities	19,514	(142,721)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	376,114	766,967
Investment income received	49,386	6
Proceeds from disposal of fixed assets and other assets	375	634
Payments on acquisition of investments	(366,047)	(750,800)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(4,063)	(4,489)
Net cash flows from investing activities	55,765	12,318

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

	Note VI	2018	2017
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		265	–
Capital injection by shareholders		–	25,978
Net proceeds from issue of new debt securities		–	38,058
Repayments of debts issued		(8,615)	–
Interest paid on debt securities issued		(18,141)	(18,724)
Dividends paid		(10,953)	(6,028)
Net cash flows from financing activities		(37,444)	39,284
Effect of foreign exchange rate changes on cash and cash equivalents		1,922	(2,465)
Net increase/(decrease) in cash and cash equivalents	44(a)	39,757	(93,584)
Cash and cash equivalents as at 1 January		147,923	241,507
Cash and cash equivalents as at 31 December	44(b)	187,680	147,923
Interest received		163,589	157,079
Interest paid (excluding interest expense on debt securities issued)		(84,763)	(74,034)

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

Notes to the Consolidated Financial Statements

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I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (“the PRC”) on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and the Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission (the former “CBRC”) No. B0007H111000001 and is issued the business license of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, P. R. China.

The principal activities of the Bank and its subsidiaries (Note VI 19) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the former CBRC. The Group mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 32 provinces, autonomous regions, municipalities in mainland China, Hong Kong, Seoul in South Korea, Luxembourg and Sydney as at 31 December 2018.

These financial statements have been approved by the Board of Directors on 28 March 2019.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

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 III.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the “Accounting Standards for Business Enterprises-Basic Standard” issued by the Ministry of Finance of the People’s Republic of China (the “MOF”), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the “PRC GAAP”). There is no difference in the net profit for the year or total equity as at the end of the year between the Group’s consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

IAS 40 Amendments	<i>Transfers of Investment Property</i>
IFRS 2 Amendments	<i>Share-based Payment</i>
IFRS 4 Amendments	<i>Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 9 Amendments	<i>Prepayment Features with Negative Compensation</i>
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016):	
IAS 28	<i>Investments in Associates and Joint Ventures</i>

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

In October 2017, the IASB issued amendments to IFRS 9 Financial Instruments. The amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 Amendments from 1 January 2018.

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains from investment securities which are covered under IFRS 9.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Annual Improvements to IFRSs 2014-2016 cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments of IAS 28 – Investments in Associates and Joint Ventures clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Except for the adoption of IFRS 9, the adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 Financial Instruments for annual periods on or after 1 January 2018. The impact of adopting IFRS 9 is included in Note V.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IAS 19 Amendments	<i>Employee Benefits</i>	1 January 2019
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Has not yet decided (effective date has been deferred indefinitely)
Annual Improvements to IFRSs 2015-2017 cycle (issued in December 2017)		1 January 2019

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The scope of the new standard includes leases of all assets, with certain exceptions.

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (continued)

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

In May 2017, the IASB issued IFRS 17 Insurance Contracts to replace IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

Annual Improvements to IFRSs 2015-2017 cycle was issued in December 2017. Those amendments affect IFRS 3 – Business Combinations, IFRS 11- Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. The amendments are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2018.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in “Other comprehensive income”. Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in “Other comprehensive income”. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the statement of profit or loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018)

5.1 Recognition and De-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- (1) the contractual rights to the cash flows from the financial asset expire; or
- (2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flow collected to a third party in full and on time under the “pass-through agreement” and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and subsequent measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial assets at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial assets, any attributable transaction costs are included in their initial costs.

Business models

The Group’s business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group’s business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is “other”. The Group’s assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group’s key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.2 Classification and subsequent measurement of financial asset (continued)

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identify whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification.

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at amortised cost held by the Group mainly include loans and advances to customers, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial investments measured at amortised cost, etc. The Group subsequently measured these financial assets at amortized cost.

The amortized cost is determined by the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Expected credit losses(ECL) of such financial assets shall be recognised in other comprehensive income. The impairment gain or loss shall not adjust the carrying amount of such financial assets item and be recognised in profit or loss. Such financial assets held by the Group mainly include discounted bills and debt security investments, etc.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.2 Classification and subsequent measurement of financial assets (continued)

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recorded in profit or loss, and subsequent changes in fair value are recorded in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recorded in other comprehensive income are transferred to retained earnings.

Financial assets shall be measured at fair value through profit or loss if one of the following conditions is met: acquired principally for the purpose of selling or repurchasing it in the near term; 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; a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured an amortised cost or at fair value through other comprehensive income. For such financial assets, the Group subsequently measured them at fair value. All gains or losses on these financial assets shall be recognized in the statement of profit or loss.

Only when accounting mismatch can be eliminated or significantly reduced, can financial assets be designated at fair value through profits and losses at initial recognition.

When an entity classified a financial asset as financial assets designated at fair value through profit or loss, it can not be reclassified as other financial assets; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swap to manage the associated interest rate risk.

Only if when the Group changes the business model of managing financial assets, the Group shall reclassify the affected financial assets.

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss or other financial liabilities at initial recognition. For financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial liabilities, any attributable transaction costs are included in the amount of initial recognition.

The subsequent measurement of financial liabilities depends on the classification:

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.3 Classification and measurement of financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, includes financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition.

Financial liabilities are classified as held for trading if one of the following conditions is met: incurred principally for the purpose of selling or repurchasing it in the near term; 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; a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract. Financial liabilities held for trading (including derivatives that are financial liabilities) are subsequently measured at fair value. Except for hedging accounting, all changes in fair value are recorded in profit and loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest method.

5.4 Impairment of financial instrument

The Group evaluates and confirms relevant impairment allowance to financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note VI 48(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognized less the accumulated amortization recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment losses of loan commitments is measured using ECL model.

5.6 Derivative financial instruments

The Group uses derivative financial instruments, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For derivatives not related to hedge accounting, changes in the fair value of these derivatives are recognised in the statement of profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in “Equity” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under “Capital reserve”.

5.8 Modification of financial assets

If the Group amends or rearranges the contract with its counterparty, which does not result in the de-recognition of the financial assets, but changes the cash flow of the contract, the Group shall recalculate the amount of the financial assets as the value discounted using the original real interest rate (or credit-adjusted real interest rate) of the financial assets based on the rearranged or modified contractual cash flows, and the relevant gains or losses shall be recorded in profit or loss. The book value of the revised financial assets should be revised by the cost or expense of the modification of the financial assets, and amortised within the remaining period of the revised financial assets.

5.9 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing financial guarantee, the assets that arose from the continued involvement shall be determined as the lower of the book value of the financial assets and the amount of financial guarantee. The amount of financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's 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 are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at the actual consideration paid if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 14) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Fixed assets (continued)

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value (%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

10 Leases

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 or not. An operating lease is a lease other than a finance lease.

10.1 As lessee under operating leases

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

10.2 As lessor under operating leases

Rental income under an operating lease is recognised as "other net operating income" in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental income is recognized as income in the accounting period in which they are incurred.

10.3 As lessor under finance leases

When the Group is a lessor under finance leases, the sum of present value of minimum lease payments receivable from the lessee, and initial direct cost is recognized as a receivable, the unguaranteed residual value is also recorded. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. The Group uses the effective interest method to recognise finance income for the current period.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

11 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

12 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 14). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

13 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortised. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

14 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets;
- construction in progress;
- intangible assets;
- goodwill;
- investment in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Provision for impairment losses on non-financial assets (continued)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognised the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

15 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

15 Employee benefits (continued)

15.1 Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

15.2 Post-employment benefits-defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organizations. 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 recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

15.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits; and
- When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

15.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

17 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

18 Other equity instruments-preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments, will be recognised as equity in the actual amount received. Dividends payables are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

19 Income recognition

19.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

19.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

19.3 Other income

Other income is recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Expenses recognition

20.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

20.2 Other expenses

Other expenses are recognised on an accrual basis.

21 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

21 Income tax (continued)

Deferred tax assets and 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting period are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

23 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

24 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs.

The accounting judgements and estimates used in expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

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III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax

Value-added tax is charged at 6%, 16%, or 17% on taxable added value.

(b) City construction tax

City construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V ACCOUNTING POLICY CHANGE

1 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments which summarised all phased projects of financial instruments and provided new guidance for classification and measurement, impairment and hedging of financial instruments.

The Group does not restate the comparative information of financial instruments covered by IFRS 9 in 2017. Financial Instruments Accounting Policies in 2017 refer to Annual Report 2017. Therefore, the financial information in 2018 presented in financial statement is not comparable with the information in 2017 presented in IAS 39. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholders' equity as at 1 January 2018.

Classification and Measurement

In IFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit losses model" (ECL model) and this way of measurement applies to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts, refer to Note VI 48 (a).

Impact

The Group adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact of IFRS 9 on consolidated statements, but did not restate the comparative data. The specific impact of the Group's adoption of the new guidelines is disclosed below.

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V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

- (a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows:

	IAS 39				IFRS 9		
	Classification (Note (i))	Net Balance	Interests receivable	Reclassification	Remeasurement	Net Balance	Classification (Note (i))
Cash and deposits with the central bank	L&R	353,703	144	-	-	353,847	AC
Deposits with banks and other financial institutions	L&R	44,754	23	-	(3)	44,774	AC
Placements with banks and other financial institutions	L&R	148,816	878	-	(214)	149,480	AC
Financial assets held under resale agreements	L&R	91,441	102	-	(3)	91,540	AC
Loans and advances to customers	L&R	1,980,818	5,803	-	(7,114)	1,979,507	AC&FVOCI
Loans and advances to customers measured at amortised cost		1,980,818		(54,486)	(6,833)	1,919,499	AC
To: Loans and advances to customers at fair value through other comprehensive income				54,486	(281)	54,205	FVOCI
Financial lease receivables	L&R	56,364	479	-	(207)	56,636	AC
Financial assets at fair value through profit or loss	FVTPL	24,196	378	288,918	935	314,427	FVTPL
From: Available-for-sale financial assets (Note (ii))				271,363	1,473	272,836	
From: Held-to-maturity Investments (Note (iii))				2,341	(54)	2,287	
From: Debt securities classified as receivables				15,214	(484)	14,730	
Debt instruments at fair value through other comprehensive income	N/A	-	2,900	142,459	5	145,364	FVOCI
From: Available-for-sale financial assets				142,459	5	142,464	

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

- (a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows (continued):

	IAS 39			Reclassification	Remeasurement	IFRS 9	
	Classification (Note (i))	Net Balance	Interests receivable			Net Balance	Classification (Note (i))
Equity instruments at fair value through other comprehensive income	N/A	-	-	109	-	109	FVOCI
From: Available-for-sale financial assets				109	-	109	
Financial investments measured at amortised cost	N/A	-	15,082	842,254	(1,295)	856,041	AC
From: Available-for-sale financial assets (Note (iv))				616	32	648	
From: Held-to-maturity investments				342,276	(150)	342,126	
From: Debt securities classified as receivables				499,362	(1,177)	498,185	
Available-for-sale financial assets	AFS	414,547		(414,547)	-	-	N/A
To: Debt instruments at fair value through other comprehensive income				(142,459)			
To: Equity instruments at fair value through other comprehensive income				(109)			
To: Financial assets at fair value through profit or loss (Note (ii))				(271,363)			
To: Financial investments measured at amortised cost (Note (iv))				(616)			
Held-to-maturity investments	HTM	344,617		(344,617)	-	-	N/A
To: Financial assets at fair value through profit or loss (Note (iii))				(2,341)			
To: Financial investments measured at amortised cost				(342,276)			
Debt securities classified as receivables	L&R	514,576		(514,576)	-	-	N/A
To: Financial assets at fair value through profit or loss				(15,214)			
To: Financial investments measured at amortised cost				(499,362)			
Others (Note (v))	L&R/FVTPL	76,524	(25,789)	-	49	50,784	FVTPL/AC

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V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

- (a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows (continued):

	IAS 39				IFRS 9		
	Classification (Note (i))	Net Balance	Interests receivable	Reclassification	Remeasurement	Net Balance	Classification (Note (i))
Due to the central bank	AC	232,500	3,028	-	-	235,528	AC
Deposits from banks and other financial institutions	AC	577,447	3,416	-	-	580,863	AC
Placements from banks and other financial institutions	AC	106,798	610	-	-	107,408	AC
Financial assets sold under repurchase agreements	AC	45,581	137	-	-	45,718	
Deposits from customers	AC&FVTPL	2,272,665	29,424	-	-	2,302,089	AC&FVTPL
Debt securities payable	AC	445,396	3,576	-	-	448,972	AC
Taxes payable		4,932	-	-	(576)	4,356	
Interests payable		40,206	(40,206)	-	-	-	
Other liabilities		42,318	15	-	1,500	43,833	

