CZBANK 浙商银行

CHINA ZHESHANG BANK CO., LTD.
浙 商 銀 行 股 份 有 限 公 司

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

(Stock Code: 2016)
(Stock Code of Preference Shares: 4610)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") of China Zheshang Bank Co., Ltd. (the "**Bank**") hereby announces the audited results of the Bank for the year ended December 31, 2018. This announcement, containing the full text of the 2018 annual report of the Bank, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in relation to information to accompany preliminary announcements of annual results.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

Both the Chinese and English versions of this results announcement are available on the websites of the Bank (www.czbank.com) and the Stock Exchange (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English and Chinese text, the Chinese version shall prevail.

The printed version of the 2018 annual report of the Bank will in due course be delivered to the H shareholders of the Bank and available for viewing on the websites of the Bank (www.czbank.com) and the Stock Exchange (www.hkex.com.hk).

By order of the Board
China Zheshang Bank Co., Ltd.
Shen Renkang
Chairman

Hangzhou, the PRC
March 18, 2019

As of the date of this announcement, the executive directors of the Bank are Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun; the non-executive directors are Mr. Huang Zhiming, Mr. Wei Dongliang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting and Mr. Xia Yongchao; the independent non-executive directors are Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai.

IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.

The fourth meeting of the fifth session of the Board of the Company, held on March 18, 2019, approved the Annual Report of China Zheshang Bank Co., Ltd. for 2018 (based on the international standards). The Company has 17 Directors, among which 17 Directors attended the meeting in person, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 9 Supervisors of the Company attended the meeting.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers (both being auditors of the Company) have audited the 2018 annual financial report of the Company prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, and have issued standard unqualified audited reports, respectively.

Unless otherwise illustrated in this report, the currency for any amount herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail in the event of any discrepancy between the two versions.

According to Article 18 of the Measures for the Administration of the Offering and Underwriting of Securities (《證券發行與承銷管理辦法》) and requirements set out in relevant regulatory Q&As issued by the CSRC, companies which plan to issue securities onshore but have not submitted profit distribution plans and plans for converting reserve into share capital to the general meeting for voting, or have obtained approval from the general meeting but have not implemented such plans, shall not issue securities until such plans are executed. Considering the progress of A-share IPO, future development and interests of all shareholders of the Company, distribution of a dividend on ordinary shares was not recommended for 2018. Such recommendation will be proposed to the 2018 Annual General Meeting of the Company for consideration and approval.

Shen Renkang (Chairman of the Bank), Xu Renyan (President of the Bank), Liu Long (Principal in charge of Finance) and Jing Feng (Director of the Financial Department) warrant that the financial report in the annual report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed "Management Discussion and Analysis – Risk Management" of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

DEFINITIONS

"Company", "Bank", "our Bank", "China Zheshang Bank" or "CZBank":	China Zheshang Bank Co., Ltd.
"Articles of Association":	the articles of association of China Zheshang Bank Co., Ltd.
"Shareholder(s)":	the shareholder(s) of ordinary shares of the Company
"Board" or "Board of Directors":	the board of directors of the Company
"Board of Supervisors":	the board of supervisors of the Company
"Senior Management":	the senior management of the Company
"Director(s)":	the director(s) of the Company
"Supervisor(s)":	the supervisor(s) of the Company
"CBIRC":	China Banking and Insurance Regulatory Commission
"CSRC":	China Securities Regulatory Commission
"Hong Kong Stock Exchange":	The Stock Exchange of Hong Kong Limited
"Company Law":	the Company Law of the People's Republic of China
"Commercial Banking Law":	the Commercial Banking Law of the People's Republic of China
"SFO":	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Hong Kong Listing Rules":	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code":	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
"Domestic Shares":	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in RMB

"H Shares":	overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars. Such shares of the Company are listed and traded on the Hong Kong Stock Exchange
"Offshore Preference Shares":	the US$2,175,000,000 Non-Cumulative Perpetual Offshore Preference Shares (Stock Code 4610) at the dividend yield of 5.45% issued by the Company on March 29, 2017
"Share(s)":	Domestic Shares and H Shares of the Company
"RMB" or "Renminbi":	Renminbi, the lawful currency of the PRC
"HKD" or "HK$" or "Hong Kong dollars" or "HK dollars":	Hong Kong dollars, the lawful currency of Hong Kong
"Zheyin Financial Leasing":	Zhejiang Zheyin Financial Leasing Co., Ltd., a holding subsidiary of the Company, in which the Company holds 51% of equity interest
"The Group":	the Company and its subsidiary
"Third Five-Year" plan:	Development Plan for 2016 to 2020 of China Zheshang Bank Co., Ltd.
"Latest Practicable Date":	March 15, 2019

COMPANY PROFILE

1.	**Company name in Chinese:**	浙商銀行股份有限公司 (Abbreviation in Chinese: 浙商銀行)
	Company name in English:	CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)
2.	**Legal Representative:**	Shen Renkang
3.	**Registered and office address:**	No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC
	Postcode:	310006
	E-mail:	ir@czbank.com
	Website:	www.czbank.com
	Customer service hotline:	95527
	Tel for investor relations management:	86-571-88268966
	Fax:	86-571-87659826
4.	**Principal place of business in Hong Kong:**	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong
5.	**Authorized representatives:**	Xu Renyan, Liu Long
6.	**Secretary to the Board:**	Liu Long
	Joint company secretaries:	Liu Long, Chan Yin Wah
7.	**H Shares**	
	Stock exchange where the securities are listed:	Hong Kong Stock Exchange
	Stock abbreviation:	CZBANK
	Stock code:	2016
	Offshore Preference Shares	
	Stock exchange where the securities are listed:	Hong Kong Stock Exchange
	Stock abbreviation:	CZB 17USDPREF
	Stock code:	4610

8. Share registrar:	
H Shares:	Computershare Hong Kong Investor Services Limited Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Domestic Shares:	China Securities Depository and Clearing Corporation Limited Building A, Hengao Centre, No.17, Taipingqiao Street, Xicheng District, Beijing
9. Legal advisers:	
As to PRC Laws:	Zhejiang T&C Law Firm
As to Hong Kong Laws:	Freshfields Bruckhaus Deringer
10. Accounting firms engaged by the Company:	
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP Office address: 11/F, PricewaterhouseCoopers Center, Link Square 2, No. 202 Hubin Road, Shanghai Signing accountants: Zhu Yu, Ye Jun
International auditor:	PricewaterhouseCoopers Office address: 22/F, Prince's Building, Central, Hong Kong
11. Place of maintenance of this report:	Office of the Board of the Company (No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC)
Website of Hong Kong Stock Exchange for publishing this report:	www.hkexnews.hk
12. Other information about the Company:	Uniform social credit code: 91330000761336668H Financial institution license serial number: B0010H133010001 Registration date: July 26, 2004

CORPORATE OVERVIEW

CZBank, one of the 12 nationwide joint-stock commercial banks, officially commenced business on August 18, 2004, with its headquarters in Hangzhou, Zhejiang Province. CZBank was listed on the Hong Kong Stock Exchange with the stock code of "2016" on March 30, 2016.