Note:

(i) *L&R* *Loans and receivables*

AFS *Available-for-sale*

FVTPL *Fair value through profit or loss*

FVOCI *Fair value through other comprehensive income*

AC *Amortised cost*

HTM *Held-to-maturity*

N/A *Not applicable*

(ii) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some of the bonds available for sale as bonds at fair value through profit or loss.*

(iii) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some bonds held to maturity as bonds at fair value through profit or loss.*

(iv) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some bonds available for sale into bonds measured at amortised cost.*

(v) *Others comprise precious metal, interests receivable and deferred tax assets.*

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

- (b) A reconciliation between the impairment allowance for financial instruments under IAS 39 to amount reported under IFRS 9 is as follows:

	31 December 2017	Reclassification	Remeasurement	1 January 2018
Loans and receivables/financial assets at amortised cost				
Deposits with banks and other financial institutions	(32)	–	(3)	(35)
Precious metals	–	–	(42)	(42)
Placements with banks and other financial institutions	(14)	–	(214)	(228)
Interests receivable	(52)	–	48	(4)
Financial assets held under resale agreements	–	–	(3)	(3)
Loans and advances to customers	(51,238)	–	(6,833)	(58,071)
Debt securities classified as receivables-financial investments at amortised cost	(2,122)	261	(1,177)	(3,038)
Finance lease receivables	(1,365)	–	(207)	(1,572)
Held to maturity investments/financial assets at amortised cost				
Held to maturity investments – financial assets at amortised cost	(101)	–	(150)	(251)
Available-for-sale financial investment/financial assets at amortised cost				
Available-for-sale financial investment-financial assets at amortised cost	(947)	–	32	(915)
Loans and receivables/financial assets at FVOCI				
Loans and advances to customers	–	–	(842)	(842)
Available-for-sale financial assets/financial assets at FVOCI				
Available-for-sale financial investment-debt instruments at FVOCI	(6)	1	(320)	(325)
Credit commitments	(290)	–	(1,497)	(1,787)
Others	(5)	–	(3)	(8)

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2018	2017
Interest income arising from			
Deposits with the central bank		5,100	5,263
Deposits with banks and other financial institutions		858	4,016
Placements with banks and other financial institutions		6,571	4,688
Loans and advances to customers	(a)		
– Corporate loans and advances		61,585	53,463
– Personal loans and advances		42,126	32,365
– Discounted bills		1,276	1,113
Finance lease receivables		3,379	2,729
Financial assets held under resale agreements		1,802	2,315
Investments		45,870	54,391
Subtotal	(b)	168,567	160,343
Interest expenses arising from			
Due to the central bank		8,481	6,695
Deposits from banks and other financial institutions		22,866	25,528
Placements from banks and other financial institutions		5,793	3,257
Deposits from customers			
– Corporate customers		26,763	25,193
– Individual customers		3,712	3,639
– Structured deposits from corporate customers		12,398	8,513
– Structured deposits from individual customers		8,153	4,873
Financial assets sold under repurchase agreements		1,124	1,113
Debt securities issued		18,234	20,582
Subtotal	(b)	107,524	99,393
Net interest income		61,043	60,950

Note:

(a) The interest income arising from impaired financial assets in 2018 amounted to RMB792 million (2017: RMB1,015 million).

(b) In 2017, the interest income of financial assets and the interest expenses of financial liabilities, excluding “measured at fair value through profit or loss”, amounted to RMB160,341 million and RMB85,996 million, respectively.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2018	2017
Fee and commission income		
Bank card service fees	28,644	20,372
Agency services fees	2,734	2,665
Underwriting and advisory fees	1,594	1,604
Custody and other fiduciary business fees	1,358	1,683
Settlement and clearing fees	1,279	1,066
Acceptance and guarantee fees	1,120	861
Wealth management service fees	876	3,400
Others	1,947	1,374
Subtotal	39,552	33,025
Fee and commission expense		
Bank card transaction fees	1,713	1,451
Settlement and clearing fees	288	108
Others	657	692
Subtotal	2,658	2,251
Net fee and commission income	36,894	30,774

3 Net trading gains/(losses)

	2018	2017
Trading financial instruments		
– Derivatives	(332)	(2,601)
– Debt securities	1,307	(279)
Subtotal	975	(2,880)
Financial instruments designated at fair value through profit or loss	4	(14)
Precious metal contract	92	143
Total	1,071	(2,751)

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains/(losses) arising from investment securities

	2018	2017
Net gains arising from financial investments at fair value through other comprehensive income	803	–
Net gains arising from financial investments at fair value through profit or loss	9,813	–
Net gains arising from loans and advances to customers at fair value through other comprehensive income	347	–
Net losses on disposal of financial investments measured at amortised cost	(6)	–
Net gains on disposal of available-for-sale financial assets	–	163
Net revaluation losses reclassified from other comprehensive income on disposal	(1,095)	(360)
Net gains on disposal of held-to-maturity investments	–	4
Total	9,862	(193)

5 Operating expenses

	Note	2018	2017
Staff costs			
– Salaries and bonuses		11,827	11,007
– Pension and annuity		1,811	1,681
– Housing allowances		775	701
– Staff welfares		400	365
– Supplementary retirement benefits		86	89
– Others		1,970	1,836
Subtotal		16,869	15,679
Premises and equipment expenses			
– Rental and property management expenses		2,853	2,692
– Depreciation of fixed assets		1,419	1,417
– Amortisation of other long-term assets		407	418
– Amortisation of intangible assets		338	301
Subtotal		5,017	4,828
Tax and surcharges		1,165	1,025
Other general and administrative expenses	(a)	10,655	9,270
Total		33,706	30,802

Note:

(a) Auditors' remuneration for the year ended 31 December 2018 was RMB9.00million (2017: RMB8.30 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows:

	Note	2018							
		Fees RMB'000	Salaries RMB'000	Discretionary bonus		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
				Paid RMB'000	Payable RMB'000				
Executive directors									
Ge Haijiao	(i)	–	22	17	–	39	3	11	53
Zhang Jinliang		–	311	–	–	311	9	81	401
Ma Teng		–	568	–	–	568	20	59	647
Li Jie		–	756	–	–	756	27	81	864
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Cai Yunge		–	–	–	–	–	–	–	–
Fu Dong	(ii)	–	–	–	–	–	–	–	–
Shi Yongyan	(ii)	–	–	–	–	–	–	–	–
Wang Xiaolin	(ii)	–	–	–	–	–	–	–	–
He Haibin	(ii)	–	–	–	–	–	–	–	–
Zhao Wei		–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Qiao Zhimin		390	–	–	–	390	–	–	390
Xie Rong		370	–	–	–	370	–	–	370
Feng Lun		360	–	–	–	360	–	–	360
Wang Liguo		340	–	–	–	340	–	–	340
Xu Hongcai		–	–	–	–	–	–	–	–
Supervisors									
Li Xin		–	1,067	91	–	1,158	41	125	1,324
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Yu Erniu		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		290	–	–	–	290	–	–	290
Sun Xinhong		–	693	1,205	–	1,898	30	120	2,048
Jiang Ou		–	598	896	–	1,494	33	125	1,652
Huang Dan		–	522	1,425	–	1,947	40	125	2,112
Former non-executive directors									
Zhang Shude	(ii)	–	–	–	–	–	–	–	–
Li Huaqiang	(ii)	–	–	–	–	–	–	–	–

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

	2017							
	Fees RMB'000	Salaries RMB'000	Discretionary bonus		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
			Paid RMB'000	Payable RMB'000				
Executive directors								
Zhang Jinliang	-	439	-	-	439	38	114	591
Ma Teng	-	1,142	-	-	1,142	40	114	1,296
Li Jie	-	1,142	-	-	1,142	40	114	1,296
Non-executive directors								
Li Xiaopeng	-	-	-	-	-	-	-	-
Gao Yunlong	-	-	-	-	-	-	-	-
Zhang Shude	-	-	-	-	-	-	-	-
Li Huaqiang	-	-	-	-	-	-	-	-
Zhao Wei	-	-	-	-	-	-	-	-
Fu Dong	-	-	-	-	-	-	-	-
Cai Yunge	-	-	-	-	-	-	-	-
Independent non-executive directors								
Fok Oi Ling	370	-	-	-	370	-	-	370
Qiao Zhimin	390	-	-	-	390	-	-	390
Xie Rong	370	-	-	-	370	-	-	370
Xu Hongcai	-	-	-	-	-	-	-	-
Feng Lun	360	-	-	-	360	-	-	360
Wang Liguo	340	-	-	-	340	-	-	340
Supervisors								
Li Xin	-	1,155	-	-	1,155	40	114	1,309
Yin Lianchen	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Yu Erniu	275	-	-	-	275	-	-	275
Wu Gaolian	275	-	-	-	275	-	-	275
Wang Zhe	280	-	-	-	280	-	-	280
Sun Xinhong	-	395	782	-	1,177	-	64	1,241
Jiang Ou	-	307	517	-	824	19	68	911
Huang Dan	-	292	824	-	1,116	23	68	1,207
Former non-executive directors								
Wu Gang	-	-	-	-	-	-	-	-
Tang Shuangning	-	-	-	-	-	-	-	-
Former supervisors								
Mu Huijun	-	191	-	-	191	7	18	216
Liu Yan	-	252	586	-	838	21	55	914
Ye Donghai	-	586	1,049	-	1,635	35	94	1,764
Deng Ruilin	-	-	-	-	-	-	-	-
	2,660	5,901	3,758	-	12,319	263	823	13,405

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

Note:

(i) *On 21 December 2018, Mr. Ge Haijiao was elected as the Seventh Executive Director of the Board of Directors by the Bank's Second Provisional Shareholders' Meeting in 2018. Mr. Ge Haijiao's appointment as the Chairman of the board of directors has been approved by CBIRC on 22 January 2019.*

(ii) *Mr. Fu Dong was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 15 March 2018.*

Mr. Shi Yongyan was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 21 May 2018.

Mr. Wang Xiaolin was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 12 October 2018.

Mr. Hei Haibin was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 21 May 2018.

Due to the family issues, Mr Zhang Shude resigned from the position of non-executive director of the board of directors, members of the Board of Directors Risk Management Committee, Strategic Committee and Salary Committee on 13 August 2018.

Due to age, Mr Li Huaqiang resigned from the position of chairman and non-executive director of the board of directors, members of the Strategic Committee and the Audit Committee of the Board of Directors on 21 June 2018.

(iii) *The total compensation package for these directors and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2018.*

The above directors' and supervisors' emoluments for the year ended 31 December 2018 were calculated in accordance with their actual tenure.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	2,894	2,712
Discretionary bonuses	25,694	20,378
Contributions to pension schemes	905	790
Others	721	679
Total	30,214	24,559

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2018	2017
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	2
RMB4,500,001-5,000,000	–	2
RMB5,000,001-5,500,000	1	–
RMB5,500,001-6,000,000	3	–
RMB6,000,001-6,500,000	–	–
RMB6,500,001-7,000,000	–	1
RMB7,000,000-7,500,000	1	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting period.

8 Impairment losses on assets

	2018		Total
	Expected credit losses	Other credit losses	
Loans and advances to customers			
– measured at amortised cost	34,714	–	34,714
– measured at at fair value through other comprehensive income	(369)	–	(369)
Subtotal	34,345	–	34,345
Debt instruments at fair value through other comprehensive income	58	–	58
Financial investments measured at amortised cost	485	–	485
Finance lease receivables	170	–	170
Others	686	84	770
Total	35,744	84	35,828

	2017
Loans and advances to customers	19,700
Debt securities classified as receivables	391
Available-for-sale financial assets	207
Finance lease receivables	92
Held-to-maturity investments	(11)
Others	191
Total	20,570

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note VI	2018	2017
Current tax		9,101	10,393
Deferred tax	22(b)	(1,808)	(1,206)
Adjustments for prior year	9(b)	(162)	(152)
Total		7,131	9,035

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2018	2017
Profit before tax		40,852	40,646
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		10,213	10,162
Effect of different tax rates applied by certain subsidiaries		–	1
Non-deductible expenses			
– Staff costs		2	4
– Impairment losses on assets		1,250	1,853
– Others		334	283
Subtotal		1,586	2,140
Non-taxable income	(i)	(4,506)	(3,116)
Subtotal		7,293	9,187
Adjustments for prior year		(162)	(152)
Income tax		7,131	9,035

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividend of funds.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Bank	33,659	31,545
Less: dividends on preference shares declared	1,450	1,450
Net profit attributable to ordinary shareholders of the Bank	32,209	30,095
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Basic earnings per share (in RMB/share)	0.61	0.64

Weighted average number of ordinary shares in issue (in million shares)

	2018	2017
Issued ordinary shares as at 1 January	52,489	46,679
Add: weighted average number of shares from conversion of convertible bonds	–	–
Weighted average number of ordinary shares in issue	52,489	46,679

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2018	2017
Net profit attributable to ordinary shareholders of the Bank for the year	32,209	30,095
Add: interest expense on convertible bonds, net of tax	864	662
Net profit used to determine diluted earnings per share	33,073	30,757
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	5,220
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	51,899
Diluted earnings per share (in RMB/share)	0.55	0.59

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Cash and deposits with the central bank

	Note	31 December 2018	31 December 2017
Cash on hand		4,721	5,584
Deposits with the central bank			
– Statutory deposit reserves	(a)	254,574	306,762
– Surplus deposit reserves	(b)	103,684	37,035
– Foreign currency risk reserves	(c)	857	880
– Fiscal deposits		2,603	3,442
Subtotal		366,439	353,703
Accrued interest		136	–
Total		366,575	353,703

Note:

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2018	31 December 2017
Reserve ratio for RMB deposits	12.0%	14.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2018, the foreign currency risk reserve ratio was 20% (31 December 2017: 0%).

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	12,815	35,201
– Other financial institutions	246	321
Deposits outside mainland China		
– Banks	28,382	9,264
Subtotal	41,443	44,786
Accrued interest	10	–
Total	41,453	44,786
Less: Provision for impairment losses	(448)	(32)
Net balances	41,005	44,754

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	20,767	23,175
– Other financial institutions	53,420	109,455
Placements outside mainland China		
– Banks	22,162	16,200
Subtotal	96,349	148,830
Accrued interest	530	–
Total	96,879	148,830
Less: Provision for impairment losses	(194)	(14)
Net balances	96,685	148,816

14 Derivatives

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the year, they do not represent exposure at risk.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives (continued)

(a) Analysed by nature of contract

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives			
– Credit swap	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	317,001	430	(373)
– Interest rate futures	1,633	8	–
Currency derivatives			
– Foreign exchange forward	5,185	109	(73)
– Foreign exchange swap and cross-currency interest rate swap	413,183	3,906	(6,100)
– Foreign exchange option	5,289	60	(6)
Total	742,291	4,513	(6,552)

(b) Analysed by credit risk-weighted amounts

	31 December 2018	31 December 2017
Counterparty default risk-weighted assets		
– Interest rate derivatives	77	83
– Currency derivatives	1,547	946
Credit value adjustment	724	254
Total	2,348	1,283

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBIRC in 2012.

As at 31 December 2018, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	5,395	30,740
– Other financial institutions	31,919	60,701
Outside mainland China		
– Other financial institutions	427	–
Subtotal	37,741	91,441
Accrued interest	34	–
Total	37,775	91,441
Less: Provision for impairment losses	(2)	–
Net balances	37,773	91,441

(b) Analysed by type of security held

	31 December 2018	31 December 2017
Bonds		
– Government bonds	8,196	26,984
– Other debt securities	29,545	64,204
Bank acceptances	–	253
Subtotal	37,741	91,441
Accrued interest	34	–
Total	37,775	91,441
Less: Provision for impairment losses	(2)	–
Net balances	37,773	91,441

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2018	31 December 2017
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,306,473	1,179,663
Discounted bills	1,339	22,389
Personal loans and advances		
– Personal housing mortgage loans	381,772	367,665
– Personal business loans	145,502	125,558
– Personal consumption loans	125,425	36,165
– Credit cards	400,504	300,616
Subtotal	1,053,203	830,004
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	26,156	–
Discounted bills	34,158	–
Subtotal	60,314	–
Total	2,421,329	2,032,056
Accrued interest	7,158	–
Gross loans and advances to customers	2,428,487	2,032,056
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)	(51,238)
Net loans and advances to customers	2,361,278	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)	–

As at 31 December 2018, part of the above loans and advances to customers was pledged for repurchase agreements, see Note VI 24 (a).

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Finance	74,177	3.06%	3,325
Construction	71,435	2.95%	26,018
Production and supply of electricity, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2017		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	241,125	11.87%	73,970
Water, environment and public utility management	209,223	10.30%	104,502
Real estate	142,010	6.99%	87,858
Leasing and commercial services	126,451	6.22%	51,066
Wholesale and retail trade	109,268	5.38%	40,566
Transportation, storage and postal services	91,949	4.52%	39,566
Construction	62,984	3.10%	23,547
Finance	49,780	2.45%	2,054
Production and supply of power, gas and water	42,237	2.08%	9,783
Agriculture, forestry, husbandry and fishery	20,221	1.00%	6,797
Others	84,415	4.15%	37,090
Subtotal of corporate loans and advances	1,179,663	58.05%	476,799
Personal loans and advances	830,004	40.85%	494,936
Discounted bills	22,389	1.10%	17,075
Gross loans and advances to customers	2,032,056	100.00%	988,810
Less: provision for impairment losses			
– Individually assessed	(14,219)		
– Collectively assessed	(37,019)		
Total provision for impairment losses	(51,238)		
Net loans and advances to customers	1,980,818		

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2018					
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Impairment charged during the year	Written-off during the year
Manufacturing	15,086	(3,036)	(4,835)	(7,946)	10,632	4,110

	31 December 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	11,111	(7,200)	(7,287)	5,575	1,884
Water, environment and public utility management	1	–	(2,399)	580	–

(c) Analysed by type of collateral

	31 December 2018	31 December 2017
Unsecured loans	778,691	591,866
Guaranteed loans	563,293	451,380
Secured loans		
– By tangible assets other than monetary assets	814,026	754,180
– By monetary assets	265,319	234,630
Total	2,421,329	2,032,056
Accrued interest	7,158	–
Gross loans and advances to customers	2,428,487	2,032,056
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)	(51,238)
Net loans and advances to customers	2,361,278	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Overdue loans analysed by overdue period

	31 December 2018					Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years		
Unsecured loans	10,014	8,443	394	29		18,880
Guaranteed loans	6,625	7,418	2,667	522		17,232
Secured loans						
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772		17,504
– By monetary assets	1,427	741	1,103	2		3,273
Subtotal	24,591	21,317	8,656	2,325		56,889
Accrued interest	349	–	–	–		349
Total	24,940	21,317	8,656	2,325		57,238
As a percentage of loans and advances to customers	1.03%	0.88%	0.35%	0.10%		2.36%

	31 December 2017					Total
	Overdue Within Three Months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years		
Unsecured loans	5,464	5,852	733	84		12,133
Guaranteed loans	5,077	4,891	4,497	1,236		15,701
Secured loans						
– By tangible assets other than monetary assets	5,452	5,263	7,363	716		18,794
– By monetary assets	488	1,014	1,820	25		3,347
Total	16,481	17,020	14,413	2,061		49,975
As a percentage of gross loans and advances to customers	0.81%	0.84%	0.71%	0.10%		2.46%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	31 December 2018				Impaired loans and advances as a percentage of loans and advances
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances in customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

	31 December 2017			Total	Impaired loans and advances as a percentage of loans and advances
	Loans and advances for which provision are collectively assessed	Impaired loans and advances for which provision are collectively assessed	Impaired loans and advances for which provision are individually assessed		
Gross loans and advances to customers	1,999,664	9,607	22,785	2,032,056	1.59%
Less: Provision for impairment losses	(30,768)	(6,251)	(14,219)	(51,238)	
Net loans and advances to customers	1,968,896	3,356	8,566	1,980,818	

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	2018			Total
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	
As at 1 January 2018 (i)	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to stage 1	(1,073)	1,048	25	–
Transfer to stage 2	867	(898)	31	–
Transfer to stage 3	164	3,038	(3,202)	–
Charge for the year	(7,412)	(7,137)	(24,318)	(38,867)
Release for the year	2,785	956	412	4,153
Disposal	–	–	10,149	10,149
Write-offs	–	–	16,162	16,162
Recoveries	–	–	(1,527)	(1,527)
Unwinding of discount	–	–	792	792
As at 31 December 2018 (i)	(23,335)	(21,264)	(22,610)	(67,209)

Note:

- (i) Provision for impairment losses represents provision for impairment losses of loans and advances to customers measured at amortised cost.
- (ii) As at 31 December 2018, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income is RMB473 million (1 January 2018: RMB842 million).

	2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January 2017	(28,591)	(3,758)	(11,285)	(43,634)
Charge for the year	(2,392)	(4,458)	(14,087)	(20,937)
Release for the year	215	–	1,022	1,237
Recoveries	–	(638)	(246)	(884)
Unwinding of discount	–	–	1,015	1,015
Disposal	–	–	5,958	5,958
Write-offs	–	2,603	3,404	6,007
As at 31 December 2017	(30,768)	(6,251)	(14,219)	(51,238)

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

	31 December 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	382,262	18.80%	189,936
Bohai Rim	322,013	15.84%	172,218
Central	314,516	15.48%	200,308
Western	301,306	14.83%	174,450
Pearl River Delta	235,902	11.61%	166,276
Northeastern	113,724	5.60%	75,007
Overseas	59,033	2.91%	7,955
Head Office	303,300	14.93%	2,660
Total	2,032,056	100.00%	988,810

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 month)	Stage 2 (ECL of whole period)	Stage 3 (ECL of whole period)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Bohai Rim	5,281	(2,588)	(6,829)
Pearl River Delta	5,160	(2,304)	(4,533)
Yangtze River Delta	5,006	(2,947)	(6,992)
Western	4,727	(2,391)	(5,204)
Central	4,483	(2,206)	(5,076)
Total	24,657	(12,436)	(28,634)

The definitions of the regional distributions are set out in Note VI 47 (b).

(h) Rescheduled loans and advances to customers

	31 December 2018	31 December 2017
Rescheduled loans and advances to customers	15,788	19,685
Of which: Rescheduled loans and advances to customers overdue more than 90 days	801	971

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Finance lease receivables

	Note	31 December 2018	31 December 2017
Minimum finance lease receivables		74,656	65,555
Less: unearned finance lease income		(10,287)	(7,826)
Present value of minimum lease receivable		64,369	57,729
Accrued interest		588	–
Less: impairment losses		(1,624)	(1,365)
Net balance	(i)	63,333	56,364

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2018	31 December 2017
Less than 1 year (inclusive)	19,073	18,401
1 year to 2 years (inclusive)	14,924	12,956
2 year to 3 years (inclusive)	12,298	10,924
More than 3 years	28,361	23,274
Total	74,656	65,555

Note:

(i) Part of finance lease receivables were pledged for borrowing from banks, see Note VI 24 (a).

18 Financial investments

	Note	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	(a)	222,737	24,196
Debt instruments at fair value through other comprehensive income	(b)	153,987	–
Equity instruments at fair value through other comprehensive income	(c)	367	–
Financial investments measured at amortised cost	(d)	923,989	–
Available-for-sale financial assets	(e)	–	414,547
Held-to-maturity investments	(f)	–	344,617
Debt securities classified as receivables	(g)	–	514,576
Total		1,301,080	1,297,936

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss

	Note	31 December 2018	31 December 2017
Debt securities held for trading	(i)	10,886	24,185
Financial assets designated at fair value through profit or loss	(ii)	6	11
Other financial assets at fair value through profit or loss	(iii)	211,845	–
Total		222,737	24,196

(i) Debt instruments held for trading

	Note	31 December 2018	31 December 2017
Issued by the following governments or institutions:			
In mainland China			
– Government		–	1,110
– Banks and other financial institutions		1,006	786
– Other institutions	(1)	8,323	21,020
Outside mainland China			
– Government		–	128
– Banks and other financial institutions		170	125
– Other institutions		1,387	1,016
Total		10,886	24,185
Listed	(2)	2,257	2,017
– of which listed in Hong Kong		1,809	1,662
Unlisted		8,629	22,168
Total		10,886	24,185

Note:

(1) Debt instruments issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(2) Listed includes debt instruments traded on the stock exchange markets.