For 15 years, CZBank has always gained a toehold in Zhejiang and steadily developed its businesses nationwide, according to the requirements specified by Comrade Xi Jinping, who was then the secretary of CPC Zhejiang Provincial Committee, upon its establishment. It has developed into a high-quality commercial bank with a solid foundation, strong profitability, rapid growth and prudent risk control.

Facing on the new economic and financial scene, CZBank has set "two most" overall goal and the full asset operation strategy; insisted on the five operation principles of "serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement"; innovated the application of financial technology, incorporated platform-based elements, redefined business models, operation and management and constructed a "technology + finance + industry" comprehensive service platform, with the incorporation of banking business into production operation and financial management activities of enterprises, so as to provide customers with new financial services which are extremely simple, efficient and flexible, and constructed a platform-based service bank.

As at the end of 2018, the Bank has established 242 branch outlets in 16 provinces and municipalities directly under the Central Government and the Hong Kong Special Administrative Region, effectively covering the Yangtze River Delta, the Bohai Rim, the Pearl River Delta and certain areas in the Midwestern China. On April 21, 2017, Zheyin Financial Leasing, the first majority-owned subsidiary, officially commenced business. On April 10, 2018, Hong Kong Branch officially commenced business, representing a further acceleration of the Company's international development.

In 2018, the Group's operating income and net profit attributable to shareholders of the Bank were RMB39.0 billion and RMB11.5 billion respectively, representing an increase of 13.89% and 4.94% as compared to that of last year; as at December 31, 2018, the total assets, balance of customer deposits and total loans and advances to customers of the Group were RMB1.65 trillion, RMB974.8 billion and RMB865.2 billion respectively, representing increases of 7.15%, 13.26% and 28.59% compared with that at the end of last year respectively. The non-performing loan ratio was 1.20%, thus the Bank led the industry in terms of asset quality; the capital adequacy ratio was 13.38%, representing an increase of 1.17 percentage points compared with that at the end of last year; the core tier-one capital adequacy ratio was 8.38%. In the "Top 1000 World Banks 2018" ranking by The Banker Magazine of the U.K., it was ranked 111th in terms of tier-one capital, moved up by 20 compared with last year; and 100th in terms of total assets, moved up by 9 compared with last year. China Chengxin International Credit Rating Co., Ltd. assigned to CZBank, an AAA corporate credit rating, the highest rating in financial institution rating.

DEVELOPMENT STRATEGIES

Overall Goal of "Two Most": The goal is to become the most competitive nationwide joint-stock commercial bank and Zhejiang's most important financial platform.

"The Most Competitive Nationwide Joint-stock Commercial Bank" means the goal to become a first-class joint-stock bank that can provide target customers with professional service, possess distinct competitive advantages in terms of innovation, risk control, service provision in the market and value creation, reach a scale matching the identity of a national joint-stock commercial bank, as well as provide support for sustainable development of professional abilities.

"Zhejiang's Most Important Financial Platform" means the goal to become a representative financial group in Zhejiang featured by comprehensive functions, leading scale, good performance and sound reputation and standing at the forefront of the industry in terms of resources deployment, efficient services and model innovation, and become the strategic partner of governments at all levels, financial institutions, core enterprises and a large number of businesses in Zhejiang.

Being the most competitive commercial bank is the capability foundation for being the most important financial platform, while being the most important financial platform is the objective manifestation and significant support of being the most competitive commercial bank. The "Two Most" are causally interrelated.

Full-asset class operation strategy: it is a systematic operation strategy covering the front, middle and back office management and coordination, as well as a contingency operation system with clear orientation, flexible mechanism, diversified strategy and rich tools, which accommodates to the highly uncertain and fast-changing market environment on its own initiative.

At the internal business level, the Bank will break through the limitation of mainly focusing on credit assets, and adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets on and off the balance sheet from time to time according to the changes in market and customer demands, so as to reshape the balance sheet of the Bank through asset-driven-liability mode; at the customer service level, the Bank will break the boundaries of assets, liabilities and services as well as corporate, inter-banking, personal businesses and products and integrate the financial activities into the businesses and life of customers to optimize their balance sheets, thus enabling the Bank to obtain the competitive abilities to quickly adapting to changes in the market and customer demand, thus to open up a diversified profit source and effectively balance the impacts of economic cycles and business fluctuations on our asset size and profitability, with the aim of achieving the leading growth in the industry, and ultimately reaching the overall objective of "Two Most".

Strategic Positioning: The Company will focus on innovation and cooperation, and realize a concentration of customers and businesses. The Company will take flexible measures to respond to changes and build itself up as a comprehensive, digital and horizontal organic organization; and keep abreast of the leading standards to become a medium-scale bank with most featured competitive strengths.

Innovation and cooperation, and concentration of customer base and business under the customer-centered concept: the Company will adhere to innovation and cooperation and the customer-centered concept, and consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the "horse racing mechanism", thereby enhance competitiveness across the Bank.

Taking flexible measures to respond to changes and building a comprehensive, digital and horizontal organic organization: the flexible and responsive organic organization will be formed based on business models and support systems, which will promote internal business synergies and external integrated operations, achieve digital transformation linking internal and external business throughout front, middle and back office, and build a horizontal organization with streamlined structure and intensive management pattern.

Keeping abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths: keeping abreast of the industry's highest standards, CZBank will gradually form its benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building the featured competitive strengths.

HONORS AND AWARDS

Award/Ranking	Event/Organizer/Media	Time
Core trader, and excellent trader of currency, bond and derivatives markets in 2017	National Interbank Funding Centre	January 2018
Excellent participating institutions of assets securitization business	The Shanghai Stock Exchange	January 2018
Excellent banking dealer	Shanghai Commercial Paper Exchange Corporation Ltd.	January 2018
Outstanding Assets Management Bank Award and Outstanding Investment Team Award	JRJ.com	February 2018
ReBrand 100 Excellent Award	Rebrand	March 2018
Best Supply-Chain Financial Product Innovation Award	2018 China Supply-Chain Conference	April 2018
Excellent Business Award in the Inquiry Market, Special Liquidity Contribution Award in the Auction Market and Special Contribution Award in the Inquiry Market	Shanghai Gold Exchange	April 2018
Excellent Settlement Member	Shanghai Clearing House	May 2018
Trading Bank with the Greatest Growth Potential in China	The Asian Banker	May 2018
Top 10 Wealth Management Innovation Award	The Banker Magazine of China	June 2018
Top 10 Financial Product Innovation Award (Corporate Business)	The Banker Magazine of China	June 2018
Top 10 Financial Product Innovation Award (Retail Business)	The Banker Magazine of China	June 2018
111th (in terms of tier-one capital) and 100th (in terms of total assets) in the "Top 1000 World Banks 2018" ranking	The Banker Magazine of the U.K.	July 2018
Best People's Livelihood Financial Award	China Banking Association	July 2018
Advanced Model Company and Company with Prominent Innovation Achievements	2018 Customer Service Center Comprehensive Evaluation by China Banking Association	November 2018
Most Competitive Bank of the Year	Financial Times (金融時報)	December 2018
Excellent Financial Technology Bank in 2018	21st Century Business Herald (21世紀經濟報道)	December 2018
Supply-chain Financial Service Bank with Excellent Competitiveness in 2018	China Business Operation Bulletin (中國經營報)	December 2018
Excellent Award for Private Bank	Shanghai Securities News (上海證券報)	December 2018
Model Company in Putting the Customer First in 2018	China Consumer Journal (中國消費者報)	December 2018
Best Online Banking User Experience Award and Best Mobile Banking Function Award	China Financial Certification Authority	December 2018