(ii) Financial assets designated at fair value through profit or loss

	31 December 2018	31 December 2017
Fixed interest rate personal mortgage loans	6	11

For fixed interest rate personal mortgage loans, the Group used interest rate swap to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(iii) Other financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Fund investments	180,633	–
Equity instruments	1,182	–
Others	30,030	–
Total	211,845	–

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Note	31 December 2018
In mainland China		
– Government		32,527
– Banks and other financial institutions	(1)	46,569
– Other institutions	(2)	54,903
Outside mainland China		
– Banks and other financial institutions		1,709
– Other institutions		14,942
Subtotal		150,650
Accrued interest		3,337
Total	(3)(4)	153,987
Listed	(5)	27,077
Of which listed in Hong Kong		19,855
Unlisted		123,573
Subtotal		150,650
Accrued interest		3,337
Total		153,987

Note:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (3) As at 31 December 2018, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB384 million.
- (4) As at 31 December 2018, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements, see Note VI 24 (a).
- (5) Listed includes debt instruments traded on the stock exchange markets.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) *An analysis of changes in the corresponding expected credit losses(ECL) is, as follows:*

	2018			Total
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	
As at 1 January 2018	(325)	–	–	(325)
Net charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

(c) Equity instruments at fair value through other comprehensive income

	Note	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	367
Listed	(ii)	15
Of which in Hongkong		–
Unlisted		352
Total		367

Note:

(i) *The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2018, the fair value was RMB367 million (1 January 2018: RMB109 million). In 2018, the Group received approximates to RMB8 million dividend from the above equity instruments.*

(ii) *Listed includes equity instruments traded on the stock exchange markets.*

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Note	31 December 2018
Debt securities	(i)	497,775
Others	(ii)	410,350
Subtotal		908,125
Accrued interest		20,558
Total		928,683
Less: Provision for impairment losses		(4,694)
Net balance		923,989
Listed	(iii)	79,879
– of which in Hong Kong		10,193
Unlisted		823,552
Subtotal		903,431
Accrued interest		20,558
Net balance		923,989

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty, as follows:

	Note	31 December 2018
In mainland China		
– Government		259,640
– Banks and other financial institutions	(1)	174,930
– Other institutions	(2)	51,150
Outside mainland China		
– Government		1,088
– Banks and other financial institutions		3,789
– Other institutions		7,178
Subtotal		497,775
Accrued interest		9,175
Total	(3)	506,950
Less: Provision for impairment losses		(1,599)
Net balance		505,351
Fair Value		512,668

Note:

- (1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in mainland China.
- (2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (3) As at 31 December 2018, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposit and derivative transactions, see Note VI 24 (a).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(ii) *Other financial investments measured at amortised cost mainly include trust and other right to earnings.*

(iii) *Listed includes debt instruments traded on the stock exchange markets.*

(iv) *An analysis of changes in the corresponding ECLs is, as follows:*

	2018			Total
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Net charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

(e) Available-for-sale financial assets

	Note	31 December 2017
Available-for-sale debt investments	(i)	145,331
Available-for-sale equity investments	(ii)	899
Available-for-sale fund investments and others	(iii)	268,317
Total		414,547
Listed		17,961
– of which in Hong Kong		14,741
Unlisted		396,586
Total		414,547

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(e) Available-for-sale financial assets (continued)

(i) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	Note	31 December 2017
In mainland China		
– Government		47,624
– Banks and other financial institutions	(1)	17,323
– Other institutions	(2)	67,837
Outside mainland China		
– Government		65
– Banks and other financial institutions		2,340
– Other institutions		10,142
Total	(3)	145,331

Note:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt instruments and interbank deposits issued by banks and other financial institutions in mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt instruments issued by state-owned enterprises and joint stock enterprises in mainland China.
- (3) As at 31 December 2017, part of the available-for-sale financial assets were pledged for repurchase agreements, time deposit and derivative contracts, see Note VI 24(a).
- (4) As at 31 December 2017, the provision of the available-for-sale debt instruments impairment losses of the Group was RMB952 million.

(ii) Available-for-sale equity investments

	Note	31 December 2017
At cost		
As at 1 January		401
Additions for the year		394
Reductions for the year		(5)
As at the end of the year		790
Less: Provision for impairment losses		(1)
Subtotal	(1)	789
At fair value		110
Total		899

Note:

- (1) Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any allowance for impairment losses. There is no active market for these investments, and the Group intends to dispose of them when the opportunity is suitable.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(e) Available-for-sale financial assets (continued)

(iii) Available-for-sale fund investments and others

	31 December 2017
Measured at fair value	
– Banks and other financial institutions in mainland China	268,317
Total	268,317

(iv) Movements of allowance for impairment losses of available-for-sale financial assets during 2017 are as follows:

	Available-for-sale debt investments	Available-for-sale equity investments	Total
As at 1 January 2017	745	1	746
Charge for the year	207	–	207
As at 31 December 2017	952	1	953

(f) Held-to-maturity investments

Debt instruments analysed by type and location:

	Note	31 December 2017
In mainland China		
– Government		257,283
– Banks and other financial institutions		71,603
– Other institutions	(i)	11,340
Outside mainland China		
– Government		166
– Banks and other financial institutions		1,612
– Other institutions		2,714
Total	(ii)	344,718
Less: Provision for impairment losses		(101)
Net balances		344,617
Listed	(iii)	4,708
– of which in Hong Kong		2,538
Unlisted		339,909
Net balances		344,617
Fair value		335,894

Note:

- (i) As at December 31 2017, debt instruments issued by other institutions mainly represent debt instruments issued by state-owned enterprises and joint stock enterprises in mainland China.
- (ii) On December 31 2017, part of the held-to-maturity investments were pledged as instruments for repurchase agreements, time deposits contracts and derivative, see Note VI 24(a).
- (iii) Listed includes debt instruments traded on the stock exchange markets.
- (iv) The Group disposed held to maturity bond investment with a notional amount of RMB650 million prior to their maturity dates in 2017, which account for 0.19% of the portfolio before disposal.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(g) Debt securities classified as receivables

	Note	31 December 2017
Wealth management products issued by financial institution	(i)	5,096
Beneficiary interests in trust and other plans	(ii)	509,276
Others		2,326
Total		516,698
Less: Provision for impairment losses		(2,122)
Net balances		514,576

Note:

- (i) Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.
- (ii) Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 31 December 2017, none of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China. The fair values of the above mentioned investments approximate to their carrying amount.

19 Investments in subsidiaries

	Note	31 December 2018	31 December 2017
Everbright Financial Leasing Co., Ltd.	(a)	4,680	2,700
CEB International Investment Co., Ltd.	(b)	2,267	1,379
Shaoshan Everbright Rural Bank Co., Ltd.	(c)	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	(d)	70	70
China Everbright Bank Company Limited (Europe)	(e)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	(f)	105	–
Total		7,383	4,410

Note:

- (a) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuban city of Hubei Province, with registered capital of RMB800 million. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing. In October 2014, all shareholders of Everbright Financial Leasing increased their capital by RMB2.20 billion to Everbright Financial Leasing in proportion to their original shares. Among them, the bank contributed RMB1.98 billion. At the same time, Everbright Financial Leasing will increase registered capital by RMB700 billion of undistributed profits. After the capital increase, the registered capital of Everbright Financial Leasing is RMB3.70 billion. In July and November 2018, all shareholders of Everbright Financial Leasing increased their capital twice by RMB1.10 billion to Everbright Financial Leasing in proportion to their original shares. Among them, the bank contributed RMB1.98 billion. After the capital increase, the registered capital of Everbright Financial Leasing is RMB5.90 billion.
- (b) CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. On 25 April 2017, the Bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD1,600 million, equivalent to approximately RMB1,379 million. On 12 November 2018, the bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB888 million approximately, according to the spot exchange rate 0.8879, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD2.60 billion, which is about RMB2.267 billion. The bank holds 100% of equity interests and voting rights of CEBI.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investments in subsidiaries (continued)

- (c) Shaoshan Everbright Rural Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.
- (d) Jiangsu Huai'an Everbright Rural Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.
- (e) China Everbright Bank Company Limited (Europe) ("China Everbright S.A.") was approved by the European Central Bank and was incorporated on July 2017 in Luxembourg, with registered capital of EUR 20 million, equivalent to RMB156 million at the spot exchange rate of 7.78096 on the date of transferring of registered capital. The principal activities of China Everbright S.A. is the provision of corporate banking services. The Bank holds 100% of equity interests and voting rights of China Everbright S.A.
- (f) Jiangxi Ruijin Everbright Rural Bank Co., Ltd. ("Ruijin Everbright") was incorporated on November 2018 in Ruijin city of Jiangxi Province, with registered capital of RMB150 million. The principal activities of Ruijin Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Ruijin Everbright.

20 Fixed Assets

	Premises Note (i)	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Fixed Assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2017	11,170	2,266	949	5,731	3,536	23,652
Additions	234	1,224	675	460	264	2,857
Transfers (out)/in	–	–	(18)	(1)	1	(18)
Disposals	–	(600)	–	(129)	(45)	(774)
Foreign currency conversion difference	–	(138)	–	(1)	(3)	(142)
As at 31 December 2017	11,404	2,752	1,606	6,060	3,753	25,575
Accumulated depreciation						
As at 1 January 2017	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Charge for the year	(349)	(82)	–	(685)	(301)	(1,417)
Disposals	–	24	–	121	43	188
Foreign currency conversion difference	–	5	–	–	2	7
As at 31 December 2017	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Provision for impairment						
As at 1 January 2017	(159)	–	–	–	–	(159)
As at 31 December 2017	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2017	7,901	2,649	1,606	1,547	1,226	14,929

Note:

- (i) As at 31 December 2018, title deeds were not yet finalised for the premises with a carrying amount of RMB141 million (31 December 2017: RMB148 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 31 December 2018, Everbright Financial Leasing Co., Ltd., the Group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,485 million (31 December 2017: RMB2,649 million).

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2018	31 December 2017
Held in mainland China		
– Medium term leases (10 – 50 years)	7,795	7,807
– Short term leases (less than 10 years)	80	94
Total	7,875	7,901

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Goodwill

	31 December 2018	31 December 2017
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed an “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank’s cash flow forecast is 14% (2017: 14%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

22 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2018		31 December 2017	
	Temporary difference	Deferred tax assets /(liabilities)	Temporary difference	Deferred tax assets /(liabilities)
Deferred income tax assets	43,175	10,794	30,385	7,596
Deferred income tax liabilities	–	–	–	–
Net balances	43,175	10,794	30,385	7,596

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note (ii)	Net losses/ (gains) from fair value changes of financial instruments Note (iii)	Accrued staff costs and others	Net balance of deferred tax assets
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards (Note (i))	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	2,284	(673)	197	1,808
Recognised in other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

	Provision for impairment losses Note (ii)	Net losses/ (gains) from fair value changes of financial instruments Note (iii)	Accrued staff costs and others	Net balance of deferred tax assets
1 January 2017	4,512	(324)	1,434	5,622
Recognised in profit or loss	406	687	113	1,206
Recognised in other comprehensive income	–	768	–	768
31 December 2017	4,918	1,131	1,547	7,596

Note:

- (i) Due to impact of adopting new standards, valuation of financial instruments under IFRS 9 causes the fair value and the relative provision for impairment losses to vary, which reflects the corresponding changes in deferred tax assets.
- (ii) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purpose are calculated at the proportion of the loan principal for agriculture, small sited or medium-sized enterprises provisioned in PRC tax rules, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (iii) Net losses/(gains) on fair value changes of financial instruments are subject to tax when realised.
- (iv) Unrecognised deferred tax assets

As at 31 December 2018, the Group has not recognised deferred tax assets of RMB7,930 million (31 December 2017: RMB6,928 million) for provision of impairment losses amounting to RMB31,721 million (31 December 2017: RMB27,710 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Other assets

	Note	31 December 2018	31 December 2017
Other receivables	(a)	13,106	8,127
Fixed assets purchase prepayment		509	2,088
Long-term deferred expense		1,103	1,223
Intangible assets		1,171	992
Repossessed assets		458	476
Land use rights		94	100
Accrued interest		293	–
Others		3,713	4,158
Total		20,447	17,164

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

24 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2018 is RMB95,841 million (31 December 2017: RMB74,231 million).

(b) Collaterals received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2018. As at 31 December 2018, the Group's collateral received from banks and other financial institutions has expired (31 December 2017: Nil). As at 31 December 2018, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2017: Nil). These transactions are conducted under standard terms in the normal course of business.

25 Due to the central bank

	31 December 2018	31 December 2017
Due to central banks	263,050	232,500
Accrued interest	4,143	–
Total	267,193	232,500

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	168,466	155,111
– Other financial institutions	316,855	416,005
Deposits outside mainland China		
– Banks	1,831	6,331
Subtotal	487,152	577,447
Accrued interest	2,939	–
Total	490,091	577,447

27 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	75,109	61,686
– Other financial institutions	7,156	404
Placements outside mainland China		
– Banks	69,024	44,708
Subtotal	151,289	106,798
Accrued interest	748	–
Total	152,037	106,798

28 Financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Short position in debt securities	354	–
Total	354	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	40,347	45,581
Outside mainland China		
– Other financial institutions	46	–
Subtotal	40,393	45,581
Accrued interest	18	–
Total	40,411	45,581

(b) Analysed by collateral

	31 December 2018	31 December 2017
Bank acceptances	7,336	4,471
Debt securities	33,057	41,110
Subtotal	40,393	45,581
Accrued interest	18	–
Total	40,411	45,581

30 Deposits from customers

	31 December 2018	31 December 2017
Demand deposits		
– Corporate customers	732,628	709,342
– Individual customers	191,592	176,416
Subtotal	924,220	885,758
Time deposits		
– Corporate customers	678,113	673,652
– Individual customers	149,779	108,399
Subtotal	827,892	782,051
Structured deposits		
– Corporate customers	311,925	196,313
– Individual customers	170,533	96,280
Subtotal	482,458	292,593
Pledged deposits	220,284	220,892
Other deposits	83,854	91,371
Subtotal deposits from customers	2,538,708	2,272,665
Accrued interest	33,253	–
Total	2,571,961	2,272,665

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Accrued staff costs

	Note	31 December 2018	31 December 2017
Salary and welfare payable		6,904	7,452
Pension payable	(a)	281	291
Supplementary retirement benefits payable	(b)	843	669
Total		8,028	8,412

Note:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

In addition to the basic retirement scheme above, the Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the year. The Group's obligations in respect of the SRB were assessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Willis Towers Watson Management Consulting (Shenzhen) Co., Ltd.

(i) The balances of SRB of the Group are as follows:

	31 December 2018	31 December 2017
Present value of SRB obligation	843	669

(ii) Movements of SRB of the Group are as follows:

	2018	2017
As at 1 January	669	658
Current service cost	56	65
Interest cost	30	24
Remeasurement of defined benefit plan	102	(63)
Payments made	(14)	(15)
As at 31 December	843	669

Remeasurement of defined benefit plan was recognised in other comprehensive income, see Note VI 38.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Accrued staff costs (continued)

Note: (continued)

(b) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group are as follow:

	31 December 2018	31 December 2017
Discount rate	4.00%	4.50%
Medical cost trend rate	5.88%	5.88%
Average expected future lifetime	22.80	22.80

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2018	
	Increase	Decrease
Discount rate (1% movement)	(222)	244
Medical cost trend rate (1% movement)	260	(183)

	31 December 2017	
	Increase	Decrease
Discount rate (1% movement)	(167)	182
Medical cost trend rate (1% movement)	193	(137)

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Except as mentioned in Note(a) and Note(b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

32 Taxes payable

	31 December 2018	31 December 2017
Income tax payable	3,076	2,914
Value added tax payable	2,169	1,685
Others	421	333
Total	5,666	4,932

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued

	Note	31 December 2018	31 December 2017
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	54,940	52,743
Tier-two capital bonds	(c)	56,170	56,165
Convertible bonds issued	(d)	26,618	25,597
Interbank deposits issued	(e)	265,894	284,457
Certificates of deposits issued	(f)	9,711	10,000
Medium term notes	(g)	16,747	9,734
Subtotal		436,780	445,396
Accrued interest		3,669	–
Total		440,449	445,396

(a) Subordinated debts

	Note	31 December 2018	31 December 2017
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

- (i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.
- (ii) As at 31 December 2018, the fair value of the total subordinated debt securities issued approximates to RMB6,960 million (31 December 2017: RMB6,549 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(b) Financial bonds

	Note	31 December 2018	31 December 2017
Financial fixed rate bonds maturing in June 2018	(i)	–	2,800
Financial fixed rate bonds maturing in February 2020	(ii)	27,976	27,970
Financial fixed rate bonds maturing in July 2020	(iii)	21,978	21,973
Financial fixed rate bonds maturing in November 2021	(iv)	4,986	–
Total		54,940	52,743

Note:

- (i) Fixed rate financial bonds of RMB3.50 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. As at 31 December 2017, the Bank held RMB0.70 billion of these bonds.
- (ii) Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.
- (iii) Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.
- (iv) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 8 November 2018. The coupon rate is 4.12% per annum.
- (v) As at 31 December 2018, the fair value of the total financial bond securities issued approximates to RMB55,369 million (31 December 2017: RMB51,533 million).

(c) Tier-two capital bonds

	Note	31 December 2018	31 December 2017
Tier-two capital fixed rate bonds maturing in June 2024	(i)	16,200	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,980	27,976
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,990	11,989
Total		56,170	56,165

Note:

- (i) Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.
- (ii) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.
- (iv) As at 31 December 2018, the fair value of the total tier-two capital bonds approximates to RMB56,669 million (31 December 2017: RMB53,741 million).

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(d) Convertible bonds issued

	31 December 2018	31 December 2017
Fixed rate convertible bonds issued in March 2017	26,618	25,597

The convertible bonds issued have been split into the liability and equity components as follows:

Note	Liability component	Equity component Note VI.36	Total
Nominal value of convertible bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Amortisation during 2017	835	–	835
Balance as at 31 December 2017	25,597	5,161	30,758
Amortisation during this year	1,022	–	1,022
Conversion Amount (iv)	(1)	–	(1)
Balance as at 31 December 2018	26,618	5,161	31,779

Note:

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.
- (ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.
- (iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2018, the new conversion price is RMB4.13 per share.
- (iv) As at 31 December 2018, a total of RMB730,000 (31 December 2017: RMB137,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 170,354 (31 December 2017: 32,138 shares).
- (v) In 2018, a total of RMB60 million interests have been paid by the Bank related to the convertible bonds (2017: Nil).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(e) Interbank deposits issued

In 2018, 246 inter-bank deposits were issued by the Bank and measured at amortised cost with carrying amount of RMB615,500 million (2017: RMB686,630 million). The carrying amount of inter-bank deposits due in 2018 was RMB631,950 million (2017: RMB752,020 million). As at 31 December 2018, the fair value of its outstanding interbank deposits was RMB263,247 million (31 December 2017: RMB280,452 million).

(f) Certificates of deposits issued

As at 31 December 2018, the certificates of deposits were issued by the Bank's Hong Kong branch and Seoul branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2018	31 December 2017
Medium term notes with fixed rate maturing in 15 September 2019	(i)	3,423	3,239
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,423	3,239
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,432	3,256
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,356	–
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,059	–
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,054	–
Total		16,747	9,734

Note:

- (i) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.
- (ii) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.
- (iii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.
- (iv) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.
- (v) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.
- (vi) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.
- (vii) As at 31 December 2018, the fair value of the medium term notes approximates to RMB16,689 million (31 December 2017: RMB9,677 million).

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Other liabilities

	Note	31 December 2018	31 December 2017
Deferred income	(a)	6,808	4,365
Bank Loans	(b)	5,744	3,872
Deferred emoluments payment	(c)	5,078	4,663
Finance leases payable		4,944	3,294
Provisions	(d)	2,258	317
Payment and collection clearance accounts		908	5,243
Dormant accounts		310	336
Dividend payables		21	20
Others		18,249	20,208
Total		44,320	42,318

Note:

- (a) Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.
- (b) As at 31 December 2018, Everbright Financial Leasing Co., Ltd., the Group's subsidiary borrowed long-term loans with a terms from 3 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan is RMB5,744 million (31 December 2017: RMB3,872 million).
- (c) As at 31 December 2018, the deferred emoluments payment amounted to RMB5,078 million (31 December 2017: RMB4,663 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.
- (d) As at 31 December 2018, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB147 million (31 December 2017: RMB17 million).

35 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2018	31 December 2017
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

36 Other equity instrument

	Note VI	31 December 2018	31 December 2017
Preference shares (Note(a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	33(d)	5,161	5,161
Total		35,108	35,108

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1 2015-6-19	5.30%	100	200	20,000	Mandatory conversion trigger events
Everbright P2 2016-8-8	3.90%	100	100	10,000	Mandatory conversion trigger events
SubTotal				30,000	
Less: Issuing costs				(53)	
Book value				29,947	

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance;

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread;

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of Convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; if Preference Shares were converted to A shares, it could not be converted to Preference Shares again.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(b) Main Clauses (continued)

(v) *Mandatory conversion trigger events* (continued)

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

(vi) *Redemption*

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in Preference shares outstanding

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2017		Additions for the year		31 December 2017	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(d) Interests attributable to equity instruments' holders

Items	31 December 2018	31 December 2017
Total equity attributable to equity shareholders of the Bank	321,488	304,760
– Equity attributable to ordinary shares holders of the Bank	291,541	274,813
– Equity attributable to preference shares holders of the Bank	29,947	29,947
Total equity attributable to non-controlling interests	985	676
– Equity attributable to non-controlling interests of ordinary shares	985	676
– Equity attributable to non-controlling interests of preference shares	–	–

37 Capital reserve

	31 December 2018	31 December 2017
Share premium	53,533	53,533

38 Other comprehensive income

	31 December 2018	31 December 2017
Items that will not be reclassified to profit or loss		
Fair value changes on equity instrument at fair value through other comprehensive income	10	–
Remeasurement of defined benefit plan	(123)	(21)
Subtotal	(113)	(21)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	1,748	–
– Net change in fair value	1,094	–
– Net change in expected credit loss	654	–
Fair value changes on available-for-sale financial assets	–	(1,778)
Exchange differences on translation of financial statements	20	(46)
Subtotal	1,768	(1,824)
Total	1,655	(1,845)

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other comprehensive income (continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Fair value change on available-for-sale financial assets	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2017	-	-	-	552	41	(84)	509
Changes in amount for the previous year	-	-	-	(2,330)	(87)	63	(2,354)
As at 31 December 2017	-	-	-	(1,778)	(46)	(21)	(1,845)
Impact of adopting new standards	(1,948)	887	8	1,778	-	-	725
As at 1 January 2018	(1,948)	887	8	-	(46)	(21)	(1,120)
Changes in amount for the year	3,042	(233)	2	-	66	(102)	2,775
As at 31 December 2018	1,094	654	10	-	20	(123)	1,655

39 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Appropriation of profits

- (a) At the Board Meeting held on 28 March 2019, the Board of Directors approved the following profit appropriations for the year ended 31 December 2018:
- Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;
 - Appropriated RMB1,701 million to general reserve; and
 - Distributed cash dividends to all shareholders, with a dividend of RMB1.61 per 10 shares before tax. Based on the 52.489 billion shares issued by the Bank as at 31 December 2018, the cash dividends totaled RMB8.451 billion.
- (b) At the Annual General Meeting of shareholders held on 22 June 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:
- Appropriated RMB3,103 million (10% of the net profit of the Bank) to surplus reserve;
 - Appropriated RMB809 million to general reserve; and
 - Declared cash dividends to all shareholders of RMB9,501 million representing RMB1.81 per 10 shares before tax.
- (c) At the Board Meeting held on 27 April 2018, the dividend distribution of the first preference shares was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, start accruing from 25 June 2017, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.
- (d) At the Board Meeting held on 20 July 2018, the dividend distribution of the second preference shares was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, start accruing from 13 August 2017, and are calculated using the 3.90% of dividend yield ratio for China Everbright Bank the second phase preference shares.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities as at 31 December 2018:

	31 December 2018		31 December 2017	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	180,633	180,633	–	–
– Asset management plans	8,693	8,693	–	–
Financial investments measured at amortised cost				
– Asset management plans	418,639	418,639	–	–
– Asset-backed securities	31,509	31,509	–	–
Debt securities classified as receivables	–	–	514,576	514,576
Available-for-sale financial assets				
– Fund investments	–	–	235,917	235,917
– Wealth management products	–	–	32,400	32,400
Held-to-maturity investments				
– Asset-backed securities	–	–	4,330	4,330
Total	639,474	639,474	787,223	787,223

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2018, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB689,002 million (31 December 2017: RMB737,881 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 amounted to RMB18,124 million (31 December 2017: RMB305,671 million).

In 2018, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB876 million (2017: RMB3,400 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. As at 31 December 2018, the balance of above trading was RMB15,230 million (31 December 2017: RMB16,000 million). Such financing provided by the Group was included in “Placements with banks and other financial institutions”. The maximum exposure to loss of those placements approximated to the carrying amount. In 2018, the amount of interest receivables provided by the above financing being recognised are not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2018, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note VI 42. In 2018, the Group’s income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. 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 based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB118 million as at 31 December 2018 (31 December 2017: RMB265 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 31 December 2018 (31 December 2017: RMB8,127 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB267 million as at 31 December 2018 (31 December 2017: RMB550 million).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2018, loans with an original carrying amount of RMB3,776 million (31 December 2017: RMB5,957 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2018, the carrying amount of assets that the Group continues to recognise amounts to RMB1,097 million (31 December 2017: RMB2,537 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the year, the Group complied with the capital requirements imposed by the regulatory authorities.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements.