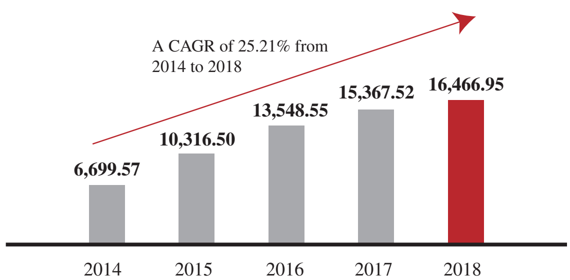
FINANCIAL SUMMARY

(The financial data and indicators set forth in this annual report are prepared in accordance with IFRSs and presented in RMB, unless otherwise specified)

Steadily growing business scale and steadily improved operating results

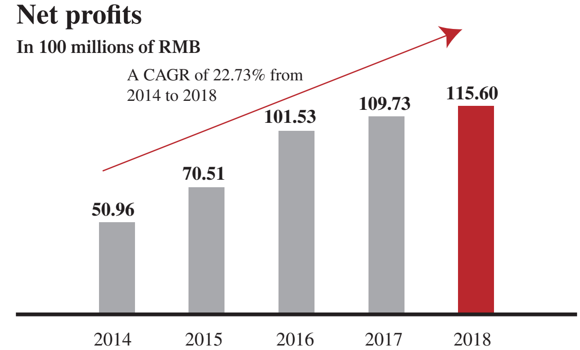
Total assets

In 100 millions of RMB



Net profits

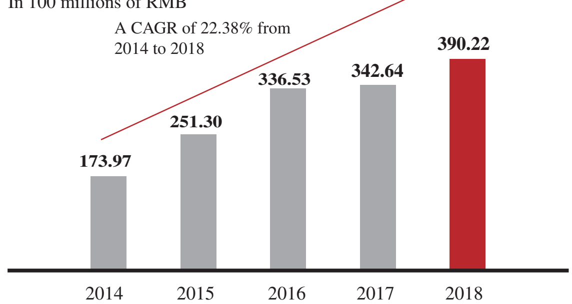
In 100 millions of RMB



Continuously increased operating income and increased proportion of non-interest income

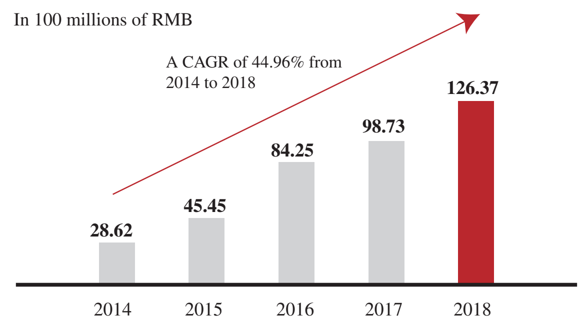
Operating income

In 100 millions of RMB



Net non-interest income

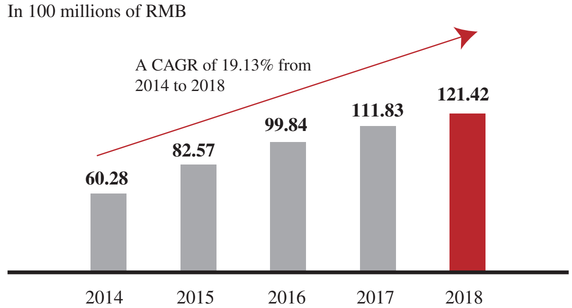
In 100 millions of RMB



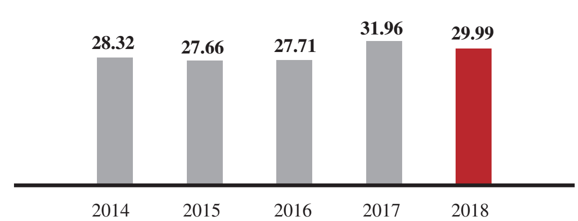
Decelerated growth in operating expenses and decrease in cost-to-income ratio

Operating expenses

In 100 millions of RMB

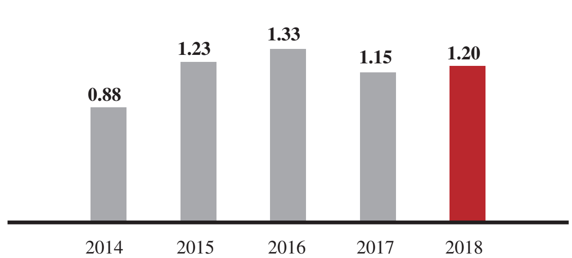


Cost-to-income ratio (%)

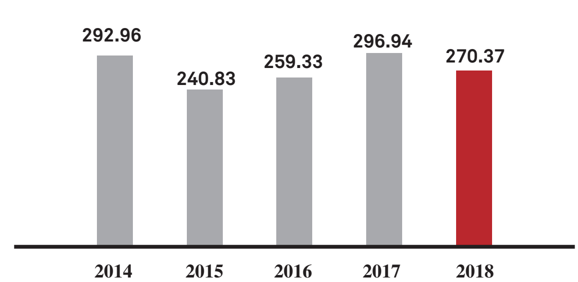


Prudent allowance for impairment and solid asset quality

Non-performing loan ratio (%)



Allowance to non-performing loans (%)