	31 December 2018	31 December 2017
Total common equity tier-one capital	292,093	275,302
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	60,349	56,849
Surplus reserve	24,371	21,054
General reserve	54,036	52,257
Retained earnings	100,296	92,164
Qualifying portions of non-controlling interests	552	489
Common equity tier-one capital deductions	(2,455)	(2,276)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(1,171)	(992)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	289,638	273,026
Additional tier-one capital	30,021	30,012
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	74	65
Tier-one capital net	319,659	303,038
Tier-two capital	92,353	82,486
Qualifying portions of tier-two capital instruments issued and share premium	62,870	62,865
Excess loan loss provisions	29,336	19,498
Qualifying portions of non-controlling interests	147	123
Net capital base	412,012	385,524
Total risk-weighted assets	3,166,668	2,856,800
Common equity tier-one capital adequacy ratio	9.15%	9.56%
Tier-one capital adequacy ratio	10.09%	10.61%
Capital adequacy ratio	13.01%	13.49%

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2018	31 December 2017
Cash and cash equivalents as at 31 December	187,680	147,923
Less: Cash and cash equivalents as at 1 January	147,923	241,507
Net increase/(decrease) in cash and cash equivalents	39,757	(93,584)

(b) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	4,721	5,584
Deposits with the central bank	103,684	37,035
Deposits with banks and other financial institutions	34,686	37,625
Placements with banks and other financial institutions	44,589	67,679
Total	187,680	147,923

45 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. (“China Everbright Group”) and China Investment Corporation.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note VI 45(b).

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. (“Everbright Securities”)	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright International Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
– Everbright jin’ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group: (continued)

Related party	Relationship with the Group
Affiliated companies (continued)	
– Jiaxing Meiyin Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Baode Trust Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Banks and Securities Data Network Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities International Limited	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– Everbright International Hotel Property Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Photon Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Deshang Investment Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Ivy Investment Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Wenzhi Everbright cultural and creative industry Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Everbright Wudaokou Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group: (continued)

Related party	Relationship with the Group
Affiliated companies (continued)	
– Shanghai Amman Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Aircraft Leasing Group Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co., Ltd.	Affiliate of China Everbright Group Ltd.
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, common key management
– China Re Asset Management Co., Ltd.	Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– COSCO Finance Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Co., Ltd.	Common key management
– Vantone Holdings Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Shanghai Benemae Pharmaceutical Corporation	Common key management
– Hithink Flush Information Network Co., Ltd.	Common key management
– Shanghai Electric Group Co., Ltd.	Common key management
– China Traditional Chinese Medicine Co., Ltd.	Common key management
– Beijing Science and Technology Park Construction (group) Co., Ltd.	Common key management
– CIB Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– Shanghai Electric Group Limited	Common key management
– Changsha Siming Robot Technology Co., Ltd.	Common key management
– Shijiazhuang Huilin Food Co., Ltd.	Common key management
– Beijing Jingeng Clean Energy Power Co., Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co., Ltd.	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows:

	China Everbright Group (Note VI 45(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2018:				
Interest income	–	368	134	502
Interest expense	(48)	(405)	(471)	(924)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows (continued):

	China Everbright Group (Note VI 45(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2017:				
Interest income	11	1,597	72	1,680
Interest expense	(6)	(422)	(514)	(942)
Balances with related parties as at 31 December 2017:				
Derivative financial assets	–	–	1	1
Financial assets sold under repurchase agreements	–	100	–	100
Interests receivable	6	338	15	359
Loans and advances to customers	–	3,142	–	3,142
Available-for-sale financial assets	277	9,765	3,596	13,638
Held-to-maturity investments	–	–	50	50
Debt securities classified as receivables	–	216,784	900	217,684
Other assets	–	67	1	68
Total	283	230,196	4,563	235,042
Deposits from banks and other financial institutions				
	–	1,524	1,181	2,705
Derivative financial liabilities	–	–	1	1
Deposits from customers	245	7,578	17,278	25,101
Interests payable	2	162	241	405
Other liabilities	–	–	2	2
Total	247	9,264	18,703	28,214
Significant off-balance sheet items with related parties as at 31 December 2017:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group				
	–	138	–	138

Note: As at 31 December 2018, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180million (31 December 2017: RMB180 million) due to one of the state-owned commercial banks.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation (“CIC”) was established on 29 September 2007 with a registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group’s material transactions with CIC, Huijin and its affiliates during the year are summarised as follows:

	2018	2017
Interest income	1,556	3,905
Interest expense	(4,183)	(5,488)

The Group’s material balances with CIC, Huijin and its affiliates end of the year are summarised as follows:

	31 December 2018	31 December 2017
Deposits with banks and other financial institutions	12,983	6,300
Placements with banks and other financial institutions	17,941	9,983
Derivative financial assets	4,098	1,320
Financial assets held under resale agreements	5,201	17,049
Interests receivable	–	1,727
Loans and advances to customers	2,388	1,883
Financial assets at fair value through profit or loss	28,663	454
Debt instruments at fair value through other comprehensive income	27,310	–
Financial investments at amortised cost	67,966	–
Available-for-sale financial assets	–	35,840
Held-to-maturity investments	–	29,293
Debt securities classified as receivables	–	13,917
Other assets	609	825
Deposits from banks and other financial institutions	76,488	88,385
Placements from banks and other financial institutions	58,276	36,655
Derivative financial liabilities	3,948	1,995
Financial assets sold under repurchase agreements	4,455	3,397
Deposits from customers	19,952	19,238
Interests payable	–	1,140
Other liabilities	11	4

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

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 (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other 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’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management personnel

	31 December 2018 RMB’000	31 December 2017 RMB’000
Remuneration	19,199	20,131
Retirement benefits	1,165	1,175
– Basic social pension insurance	691	669

The total compensation packages for senior management of the Group for the year ended 31 December 2018 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group’s and the Bank’s 2018 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2018 RMB’000	31 December 2017 RMB’000
Aggregate amount of relevant loans outstanding as at the year end	9,041	13,594
Maximum aggregate amount of relevant loans outstanding during the year	9,247	17,016

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Statement of financial position of the Bank

	Note VI	31 December 2018	31 December 2017
Assets			
Cash and deposits with the central bank		366,418	353,544
Deposits with banks and other financial institutions		39,243	42,525
Precious metals		23,628	40,352
Placements with banks and other financial institutions		98,057	152,278
Derivative financial assets		15,112	4,508
Financial assets held under resale agreements		37,348	91,441
Interests receivable		–	28,057
Loans and advances to customers		2,361,930	1,982,212
Financial investments		1,295,523	1,293,851
– Financial assets at fair value through profit or loss		221,059	24,073
– Debt instruments at fair value through other comprehensive income		150,244	–
– Equity instruments at fair value through other comprehensive income		362	–
– Financial investments measured at amortised cost		923,858	–
– Available-for-sale financial assets		–	409,885
– Held-to-maturity investments		–	345,317
– Debt securities classified as receivables		–	514,576
Investments in subsidiaries	19	7,383	4,410
Fixed assets		12,721	12,244
Goodwill		1,281	1,281
Deferred tax assets		10,194	7,361
Other assets		18,617	15,128
Total assets		4,287,455	4,029,192
Liabilities and equity			
Liabilities			
Due to the central bank		267,143	232,500
Deposits from banks and other financial institutions		492,275	579,031
Placements from banks and other financial institutions		102,908	61,592
Derivative financial liabilities		14,291	6,552
Financial assets sold under repurchase agreements		40,364	45,581
Deposits from customers		2,570,877	2,271,881
Accrued staff costs		7,880	8,242
Taxes payable		5,260	4,905
Interests payable		–	39,780
Debts securities issued		435,435	442,596
Other liabilities		32,172	34,174
Total liabilities		3,968,605	3,726,834
Equity			
Share capital		52,489	52,489
Other equity instrument		35,108	35,108
Capital reserve		53,533	53,533
Other comprehensive income		1,791	(1,769)
Surplus reserve		24,371	21,054
General reserve		53,143	51,442
Retained earnings		98,415	90,501
Total equity		318,850	302,358
Total liabilities and equity		4,287,455	4,029,192

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	21,022	24,043	15,885	–	60,950
Internal net interest income/ (expense)	14,598	(11,210)	(3,388)	–	–
Net interest income	35,620	12,833	12,497	–	60,950
Net fee and commission income	6,160	22,598	2,016	–	30,774
Net trading gains	–	–	(2,751)	–	(2,751)
Dividend income	–	–	–	6	6
Net gains/(losses) arising from investment securities	–	2	(195)	–	(193)
Foreign exchange gains	227	91	2,146	–	2,464
Other net operating income	586	48	22	112	768
Operating income	42,593	35,572	13,735	118	92,018
Operating expenses	(13,192)	(15,368)	(2,083)	(159)	(30,802)
Operating profit before impairment	29,401	20,204	11,652	(41)	61,216
Impairment losses on assets	(13,802)	(6,163)	(605)	–	(20,570)
Profit before tax	15,599	14,041	11,047	(41)	40,646
Other segment information					
– Depreciation and amortisation	(956)	(1,044)	(136)	–	(2,136)
– Capital expenditure	2,635	1,652	202	–	4,489
	31 December 2017				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,536,604	993,822	1,547,255	1,685	4,079,366
Segment liabilities	1,917,280	533,771	1,329,807	1,929	3,782,787

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note VI	31 December 2018	31 December 2017
Segment assets		4,345,257	4,079,366
Goodwill	21	1,281	1,281
Deferred tax assets	22	10,794	7,596
Total assets		4,357,332	4,088,243
Segment liabilities		4,034,838	3,782,787
Dividend payables	34	21	20
Total liabilities		4,034,859	3,782,807

(b) Geographical information

The Group operates principally in mainland China with branches located in 32 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Hong Kong and Luxembourg.

Non-current assets include fixed and intangible assets and land use rights. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Everbright, Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and, Shaoshan Everbright, and Ruijin Everbright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- “Western” refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining and Lhasa;
- “Northeastern” refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and
- “Head Office” refers to the headquarter of the Group.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(b) Geographical information (continued)

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over- seas	Total
2018	18,056	16,163	26,901	16,125	14,180	12,111	5,198	1,652	110,386
2017	14,011	13,093	29,818	12,787	8,811	8,659	3,752	1,087	92,018

	Non-current Asset (Note (i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over- seas	Total
31 December 2018	2,526	839	6,187	6,531	1,190	1,212	904	117	19,506
31 December 2017	2,496	901	5,466	3,730	1,158	1,261	920	89	16,021

Note:

(i) Including fixed assets, intangible assets and land use right.

48 Risk Management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Credit Management Department, and Special Assets Resolution Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of “Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution”.
- The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group’s credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower’s repayment ability are reported immediately, and actions are taken to mitigate the risks.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of “separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping” to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of “separation of review and approval” and “hierarchical approval” have been established for this process. The Group monitors borrowers’ repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers’ ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments; and
- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition on the financial reporting date as impairment allowance. On each financial reporting date, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure 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.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flow

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Parameters of ECL measurement (continued)

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, Case-Shiller index.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 31 December 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the year is disclosed in Note VI 51(a).