FINANCIAL DATA

	2018	2017	2016	2015	2014
Operating results (RMB'000)					
Operating income	**39,022,476**	34,264,149	33,653,342	25,130,385	17,396,834
Profit before income tax	**13,850,501**	13,706,758	13,391,559	9,380,412	6,792,233
Net profit attributable to shareholders of the Bank	**11,490,416**	10,949,749	10,153,148	7,050,690	5,095,503
Scale indicators (at the end of the reporting period, RMB'000)					
Total assets	**1,646,694,744**	1,536,752,102	1,354,854,519	1,031,650,386	669,957,446
Total loans and advances to customers	**865,232,669**	672,878,934	459,493,053	345,422,861	259,022,644
Total liabilities	**1,544,246,207**	1,447,064,348	1,287,379,141	981,993,322	636,807,274
Customer deposits	**974,770,403**	860,619,457	736,243,698	516,026,296	363,279,888
Equity attributable to shareholders of the Bank	**100,885,498**	88,194,636	67,475,378	49,657,064	33,150,172
Per share (RMB)					
Net assets per share attributable to shareholders of the Bank at the end of the period[(1)]	**4.59**	4.08	3.76	3.42	2.88
Basic earnings per share attributable to shareholders of the Bank[(2)]	**0.61**	0.57	0.59	0.54	0.44
Diluted earnings per share attributable to shareholders of the Bank	**0.61**	0.57	0.59	0.54	0.44
Profitability indicators (%)					
Return on average total assets[(3)]	**0.73**	0.76	0.85	0.83	0.88
Return on average equity[(4)]	**14.17**	14.64	17.34	17.03	16.72
Net interest margin	**1.93**	1.81	2.07	2.31	2.62
Net interest spread	**1.76**	1.62	1.89	2.12	2.38
Net non-interest income to operating income	**32.38**	28.81	25.03	18.08	16.45
Cost-to-income ratio[(5)]	**29.99**	31.96	27.71	27.66	28.32
Asset quality indicators (%)					
Non-performing loan ratio[(6)]	**1.20**	1.15	1.33	1.23	0.88
Allowance to non-performing loans[(7)]	**270.37**	296.94	259.33	240.83	292.96
Allowance to total loans[(8)]	**3.25**	3.43	3.44	2.95	2.59
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio	**8.38**	8.29	9.28	9.35	8.62
Tier-one capital adequacy ratio	**9.83**	9.96	9.28	9.35	8.62
Capital adequacy ratio	**13.38**	12.21	11.79	11.04	10.60

Notes:

(1) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank minus other equity instruments) divided by the total number of ordinary shares at the end of the period.

(2) Basic earnings per share attributable to shareholders of the Bank = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by weighted average number of ordinary shares outstanding.

(3) Return on average total assets = Net profit divided by the average balance of total assets at the beginning and at the end of the period.

(4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares the Bank for the year) divided by average balance of equity attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).

(5) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.

(6) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.

(7) Allowance to non-performing loans = Balance of expected credit loss(“ECL”) divided by balance of non-performing loans. There is no difference between the indicator for the Group and the Bank. While The regulatory requirements specify that a legal person’s allowance to non-performing loans shall not be less than 140%.

(8) Allowance to total loans = Balance of expected credit loss (“ECL”) divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while regulatory requirements specify that a legal person’s allowance to total loans shall not be less than 2.1%.

CHAIRMAN'S STATEMENT

Situation changes day by day. Over the past year, we were confronted with complicated external circumstances and arduous reform and development tasks. However, with the support of investors and all walks of society, CZBank has further optimized its full-asset class operation strategy towards the overall objective of "Two Most". We have made a concerted effort in overcoming obstacles and deepening transformation, and pressed ahead with various tasks in a solid and orderly manner. Therefore, our business performance was better than expected, and our capacities in strategic response, competitive predominance, management support and risk prevention were significantly improved. We have taken another solid step towards high-quality development, and delivered remarkable results once again in the magnificent history of CZBank. As of the end of 2018, the Group's total assets reached RMB1,646.7 billion, representing a year-on-year increase of 7.15%; our operating income for the whole year amounted to RMB39.0 billion, representing a year-on-year increase of 13.89%; our net profit attributable to shareholders of the Bank amounted to RMB11.5 billion, representing an increase of 4.94%; and our non-performing loan ratio was 1.20%, allowance to non-performing loans was 270.37%, and allowance to total loans was 3.25%. CZBank moved up significantly to rank 100th in terms of total assets among the "Top 1000 World Banks 2018" released by the British magazine The Banker.

Difficulty is the nurse of greatness. In 2018, we identified opportunities of the era through the surging historical process, and contributed every courage and wisdom to coping with actual challenges. Time is always faithful, and we will keep progressing with each passing day.

In 2018, we have improved corporate governance through strengthening our strategies. After successful re-election of the Board of Directors, our organization of Directors has been enhanced, and our corporate governance structure has been constantly improved through comprehensive revision of corporate governance system. We carried out mid-term evaluation of the third five-year plan to strengthen tendency prediction and strategy implementation, and vigorously promoted the construction of platform concept to identify our direction of innovation and transformation. We successfully completed H-share placing, issued second-tier capital bonds, and fully promoted the issuance and listing of A-share, thus consolidating our capital base. We continued to improve information disclosure system, manage investor relationship, stabilize returns of shareholders, and enhance corporate governance transparency.

In 2018, our competitive advantages have become increasingly prominent through the application of financial technology. We have always been upholding customer-centric service awareness to precisely target customer demand, and continued to optimize product and business service models with innovative application of up-to-date financial technology. We have achieved remarkable results in retail business, international business, investment banking business, and inter-bank business. In particular, we continued to promote iterative innovation of "Three Major Platforms" business model and initially develop platform-based service, thus significantly increasing our customer recognition and leading to more large and high-quality enterprises actively requesting for cooperation. We continued to develop small enterprise business, the market share and quality continued to maintain a leading position, and our benchmarking role in the industry was futher consolidated.

In 2018, we have significantly improved efficiency of service-based economy around overall planning. We responded promptly to the decision-making and deployment of governments of higher levels and regulatory authorities, actively responded major national strategies, and timely adjusted business direction and structure. By virtue of innovating service methods and enhancing service strengths, we were committed to providing quality and efficient financial services to the real economy, and promoting economic and social transformation and upgrading. In particular, we channeled structure blockings with platform-based services, optimized the efficiency of financial services with financial technology, and linked bond markets with innovative tools. We spared no effort in supporting the sound development of private enterprises and small and micro enterprises, assisting private enterprises that have encountered temporary difficulties, with a view to building a community of banking enterprises with shared destiny.

In 2018, we continued to optimize internal management system through establishing the construction of bank free from corruption. We improved the whole benchmarking management system, strengthened asset and liability management, and initially built an integrated performance management system, therefore continuously improving quality and efficiency of our development. In order to continuously improve the overall risk management system, we rebuilt our unified credit and post-loan management system, strengthened risk management in key areas, key businesses and key issues, and promoted the construction of big data risk management and early warning platforms. We strengthened three long-term internal control mechanisms, awareness of internal control and compliance management as well as risk management and control of key businesses and critical links, thus continuously enhancing our internal control and compliance management.

We will build on record success, and forge ahead into the future with dedicated efforts. 2019 marks the 70th anniversary of the founding of China and the 15th anniversary of the establishment of CZBank. In such a great era, CZBank must adapt to changes of times and trend, capitalizing on the connotation between stability and progress, and capture new opportunities and take new responsibilities to make new achievements. To this end, we will profoundly comprehend the new connotation of key strategic opportunities, follow the overall trend, firmly maintain development direction and focus on transformation. Meanwhile, we will stick steadfastly to our direction of high-quality and sustainable development, our determination to comprehensively deepen innovation and transformation across CZBank, our streamline to serve structural reform of supply side, and our commitment to serving the real economy with concentrating efforts. We will induce, create, release and secure new growth drivers through enhancing financial technology, promoting platform services, improving management capabilities and upgrading risk control system, respectively. We will follow the era, pay tribute to the future, persist in the transformation process, and innovate along with tradition, thus striving to make new achievements in the great era!

In 2019, we will stay true to our originality and march forward courageously!

PRESIDENT'S STATEMENT

Success comes from earnest endeavor and perseverance. In the face of the complicated and severe situations in 2018, CZBank, as guided by the overall objective of "Two Most", has implemented the new development philosophy, adjusted business positioning, transformed development mode, reduced consumption, increased revenue and saved expenditure, strengthened risk management as well as internal control and compliance construction, and made efforts to promote innovation, transformation and high-quality development, and thus achieved favorable results.

Our operating results grew beyond the expectations, while our development quality and efficiency reached another higher level. Our operating scale increased steadily this year: The scale of loans and deposits realized faster growth, and the business structure adjustment and optimization achieved remarkable results; we increased the operating benefits steadily, and continued raising the proportion of non-interest income to the operating income; we maintained good assets quality, kept the allowance to non-performing loans at a relatively high level, and made all of our regulatory indicators reach the standard.

We innovated and stimulated transformation and development, and accelerated transformation of the growth momentum. In the year, CZBank comprehensively popularized the application of "Three Platforms" to better satisfy customers. We continued maintaining CZBank's business innovation advantages, and launched a series of application innovations such as "A+B" "H+M", Yongjin Treasurer (湧金司庫), Order Connect (訂單通), Manifest Connect (倉單通), Installment Connect (分期通) and Property Connect (物業通); we provided innovative services to small and micro enterprises by applying the "Three Platforms", and optimized the credit expansion method for small enterprises; we established personal asset pool, cross-border asset pool and inter-bank asset pool to intensify characteristic advantages. CZBank gained the qualifications as the Central Finance Treasury Centralized Payment Agent Bank, and extended the brand influence of "intelligent manufacturing service bank" remarkably. The proportion and assets quality of our small and micro loans with the total single-account credit line of RMB10 million and below ranked among the first. We launched the foreign exchange trading terminal – "Zheshang Trading Treasure", and the transformation and development of our retail business and inter-bank financial market business were distinctly successful.

We comprehensively adjusted the risk control system and strengthened internal control and compliance management. We optimized the comprehensive risk management system, and continuously enhanced the forward-looking perspective, independence and effectiveness of risk management this year. We uniformly carried forward the risk concept and preference, and carried out unified management on credit extension policies and all kinds of customer post-loan, and conducted all-round monitoring on assets business; we established and invested in the big data risk management and pre-warning platform to enhance our risk prevention and control capability. In this year, we insisted on compliance operation, adhered to the basic requirements of "managing the bank strictly, conducting management and control strictly, inspecting strictly, investigating responsibility strictly and punishing strictly", intensified the three long-term internal control mechanisms, and comprehensively strengthened internal control and compliance management; we realized safe operation throughout the year, with no major operational risk event, major safety accident or case occurring.

We proactively performed our social responsibility, and continually improved our market influence. In this year, we intensified our efforts to undertake the social responsibility and launched the "40 opinions for supporting the private economy" to actively support the development of private economy and support the troubled private enterprises; by profoundly integrating the green finance construction into business development strategy, we became one of the first green loan management banks approved by PBOC; we actively promoted the public welfare programs themed with money donation for education, environmental protection, disaster relief and poverty alleviation, concern about vulnerable groups, etc.; we continually developed the characteristic public welfare brands of "CZBank Rainbow Plan" and "Salute to City Guardians", of which "CZBank Rainbow Plan" has raised donations of approximately RMB22.51 million for seven successive years, and assisted over 20,000 impoverished students; CZBank won such honors as "Most Competitive Bank of the Year", "Bank with Outstanding Financial Science and Technology in 2018", "China's Most Growing Trading Bank" and "Outstanding Financial Service Bank with Competitive Supply Chain in 2018", and was first awarded the "Annual Best Livelihood Finance Prize" by China Banking Association.

With great ambitions and firm determinations, we can fly higher. Year 2019 is not only the 15th anniversary of CZBank's establishment, but also a critical year for CZBank to achieve innovation, transformation and development. We will implement the new development philosophy by focusing on the overall objective of "Two Most" and the full-asset class operation strategy, adhere to the five business principles of "serving the real economy, innovation and transformation, compliance operation, risk prevention and mitigation, and quality and efficiency improvement", concentrate on the requirements of "promoting innovation, adjusting structure, stabilizing development, strengthening management, mitigating risks, and improving the quality and efficiency", innovate upon transformation and upgrade, transform the growth momentum, prevent and mitigate risks, optimize business structure, reduce consumption, increase revenue and save expenditure, enhance the operating performance, intensify internal control and compliance, establish the talent team, and accelerate the cultivation of new growth momentum so as to achieve the high-quality development of CZBank.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT

In 2018, the global economic situation was complicated, with a continued trend of divergence. The U.S. economy was relatively strong, while the Eurozone maintained steady economic growth, and emerging market economies experienced a slight slowdown in growth. As the Federal Reserve System of the United States continuously rose interest rates, there was a rise in the dollar index, depreciation of Euro and the British pound against the US dollar, a relatively stable Japanese yen and depreciation of currencies of certain emerging market economies. Increased trade tensions and policy uncertainties led to shakes in global financial markets and thus a general decline in the global stock markets.

The PRC economy was still operating within the proper range, with overall stability and steady progress. In 2018, the gross domestic product (GDP) reached RMB90.03 trillion, representing a year-on-year increase of 6.6%. The Chinese economy was experiencing a shift from rapid growth to high quality growth, with in-depth economic restructuring, gradual improvement in the quality and benefit, and relatively rapid growth of new industries and service industries. Meanwhile, the PRC economy has seen changes amid overall stability, with certain downward pressure due to the influence of trade frictions between China and the United States on economic operation.

The People's Bank of China has implemented a prudent monetary policy, used various methods including targeted reserve requirement ratio cuts, carried out timely and moderate pro-cyclical fine-tuning, published a series of measures, and targetedly injected liquidity into the real economy, especially private enterprises. The prudent monetary policy has been effective, with a slight decrease in the interest rate level and RMB exchange rate remaining within a proper range. At the end of 2018, the supply of the broad money M2 increased by 8.1% on a year-on-year basis, and the social financing scale's stock rose by 9.8% on a year-on-year basis.

The banking industry witnessed a steady increase in the size of assets and liabilities, overall stability of operation, stable quality of credit assets, and improved quality and efficiency of serving the real economy, especially private enterprises. At the end of 2018, the assets of financial institutes in local and foreign currencies of the banking industry in China was RMB268 trillion, increased by 6.3% on a year-on-year basis; the liabilities of financial institutes in local and foreign currencies of the banking industry in China was RMB247 trillion, increased by 5.9% on a year-on-year basis; the balance of loan in local and foreign currencies of financial institutes was RMB141.8 trillion, increased by 12.9% on a year-on-year basis; the balance of deposit in local and foreign currencies of financial institutes was RMB182.5 trillion, increased by 7.8% on year-on-year basis. The commercial banks (on a legal person basis) achieved a net profit of RMB1.83 trillion; the balance of non-performing loans was RMB2.03 trillion with a non-performing loan ratio of 1.83%.