	31 December 2018					31 December 2017
	Stage 1	Stage 2	Stage 3	N/A	Total	Total
Assets						
Cash and deposits with the central bank	366,575	–	–	–	366,575	353,703
Deposits with banks and other financial institutions	41,005	–	–	–	41,005	44,754
Placements with banks and other financial institutions	96,685	–	–	–	96,685	148,816
Financial assets held under resale agreements	37,773	–	–	–	37,773	91,441
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278	1,980,818
Finance lease receivables	60,890	1,979	464	–	63,333	56,364
Investments (i)	1,077,619	–	357	223,104	1,301,080	1,297,936
Others (ii)	16,718	–	–	15,238	31,956	51,010
Total	3,924,637	119,846	16,860	238,342	4,299,685	4,024,842

Note:

- (i) Investments comprise financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).
- (ii) Others comprise precious metal (at fair value part), derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(i)	Others(ii)
<i>Impaired</i>						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
<i>Overdue but not impaired</i>						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
<i>Neither overdue nor impaired</i>						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2017					
	Loans and advances to customers	Finance lease receivables	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(i)	Others(ii)
<i>Impaired</i>						
Individually assessed gross amount	22,785	714	16	–	1,565	316
Provision for impairment losses	(14,219)	(533)	(16)	–	(949)	(138)
Subtotal	8,566	181	–	–	616	178
Collectively assessed gross amount	9,607	–	–	–	–	1,179
Provision for impairment losses	(6,251)	–	–	–	–	(90)
Subtotal	3,356	–	–	–	–	1,089
<i>Overdue but not impaired</i>						
– Less than 3 months (inclusive)	16,321	2	–	–	640	–
– Between 3 months and 6 months (inclusive)	2,419	113	–	–	–	–
– Over 6 months	2,707	–	350	–	–	–
Gross amount	21,447	115	350	–	640	–
Provision for impairment losses	(4,267)	(28)	–	–	(160)	–
Subtotal	17,180	87	350	–	480	–
<i>Neither overdue nor impaired</i>						
Gross amount	1,978,217	56,900	193,250	91,441	1,298,907	50,133
Provision for impairment losses	(26,501)	(804)	(30)	–	(2,067)	(390)
Subtotal	1,951,716	56,096	193,220	91,441	1,296,840	49,743
Total	1,980,818	56,364	193,570	91,441	1,297,936	51,010

Note

- (i) Investments comprise financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).
- (ii) Others comprise precious metal (at fair value part), derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2018	31 December 2017
<i>Impaired</i>		
Carrying amount	366	16
Provision for impairment losses	(366)	(16)
Subtotal	–	–
<i>Overdue but not impaired</i>		
– grade A to AAA	–	350
Subtotal	–	350
<i>Neither overdue nor impaired</i>		
– grade A to AAA	171,905	193,039
– grade B to BBB	3,312	2,608
– unrated (Note)	246	89,014
Subtotal	175,463	284,661
Total	175,463	285,011

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	31 December 2018	31 December 2017
<i>Impaired</i>		
Carrying amount	1,520	1,564
Provision for impairment losses	(1,163)	(948)
Subtotal	357	616
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AAA	–	722
– grade AA- to AA+	–	17
– grade A- to A+	8,935	6,715
– grade lower than A-	8,396	11,442
Subtotal	17,331	18,896
<i>Other agency ratings</i>		
– grade AAA	520,033	181,244
– grade AA- to AA+	32,986	301,343
– grade A- to A+	7,872	589
– grade lower than A-	11,725	–
– unrated	83,182	11,445
Subtotal	655,798	494,621
Total	673,486	514,133

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department and Risk Management Department of the Group are responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

- (i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2018						
	Effective interest rate (Note)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	–	–	–
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	–	–	–
Placements with banks and other financial institutions	3.86%	96,685	530	69,506	25,663	986	–
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	–
Loans and advances to customers	4.69%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	–
Investments (Note)	4.47%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	–	89,603	85,956	–	–	–	3,647
Total assets	4.28%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	–	–
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	–	–
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	–
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	–	–
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	–
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	–	72,717	59,823	8,612	3,631	651	–
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.50%	322,473	64,235	98,146	(412,568)	414,121	158,539

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued):

	31 December 2017						
	Effective interest rate (Note)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	353,703	15,235	338,468	-	-	-
Deposits with banks and other financial institutions	3.39%	44,754	-	44,754	-	-	-
Placements with banks and other financial institutions	3.39%	148,816	-	77,947	70,459	410	-
Financial assets held under resale agreements	3.31%	91,441	-	91,441	-	-	-
Loans and advances to customers	4.44%	1,980,818	28,755	1,597,817	328,240	23,815	2,191
Finance lease receivables	4.69%	56,364	265	55,775	17	307	-
Investments (Note)	4.13%	1,297,936	1,890	352,130	158,508	693,726	91,682
Others	-	114,411	111,004	-	-	-	3,407
Total assets	4.00%	4,088,243	157,149	2,558,332	557,224	718,258	97,280
Liabilities							
Due to the central bank	3.10%	232,500	-	9,500	223,000	-	-
Deposits from banks and other financial institutions	4.03%	577,447	-	509,851	67,596	-	-
Placements from banks and other financial institutions	2.70%	106,798	6	72,046	34,746	-	-
Financial assets sold under repurchase agreements	2.68%	45,581	-	44,177	1,404	-	-
Deposits from customers	1.93%	2,272,665	3,504	1,850,016	305,381	113,757	7
Debt securities issued	4.01%	445,396	-	233,425	92,685	56,421	62,865
Others	-	102,420	90,308	9,534	2,108	469	1
Total liabilities	2.68%	3,782,807	93,818	2,728,549	726,920	170,647	62,873
Asset-liability gap	1.32%	305,436	63,331	(170,217)	(169,696)	547,611	34,407

Note:

- *Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.*
- *Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables).*

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2018, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB1,222 million (31 December 2017: decrease by RMB3,637 million), and equity to decrease by RMB4,820 million (31 December 2017: decrease by RMB4,506 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,267 million (31 December 2017: increase by RMB3,652 million), and equity to increase by RMB5,074 million (31 December 2017: increase by RMB4,694 million).

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

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

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

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2018			Total
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Investments (Note (i))	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note (ii))	(33,881)	46,775	(10,192)	2,702

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2017			Total
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	347,639	5,624	440	353,703
Deposits with banks and other financial institutions	32,776	7,882	4,096	44,754
Placements with banks and other financial institutions	110,803	32,973	5,040	148,816
Financial assets held under resale agreements	91,441	–	–	91,441
Loans and advances to customers	1,895,655	51,288	33,875	1,980,818
Finance lease receivables	55,282	1,082	–	56,364
Investments (Note (i))	1,263,076	28,442	6,418	1,297,936
Others	108,692	5,064	655	114,411
Total assets	3,905,364	132,355	50,524	4,088,243
Liabilities				
Due to the central bank	232,500	–	–	232,500
Deposits from banks and other financial institutions	577,173	103	171	577,447
Placements from banks and other financial institutions	44,478	41,967	20,353	106,798
Financial assets sold under repurchase agreements	45,581	–	–	45,581
Deposit from customers	2,143,894	107,276	21,495	2,272,665
Debt securities issued	425,697	16,801	2,898	445,396
Others	95,820	5,411	1,189	102,420
Total liabilities	3,565,143	171,558	46,106	3,782,807
Net position	340,221	(39,203)	4,418	305,436
Off-balance sheet credit commitments	750,286	41,829	8,497	800,612
Derivative financial instruments (Note (ii))	(46,269)	45,861	(1,612)	(2,020)

Note:

(i) Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

(ii) Derivative financial instruments reflect the net notional amounts of derivatives.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2018	31 December 2017
Exchange rates against RMB for the HK dollars	0.8763	0.8334
Exchange rates against RMB for the US dollars	6.8633	6.5124

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2018, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB16 million (31 December 2017: increase by RMB11 million); a depreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB16 million (31 December 2017: decrease by RMB11 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity) against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

Price risk

Price risk mainly comes from the listed part of the equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and longterm working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2018							
	Indefinite/ Overdue	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	258,034	108,541	–	–	–	–	–	366,575
Deposit with banks and other financial institutions	–	33,789	6,177	1,039	–	–	–	41,005
Placements with banks and other financial institutions	–	–	45,345	24,436	25,918	986	–	96,685
Financial asset held under resale agreements	–	–	37,549	–	68	156	–	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Investments (Note (i))	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	–	–	12,896	22,613	231,684	–	–	267,193
Deposits from banks and other financial institutions	–	140,751	89,005	28,207	232,128	–	–	490,091
Placements from banks and other financial institutions	–	6	58,966	44,503	48,425	137	–	152,037
Financial assets sold under repurchase agreements	–	–	35,206	2,142	3,063	–	–	40,411
Deposit from customers	–	1,163,169	246,800	321,019	565,913	275,060	–	2,571,961
Debt securities issued	–	–	21,153	36,869	221,007	94,881	66,539	440,449
Others	–	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	–	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Long/(Short) position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	–	–	501,608	608,087	1,636,249	592,720	160	3,338,824

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2017							Total
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	311,084	42,619	-	-	-	-	-	353,703
Deposit with banks and other financial institutions	350	13,736	14,739	15,108	-	-	821	44,754
Placement with banks and other financial institutions	-	-	65,773	12,174	70,459	410	-	148,816
Financial asset held under resale agreements	-	-	91,441	-	-	-	-	91,441
Loans and advances to customers	21,518	295,944	57,647	112,607	432,562	488,521	572,019	1,980,818
Finance lease receivables	263	1	1,258	2,789	10,990	32,155	8,908	56,364
Investments (Note (i))	2,983	235,917	23,652	82,275	158,448	702,052	92,609	1,297,936
Others	67,144	10,774	3,369	13,879	8,857	6,949	3,439	114,411
Total assets	403,342	598,991	257,879	238,832	681,316	1,230,087	677,796	4,088,243
Liabilities								
Due to the central bank	-	-	6,000	3,500	223,000	-	-	232,500
Deposits from banks and other financial institutions	-	123,571	119,431	266,849	67,596	-	-	577,447
Placements from banks and other financial institutions	-	6	28,853	43,193	34,746	-	-	106,798
Financial assets sold under repurchase agreements	-	-	41,602	2,575	1,404	-	-	45,581
Deposit from customers	-	1,148,728	156,707	284,619	429,516	253,088	7	2,272,665
Debt securities issued	-	-	60,218	144,029	93,010	59,673	88,466	445,396
Others	-	32,094	20,596	10,364	17,437	20,677	1,252	102,420
Total liabilities	-	1,304,399	433,407	755,129	866,709	333,438	89,725	3,782,807
Long/(Short) position	403,342	(705,408)	(175,528)	(516,297)	(185,393)	896,649	588,071	305,436
Notional amount of derivative financial instruments	-	-	162,872	102,675	390,928	85,756	60	742,291

(i) Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost, (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of financial liabilities at the end of the year:

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	–	12,912	22,727	235,923	–	–
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	–	–
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	–
Financial assets sold under repurchase agreements	40,411	40,456	–	35,218	2,150	3,088	–	–
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	–
Debt securities issued	440,449	528,781	–	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	–	–	42	–	41	1
Derivative financial instruments settled on gross basis								
cash inflow		1,232,949	–	300,060	289,923	636,594	6,372	–
cash outflow		(1,231,956)	–	(300,482)	(288,764)	(636,343)	(6,367)	–
Total derivative financial liabilities		993	–	(422)	1,159	251	5	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of financial liabilities at the end of the year (continued):

	31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	232,500	240,061	-	6,189	3,614	230,258	-	-
Deposits from banks and other financial institutions	577,447	584,305	123,574	120,486	270,895	69,350	-	-
Placements from banks and other financial institutions	106,798	111,049	6	29,633	45,191	36,219	-	-
Financial assets sold under repurchase agreements	45,581	45,773	-	41,763	2,588	1,422	-	-
Deposits from customers	2,272,665	2,334,012	1,150,012	159,665	289,817	447,494	287,014	10
Debt securities issued	445,396	490,928	-	60,400	147,687	97,886	78,428	106,527
Other financial liabilities	55,662	56,343	31,337	14,282	334	2,571	6,389	1,430
Total non-derivative financial liabilities	3,736,049	3,862,471	1,304,929	432,418	760,126	885,200	371,831	107,967
Derivative financial liabilities								
Derivative financial instruments settled on net basis		67	-	1	(8)	25	49	-
Derivative financial instruments settled on gross basis								
cash inflow		423,456	-	164,759	97,627	158,994	2,076	-
cash outflow		(425,538)	-	(164,784)	(98,886)	(159,862)	(2,006)	-
Total derivative financial liabilities		(2,082)	-	(25)	(1,259)	(868)	70	-

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2018			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

	31 December 2017			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	209,518	621	5,107	215,246
Guarantees, acceptances and other credit commitments	554,075	27,640	3,651	585,366
Total	763,593	28,261	8,758	800,612

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering various business and management activities, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system detecting;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) *Debt instruments and equity investments*

The fair values of debt instruments and equity investments traded in an active market are based on their quoted market prices in an active market at the end of the year. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the year.

(iii) *Debt instruments issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

(iv) *Derivative financial instruments*

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, precious metals, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortized cost except for debt securities investments are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metal are measured at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note VI 18.