(II) ANALYSIS OF OVERALL OPERATION PERFORMANCE

Stable increase of business scale

As at the end of the reporting period, total assets of the Group amounted to RMB1,646.695 billion, representing an increase of RMB109.943 billion or 7.15% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB865.233 billion, representing an increase of RMB192.354 billion or 28.59% as compared to that at the end of last year. Total liabilities amounted to RMB1,544.246 billion, representing an increase of RMB97.182 billion or 6.72% as compared to that at the end of last year, of which customer deposits amounted to RMB974.770 billion, representing an increase of RMB114.151 billion or 13.26% as compared to that at the end of last year.

Continued enhancement of operating efficiencies

During the reporting period, operating income of the Group amounted to RMB39.022 billion, representing an increase of RMB4.758 billion or 13.89% as compared to last year, of which net non-interest income amounted to RMB12.637 billion, representing an increase of RMB2.764 billion or 27.99%, and the proportion of net non-interest income increased by 3.57 percentage points as compared to that of last year. Net profit attributable to shareholders of the Bank amounted to RMB11.490 billion, representing an increase of RMB541 million or 4.94% as compared to last year.

Maintaining sound asset quality

As at the end of the reporting period, the non-performing loan ratio of the Group was 1.20%, representing an increase of 0.05 percentage point as compared to that at the end of last year; allowance to non-performing loan ratio was 270.37%, representing a decrease of 26.57 percentage points as compared to that at the end of last year; the allowance to total loans ratio was 3.25%, representing a decrease of 0.18 percentage point as compared to that at the end of last year.

Maintaining stable capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 13.38%, representing an increase of 1.17 percentage points as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 9.83%, representing a decrease of 0.13 percentage point as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 8.38%, representing an increase of 0.09 percentage point as compared with that at the end of last year.

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of consolidated statement of comprehensive income

In 2018, facing a grim and complicated situation, the Bank proactively adjusted and optimized the business structure, enhanced compliant operation, insisted on serving the real economy, strictly prevented financial risks, supported financial reforms, made steady progress in work, and kept steady growth, according to the overall object of "Two Most" and the full-asset operation strategy. In 2018, the Group achieved a net profit attributable to shareholders of the Bank of RMB11.490 billion, increased by 4.94%; the return on average total assets was 0.73% and the return on average equity was 14.17%. Operating income was RMB39.022 billion, increased by 13.89%, including, among others, net interest income of RMB26.386 billion, increased by 8.18%; non-interest income of RMB12.637 billion, increased by 27.99%. Operating expense was RMB12.142 billion, increased by 8.58%; cost-to-income ratio was 29.99%. Provision for expected credit losses (or impairment losses on assets) was RMB13.030 billion, increased by 38.99%. The income tax expense was RMB2.290 billion, decreased by 16.23%.

Changes of the main items in the consolidated statement of comprehensive income

In thousands of RMB, except percentages

Item	2018	2017	Amount of increase	Growth rate (%)
Net interest income	**26,385,548**	24,391,106	1,994,442	8.18
Net non-interest income	**12,636,928**	9,873,043	2,763,885	27.99
Operating income	**39,022,476**	34,264,149	4,758,327	13.89
Less: operating expenses	**12,142,420**	11,183,160	959,260	8.58
Less: expected credit losses (or impairment losses on assets)	**13,029,555**	9,374,231	3,655,324	38.99
Profit before income tax	**13,850,501**	13,706,758	143,743	1.05
Less: income tax expense	**2,290,164**	2,733,891	(443,727)	(16.23)
Net profit	**11,560,337**	10,972,867	587,470	5.35
Net profit attributable to:				
Shareholders of the Bank	**11,490,416**	10,949,749	540,667	4.94
Non-controlling interests	**69,921**	23,118	46,803	202.45

(1) Net interest income

In 2018, net interest income was RMB26.386 billion, increased by RMB1.994 billion or 8.18% as compared to last year, accounting for 67.62% of operating income. Interest income was RMB72.252 billion, increased by RMB9.669 billion or 15.45% as compared to last year; and interest expense was RMB45.866 billion, increased by RMB7.675 billion or 20.10% as compared to last year. Net interest spread and net interest margin were 1.76% and 1.93%, respectively, increased by 0.14 percentage point and 0.12 percentage point on a year-on-year basis, respectively.

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In thousands of RMB, except percentages

	2018			2017		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	**808,483,703**	**44,026,417**	**5.45**	557,030,914	27,430,722	4.92
Investments[1]	**479,582,479**	**23,770,825**	**4.96**	647,306,880	30,902,561	4.77
Due from banks and other financial institutions[2]	**111,022,198**	**2,675,600**	**2.41**	97,266,810	2,404,936	2.47
Balances with central bank[3]	**118,255,182**	**1,778,755**	**1.50**	125,131,716	1,844,069	1.47
Total interest-earning assets	**1,517,343,562**	**72,251,597**	**4.76**	1,426,736,320	62,582,288	4.39

Item	2018 Average balance	2018 Interest expenses	2018 Average cost (%)	2017 Average balance	2017 Interest expenses	2017 Average cost (%)
Interest-bearing liabilities						
Customer deposits	**896,403,614**	**19,984,469**	**2.23**	779,495,522	15,478,588	1.99
Due to banks and other financial institutions[4]	**418,055,259**	**16,240,522**	**3.88**	442,421,437	16,298,040	3.68
Debt securities issued[5]	**216,608,308**	**9,641,058**	**4.45**	159,177,555	6,414,554	4.03
Total interest-bearing liabilities	**1,531,067,181**	**45,866,049**	**3.00**	1,381,094,514	38,191,182	2.77
Net interest income		**26,385,548**			24,391,106	
Net interest spread			**1.76**			1.62
Net interest margin (%)[6]			**1.93**			1.81

Notes:

(1) Due to the adoption of new accounting standards, the investments during the year include financial assets at fair value through other comprehensive income and financial assets measured at amortized cost, while the investments during the last year include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables. Since 2018, all gains or losses on financial assets at fair value through profit or loss have been included in the net trading gains for accounting.

(2) Due from banks and other financial institutions include financial assets purchased under resale agreements.

(3) Balances with the central bank include mandatory reserve deposits, surplus reserve deposits and foreign exchange reserve of deposits.

(4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.

(5) Debt securities issued includes issued inter-bank certificates of deposits, financial bond and subordinated bond.

(6) Net interest margin: the income generated from businesses such as monetary funds and bond funds was not classified as interest income categorised by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

Analysis of changes in interest income and interest expense

In thousands of RMB

	Comparison between 2018 and 2017		
	Factors for increase (decrease)		Net increase
Item	**Volume**(1)	**Interest rate**(2)	**(decrease)**(3)
Interest-earning assets			
Loans and advances to customers	12,382,673	4,213,022	16,595,695
Investments	(8,007,197)	875,461	(7,131,736)
Due from banks and other financial institutions	340,104	(69,440)	270,664
Balances with central bank	(101,340)	36,026	(65,314)
Changes in interest income	4,614,240	5,055,069	9,669,309
Interest-bearing liabilities			
Customer deposits	2,321,466	2,184,415	4,505,881
Due to banks and other financial institutions	(897,608)	840,090	(57,518)
Debt securities issued	2,314,351	912,153	3,226,504
Changes in interest expense	3,738,209	3,936,658	7,674,867
Changes in net interest income	876,031	1,118,411	1,994,442

Notes:

(1) Change in volume represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.

(2) Change in interest rate represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.

(3) Net increase or decrease represents interest income or expense for the year minus interest income or expense for the previous year.

(2) *Interest income*

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB44.026 billion, increased by RMB16.596 billion or 60.50% as compared to last year, mainly due to the increase in the loans and advances to customers and yield.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

	2018			2017		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans and advances[1]	**646,170,784**	**34,292,551**	**5.31**	446,703,849	20,879,523	4.67
Personal loans and advances	**162,312,919**	**9,733,866**	**6.00**	110,327,065	6,551,199	5.94
Total loans and advances to customers	**808,483,703**	**44,026,417**	**5.45**	557,030,914	27,430,722	4.92

Note:

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB23.771 billion, decreased by RMB7.132 billion or 23.08% as compared to last year, mainly due to optimization of the asset structure by the Bank and the decrease in the size of investment.

Interest income from due from banks and other financial institutions

Interest income from due from banks and other financial institutions was RMB2.676 billion, representing an increase of RMB271 million or 11.25% as compared to last year, primarily due to the increased scale of due from banks and other financial institutions.

Interest income from balances with central bank

Interest income from balances with central bank amounted to RMB1.779 billion, representing a decrease of RMB65 million or 3.54% as compared to last year.

(3) Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB19.984 billion, representing an increase of RMB4.506 billion or 29.11% as compared to last year, primarily due to the increase in customer deposits and cost.

In thousands of RMB, except percentages

	2018			2017		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits[1]						
Time	**525,695,495**	**15,244,360**	**2.90**	466,129,652	12,372,081	2.65
Demand	**295,244,759**	**2,643,632**	**0.90**	270,169,729	2,056,916	0.76
Subtotal	**820,940,254**	**17,887,992**	**2.18**	736,299,381	14,428,997	1.96
Personal deposits						
Time	**46,745,139**	**1,698,806**	**3.63**	34,155,817	1,016,039	2.97
Demand	**28,718,221**	**397,671**	**1.38**	9,040,324	33,552	0.37
Subtotal	**75,463,360**	**2,096,477**	**2.78**	43,196,141	1,049,591	2.43
Total	**896,403,614**	**19,984,469**	**2.23**	779,495,522	15,478,588	1.99

Note:

(1) Other deposits include remittance payables, temporary deposits and outward remittance, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB16.241 billion, representing a decrease of RMB58 million or 0.35% as compared to last year.

Debt securities issued

Interest expense on debt securities issued amounted to RMB9.641 billion, representing an increase of RMB3.227 billion or 50.30% as compared to last year, primarily due to the increase in the size of debt securities issued and average cost.

(4) Net non-interest income

Net non-interest income in 2018 amounted to RMB12.637 billion, representing an increase of RMB2.764 billion or 27.99% as compared to last year. Specifically, the net fee and commission income was RMB4.252 billion, representing a decrease of RMB3.761 billion as compared to last year, while other net non-interest income was RMB8.385 billion, representing an increase of RMB6.525 billion as compared to last year.

Net fee and commission income

In thousands of RMB, except percentages

Item	2018	2017	Amount of increase or decrease	Growth rate (%)
Asset Management Services	**1,389,652**	5,513,087	(4,123,435)	(74.79)
Settlement business	**993,718**	451,867	541,851	119.91
Underwriting service	**756,073**	634,281	121,792	19.20
Custodian and other fiduciary service	**525,285**	498,962	26,323	5.28
Credit commitment	**449,926**	406,989	42,937	10.55
Agency service	**357,807**	388,125	(30,318)	(7.81)
Others	**357,437**	523,009	(165,572)	(31.66)
Fee and commission income	**4,829,898**	8,416,320	(3,586,422)	(42.61)
Less: fee and commission expense	**577,975**	402,915	175,060	43.45
Net fee and commission income	**4,251,923**	8,013,405	(3,761,482)	(46.94)

Fee income from asset management service was RMB1.390 billion, representing a decrease of RMB4.123 billion as compared to last year, mainly due to adjustment to the asset management business structure.

Fee income from settlement business was RMB994 million, representing an increase of RMB542 million as compared to last year, primarily due to the growth of our settlement and clearing business.

Fee income from underwriting service was RMB756 million, representing an increase of RMB122 million as compared to last year, primarily due to the increased scale of the bond underwriting business.

Fee income from custodian and other fiduciary service was RMB525 million, representing an increase of RMB26 million as compared to last year.

Other net non-interest income

In thousands of RMB, except percentages

Item	**2018**	2017	**Amount of increase or decrease**	**Growth rate (%)**
Net trading gains	**7,254,140**	456,020	6,798,120	1,490.75
Net gains on financial investments	**608,813**	905,390	(296,577)	(32.76)
Other operating income	**522,052**	498,228	23,824	4.78
Total	**8,385,005**	1,859,638	6,525,367	350.89

Other net non-interest income was RMB8.385 billion, representing an increase of RMB6.525 billion as compared to last year, primarily due to the increased net trading gains activities during the reporting period.

(5) Operating expenses

In thousands of RMB, except percentages

Item	**2018**	2017	**Amount of increase or decrease**	**Growth rate (%)**
Staff costs	**7,152,858**	6,644,637	508,221	7.65
General and administrative expenses	**3,036,909**	3,289,582	(252,673)	(7.68)
Tax and surcharges	**437,828**	232,461	205,367	88.34
Rental expenses	**710,664**	593,188	117,476	19.80
Depreciation and amortization	**658,661**	363,669	294,992	81.12
Others	**145,500**	59,623	85,877	144.03
Total	**12,142,420**	11,183,160	959,260	8.58

Operating expenses amounted to RMB12.142 billion, representing an increase of 8.58%, primarily due to our business expansion, the increased number of Consolidated outlets and employees.

(6) Impairment losses on assets

In thousands of RMB

Item	**2018**	2017
Loans and advances to customers		
– Collectively assessed	**N/A**	6,648,789
– Individually assessed	**N/A**	2,068,766
Debt instruments classified as receivables	**N/A**	500,743
Others	**–**	155,933
Total	**–**	9,374,231

Impairment losses on credit

In thousands of RMB

Item	**2018**	2017
Loans and advances to customers	**9,539,474**	N/A
Financial assets at fair value through other comprehensive income	**440,662**	N/A
Financial assets measured at amortized cost	**2,700,846**	N/A
Loan commitments and financial guarantee contracts	**(1,559)**	N/A
Finance lease receivables	**300,133**	N/A
Others	**49,999**	N/A
Total	**13,029,555**	N/A

(7) Income tax expenses

The income tax expenses were RMB2.290 billion, representing a year-on-year decrease of RMB444 million or 16.23%, and the effective tax rate was 16.53%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see "Notes to Consolidated Financial Statements – 13 Income Tax Expense".