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VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "Debt securities investment measured at amortised cost" (31 December 2017: "Debt securities" classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position:

	As at 31 December			
	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Debt securities investments measured at amortised cost	505,351	–	512,668	–
Debt instruments – Held to maturity	–	344,617	–	335,894
Financial liabilities				
Bonds issued	440,449	445,396	435,137	438,041

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of issued bonds are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a spot yield curve appropriate for the remaining term to maturity.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments	2,257	8,629	–	10,886
Financial assets designated at fair value through profit or loss	–	–	6	6
Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
<i>Derivative financial assets</i>				
– foreign currency derivatives	–	10,790	–	10,790
– interest rate derivatives	2	4,316	7	4,325
– credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
<i>Debt instruments at fair value through other comprehensive income</i>	27,384	126,603	–	153,987
<i>Equity instruments at fair value through other comprehensive income</i>	15	–	352	367
<i>Precious metal</i>	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
<i>Financial liabilities at fair value through profit or loss</i>	354	–	–	354
<i>Derivative financial liabilities</i>				
– foreign currency derivatives	–	10,010	–	10,010
– interest rate derivatives	24	4,273	7	4,304
– credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments	2,017	22,168	–	24,185
Financial assets designated at fair value through profit or loss	–	–	11	11
<i>Derivative financial assets</i>				
– foreign currency derivatives	–	4,075	–	4,075
– interest rate derivatives	8	426	4	438
<i>Available-for-sale financial assets</i>				
– debt instruments	17,851	127,480	–	145,331
– fund instruments and others	235,917	32,400	–	268,317
– equity instruments	110	–	–	110
<i>Precious metal</i>	–	21	–	21
Total	255,903	186,570	15	442,488
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value	–	292,593	–	292,593
<i>Derivative financial liabilities</i>				
– foreign currency derivatives	–	6,179	–	6,179
– interest rate derivatives	–	370	3	373
Total	–	299,142	3	299,145

During the reporting period, there were no significant transfers between Level 1 and Level 2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Equity instruments at fair value through OCI	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	41,875	4	98	41,977	(3)	(3)
Total gains or losses:						
In profit or loss for the current year	(2,196)	5	–	(2,191)	(4)	(4)
Purchases	2,618	–	254	2,872	(1)	(1)
Settlements	(39,156)	(2)	–	(39,158)	–	–
31 December 2018	3,141	7	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(2,196)	5	–	(2,191)	(4)	(4)

The movement during the year ended 31 December 2017 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	financial liabilities	Total
1 January 2017	48	15	63	(26)	(26)
Total gains or losses:					
In profit or loss for the current year	1	(11)	(10)	23	23
Purchases	5	–	5	–	–
Settlements	(43)	–	(43)	–	–
31 December 2017	11	4	15	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(11)	(11)	23	23

During the year ended 31 December 2018 and 31 December 2017, there were no significant transfers into or out of Level 3.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "Debt securities" classified as financial investments measured at amortised cost (as at 31 December 2017 classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Bonds issued	26,492	408,645	–	435,137

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities Held to maturity	4,590	331,304	–	335,894
Financial liabilities				
Bonds issued	26,090	411,951	–	438,041

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2018, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	31 December 2018	31 December 2017
Entrusted loans	148,654	147,268
Entrusted funds	148,654	147,268

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertaking's by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2018	31 December 2017
Loan commitments		
Original contractual maturity within one year	33,056	9,744
Original contractual maturity more than one year (inclusive)	12,688	16,714
Credit card commitments	233,440	188,788
Subtotal	279,184	215,246
Acceptances	477,110	403,717
Letters of guarantees	123,416	103,295
Letters of credit	131,696	78,169
Guarantees	185	185
Total	1,011,591	800,612

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the estimated credit risk and makes provision for any ECL. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	31 December 2018	31 December 2017
Credit risk-weighted amount of credit commitments	351,409	313,101

The credit risk weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBIRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities (continued)

(c) Operating lease commitments

As at the end of the year, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December 2018	31 December 2017
Within one year (inclusive)	2,364	2,258
After one year but within two years (inclusive)	2,132	1,981
After two years but within three years (inclusive)	1,812	1,719
After three years but within five years (inclusive)	2,803	2,843
After five years	2,968	2,387
Total	12,079	11,188

(d) Capital commitments

As at the balance sheet dates, the Group's authorised capital commitments are as follows:

	31 December 2018	31 December 2017
Contracted but not paid – Purchase of property and equipment	790	921
Approved but not contracted for – Purchase of property and equipment	1,942	1,371
Total	2,732	2,292

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2018.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at 31 December 2018, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2018	31 December 2017
Redemption commitments	8,192	8,642

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities (continued)

(f) Forward purchase and sale commitments

As at 31 December 2018, the Group has no unexpired forward purchase and sale commitments (31 December 2017: Nil).

(g) Outstanding litigations and disputes

As at 31 December 2018, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,007 million (31 December 2017: RMB719 million), see Note VI 34(d). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

52 Subsequent Events

There are no significant events after the reporting period.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on Liquidity Risk Management of Commercial Banks, the commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2018
Liquidity coverage ratio	118.15%
High Quality Liquid Assets	407,191
Net cash outflows in 30 days from the end of the year	344,642

Liquidity Ratio*

	As at 31 December 2018	Average for The year ended 31 December 2018	As at 31 December 2017	Average for The year ended 31 December 2017
RMB current assets to RMB current liabilities	64.26%	58.20%	59.93%	56.88%
Foreign current assets to foreign current liabilities	62.15%	74.74%	62.45%	53.90%

* Liquidity ratio is calculated in accordance with the banking level.

Leverage Ratio

	31 December 2018
Leverage Ratio	6.29%

Pursuant to the Leverage Ratio Management of Commercial Banks which was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulates that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The net stable funding ratio is calculated as:

$$\text{Net stable fund ratio} = \text{available stable funds} / \text{required stable funds} \times 100\%$$

As at 31 December 2018, the Group meet the supervision requirement with the net stable funding ratio standing at 105.75%.

Indicators	Value
Available and stable funds	2,446,254
Required stable funds	2,313,169
Net stable funding ratio	105.75%

2 CURRENCY CONCENTRATIONS

	31 December 2018			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

	31 December 2017			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	132,355	30,140	20,384	182,879
Spot liabilities	(171,558)	(33,786)	(12,320)	(217,664)
Forward purchases	231,721	22,458	2,138	256,317
Forward sales	(185,860)	(16,526)	(9,682)	(212,068)
Net long position	6,658	2,286	520	9,464
Net structural position	11	26	38	75

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branch. Structural assets mainly include fixed assets.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

	As at 31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	51,220	287	26,256	77,763
– of which attributed to Hong Kong	4,473	166	21,048	25,687
Europe	2,436	–	9,503	11,939
North and South America	2,795	194	11,621	14,610
Total	56,451	481	47,380	104,312

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	31 December 2018	31 December 2017
Head Office	7,455	4,899
Yangtze River Delta	5,140	5,146
Bohai Rim	5,077	4,240
Pearl River Delta	4,216	6,772
Western	4,149	5,066
Central	4,102	4,127
Northeastern	2,151	3,236
Overseas	8	8
Total	32,298	33,494

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(b) By overdue days

	31 December 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,268	7,114
– between 6 months and 1 year (inclusive)	13,049	9,906
– over 1 year	10,981	16,474
Total	32,298	33,494
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.34%	0.35%
– between 6 months and 1 year (inclusive)	0.54%	0.49%
– over 1 year	0.45%	0.81%
Total	1.33%	1.65%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	31 December 2018	31 December 2017
Covered portion of loans and advances past due but not impaired	7,790	10,131
Uncovered portion of loans and advances past due but not impaired	16,002	11,316
Total loans and advances past due but not impaired	23,792	21,447
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	27,886	27,801

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 31 December 2018, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.

Address Book of Head Office and Branches

Name	Address	P.C.	Tel.	Fax
Head office	Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing	100033	010-63636363	010-63639066
Beijing Branch	No. 1, Xuanwumen Neidajie, Xicheng District, Beijing	100031	010-66567699	010-66567411
Tianjin Branch	Annex Building of Zhonglian Building, No. 83, Qufu Ave., Heping District, Tianjin City	300041	022-23308501	022-23300229
Shanghai Branch	China Everbright Bank Building, No. 1118, Shiji Ave., Pudong New District, Shanghai City	200120	021-63606360	021-23050088
Chongqing Branch	No. 168, Minzu Road, Yuzhong District, Chongqing City	400010	023-63792773	023-63792764
Shijiazhuang Branch	No. 56, Yuhua East Road, Shijiazhuang City	050000	0311-88628882	0311-88628883
Taiyuan Branch	No. 295, Yingze Road, Yingze District, Taiyuan City	030001	0351-3839008	0351-3839108
Huhhot Branch	Tower D, Dongfangjunzuo, Chilechuan Road, Saihan District, Huhhot, Inner Mongolia Autonomous Region	010096	0471-4955882	0471-4955800
Dalian Branch	No. 4, Wuwu Road, Zhongshan District, Dalian City	116001	0411-39037007	0411-39037015
Shenyang Branch	No. 156, Hepingbei Street, Heping District, Shenyang City	110003	024-83255555	024-23283218
Changchun Branch	No. 2677, Jiefang Road, Chaoyang District, Changchun City	130061	0431-88400080	0431-88400121
Heilongjiang Branch	No. 278, Dongdazhi Street, Nangang District, Harbin City	150001	0451-53618775	0451-53618775
Nanjing Branch	No. 120, Hanzhong Road, Gulou District, Nanjing City	210029	025-84787610	025-84712699
Suzhou Branch	No. 188, Xinghai Street, Industrial Park District, Suzhou City	215021	0512-68662988	0512-68668766
Wuxi Branch	No. 1, Renmin Zhonglu, Wuxi City	214023	0510-81802528	0510-81802535
Hangzhou Branch	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City	310006	0571-87895358	0571-87895367
Ningbo Branch	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City	315040	0574-87300888	0574-87317230
Hefei Branch	No. 200, Changjiang Xilu, Hefei City	230001	0551-65101888	0551-65101726
Fuzhou Branch	Zhenxiang Center, No.153, Wuyi North Road, Shuibu Sub- district, Gulou District, Fuzhou City	350003	0591-87760707	0591-87835838
Xiamen Branch	China Everbright Bank Building, No. 81, Hubin Nanlu, Siming District, Ximan City	361004	0592-2221666	0592-2237788
Nanchang Branch	No. 399, Guangchang Nanlu, Nanchang City	330006	0791-86662030	0791-86665448
Jinan Branch	No. 85, Jingqi Road, Shizhong District, Jinan City	250001	0531-86155965	0531-86155800
Qingdao Branch	No. 69, Hongkong Xilu, Shinan District, Qingdao City	266071	0532-83893801	0532-83893800
Yantai Branch	No. 111, Nandajie, Zhifu District, Yantai City	264000	0535-6658506	0535-6261796

Address Book of Head Office and Branches

Name	Address	P.C.	Tel.	Fax
Zhengzhou Branch	No. 18, Nongye Road, Jinshui District, Zhengzhou City	450008	0371-65766000	0371-65766000
Wuhan Branch	No. 143, Yanjiang Ave., Jiangan District, Wuhan City	430014	027-82796303	027-82801976
Changsha Branch	No. 142, Furong Zhonglu, Tianxin District, Changsha City	410015	0731-85363527	0731-85523677
Guangzhou Branch	21F, China Everbright Bank Building, No. 685, Tianhe Beilu, Tianhe District, Guangzhou City	510635	020-38730066	020-38730049
Shenzhen Branch	No. 18, Zizhu Qidao, Zhuzilin Silu, Futian District, Shenzhen City	518040	0755-83053388	0755-83242955
Nanning Branch	Oriental Mahatton Plaza, No. 52-1, Jinhu Road, Qingxiu District, Nanning City	530021	0771-5568106	0771-5568100
Haikou Branch	Ground Floor, World Trade Center D/E, Shimao Donglu, Jinmao District, Haikou City	570125	0898-68539999	0898-68520711
Chengdu Branch	No. 79, Dacisi Road, Jinjiang District, Chengdu City	610017	028-86665566	028-86720299
Kunming Branch	No. 28, Renmin Zhonglu, Wuhua District, Kunming City	650021	0871-63111068	0871-63111078
Xi'an Branch	No. 33, Hongguang Street, Lianhu District, Xi'an City	710002	029-87236013	023-87236010
Urumqi Branch	No. 165, Nanhu Donglu, Urumqi City	830063	0991-6765678	0991-6765678
Guiyang Branch	West Tower No.3, Guiyang International Financial Center, Guanshan Lake District, Guiyang City	550001	0851-85914438	0851-85911499
Lanzhou Branch	No. 555, Donggang West Road, Chengguan District, Lanzhou City	730030	0931-8688600	0931-8688701
Yinchuan Branch	No. 219, Jiefang West Road, Xingqing District, Yinchuan City	750001	0951-8773000	0951-8773080
Xining Branch	No. 57-7 Wusi West Road, Chengxi District, Xining City	810008	0971-6363263	0971-6236234
Lhasa Branch	No. 1, Floor 1 of Building 1, Taihe International Culture Square, JInzhu Mid-Road, Chengguan District, Lhasa City	850000	0891-6597000	0891-6597000
Hong Kong Branch	30/F., Far East Finance Center, No. 16, Harcourt Road, Hong Kong		00852-31239888	00852-21432188
Seoul Branch	14/F, Wing Fung Building, 41 Cheonggyecheon Road, Jongno-gu, Seoul, Korea	03188	00822-37883700	00822-37883701
Luxembourg Branch	10, Avenue Emile Reuter, Luxembourg	L-2420	00352-2666888	00352-266688124
Sydney Branch	International Tower 1, 100 Barangaroo Avenue, Sydney	NSW2000	0061-2-79238888	0061-2-79238800



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