(8) Segment information

Segment operating results by business line

In thousands of RMB, except percentages

Item	2018 Amount	2018 Proportion (%)	2017 Amount	2017 Proportion (%)
Corporate banking business	**24,418,275**	**62.57**	19,840,147	57.90
Retail banking business	**5,077,518**	**13.01**	3,777,346	11.02
Treasury business	**8,674,013**	**22.23**	10,208,017	29.79
Other business	**852,670**	**2.19**	438,639	1.29
Total operating income	**39,022,476**	**100.00**	34,264,149	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	2018 Amount	2018 Proportion (%)	2017 Amount	2017 Proportion (%)
Yangtze River Delta region	**21,301,281**	**54.59**	20,709,469	60.44
Bohai Rim region	**7,031,744**	**18.02**	5,127,090	14.96
Pearl River Delta region	**3,706,508**	**9.50**	2,390,210	6.98
Midwestern China region	**6,982,943**	**17.89**	6,037,380	17.62
Total operating income	**39,022,476**	**100.00**	34,264,149	100.00

2. Analysis on Statement of Financial Position

In 2018, the Group actively adjusted its business strategy, continuously optimized its business structure and increased its investment in physical economy, thus effectively improved the efficiency of asset and liability allocation, as well as significantly enhanced its liquidity and market risk management.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB1,646.695 billion, representing an increase of RMB109.943 billion or 7.15% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB837.076 billion, representing an increase of RMB187.259 billion or 28.82% as compared to that of last year. Financial investments amounted to RMB564.933 billion, representing a decrease of RMB44.096 billion or 7.24% as compared to that of last year. In terms of the structure, net loans and advances to customers accounted for 50.83% of total assets, increased by 8.55 percentage points as compared to that of last year, and the financial investments accounted for 34.31%, decreased by 5.32 percentage points as compared to that of last year.

Assets utilization

In thousands of RMB, except percentages

Item	December 31, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	**865,232,669**		672,878,934	
Less: the expected credit loss ("ECL") allowance for loans (or allowance for impairment losses on loans)	**(28,156,779)**		(23,062,217)	
Net loans and advances to customers	**837,075,890**	**50.83**	649,816,717	42.29
Financial investments[1]	**564,932,978**	**34.31**	609,029,046	39.63
Cash and balances with central bank	**126,370,232**	**7.67**	154,091,440	10.03
Precious metal	**8,103,317**	**0.49**	12,382,513	0.81
Due from banks and other financial institutions	**55,383,174**	**3.36**	71,432,438	4.65
Others	**54,829,153**	**3.33**	39,999,948	2.60
Total assets	**1,646,694,744**	**100.00**	1,536,752,102	100.00

Note:

(1) The financial investments at the end of the year include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost. The financial investments at the end of last year include financial assets at fair value through profit or loss, financial assets-available-for-sale, financial assets-held-to-maturity and financial assets-debt instruments classified as receivables.

Loans

According to changes in the macroeconomic environment and financial supervision requirements, and centered on serving the real economy and the supply-side structural reform, the Group continuously optimized credit structure, deepened financial services to small and micro enterprises, and actively developed inclusive finance. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB865.233 billion, representing an increase of RMB192.354 billion or 28.59% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	December 31, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	**603,258,461**	**69.72**	518,596,693	77.07
Discounted bills	**57,707,010**	**6.67**	20,349,584	3.02
Personal loans	**201,407,629**	**23.28**	133,932,657	19.90
Changes in fair value through other comprehensive income	**146,906**	**0.02**	N/A	–
Accrued interest	**2,712,663**	**0.31**	N/A	–
Total	**865,232,669**	**100.00**	672,878,934	100.00

Corporate loans

Taking full advantage of its liquidity services, the Bank can meet customers' financing needs via diversified products, and promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As at the end of the reporting period, total corporate loans amounted to RMB603.258 billion, representing an increase of 16.33% as compared to that at the end of last year.

Discounted bills

Through optimization of structure and acceleration of turnover, the Group improved the comprehensive returns on bill assets. As at the end of the reporting period, total discounted bills amounted to RMB57.707 billion, representing an increase of 183.58% as compared to that at the end of last year.

Personal loans

The Group continued to enrich its application scenarios and expanded the scope of customer and business linkages to continuously promote the growth of personal loans. As at the end of the reporting period, total personal loans amounted to RMB201.408 billion, representing an increase of 50.38% as compared to that at the end of last year.

Financial investments

The Group strongly supported the development of real economy, and optimized investment portfolio and structure on the basis of ensuring liquidity and risk control. As at the end of the reporting period, total financial investments amounted to RMB564.933 billion, representing a decrease of 7.24% as compared to that at the end of last year.

Financial investment composition

In thousands of RMB, except percentages

Item	December 31, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	**135,210,776**	**23.93**	46,344,516	7.61
Financial assets at fair value through other comprehensive income	**91,885,792**	**16.27**	N/A	–
Financial assets measured at amortized cost	**337,836,410**	**59.80**	N/A	–
Available-for-sale financial assets	**N/A**	**–**	127,898,959	21.00
Held-to-maturity investments	**N/A**	**–**	91,562,790	15.03
Debt instruments classified as receivables	**N/A**	**–**	343,222,781	56.36
Total	**564,932,978**	**100.00**	609,029,046	100.00

As at the end of the reporting period, financial assets at fair value through profit or loss of the Group amounted to RMB135.211 billion; financial assets at fair value through other comprehensive income amounted to RMB91.886 billion; financial assets at amortized cost amounted to RMB337.836 billion.

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB1,544.246 billion, representing an increase of RMB97.182 billion or 6.72% as compared to that at the end of last year.

Liabilities Composition

In thousands of RMB, except percentages

Item	December 31, 2018		December 31, 2017	
	Amount	**Proportion (%)**	Amount	Proportion (%)
Customer deposits	**974,770,403**	**63.12**	860,619,457	59.47
Due to banks and other financial institutions	**279,999,081**	**18.13**	356,805,618	24.66
Financial liabilities at fair value through profit or loss	**12,483,213**	**0.81**	5,615,590	0.39
Debt securities issued	**245,996,763**	**15.93**	190,551,983	13.17
Others	**30,996,747**	**2.01**	33,471,700	2.31
Total liabilities	**1,544,246,207**	**100.00**	1,447,064,348	100.00

Customer deposits

The Group actively responded to the changes in market demand, fully utilized the comprehensive advantages of financial services, vigorously organized the absorption of basic deposits, enriched the types of deposit products and continued to optimize the deposit structure. As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB974.770 billion, representing an increase of RMB114.151 billion or 13.26% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by RMB62.131 billion or 7.75%; and personal deposits increased by RMB41.976 billion or 75.38%. With respect to term structures, time deposits increased by RMB67.303 billion or 12.33%; and demand deposits increased by RMB36.804 billion or 11.80%.

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	December 31, 2018 Amount	December 31, 2018 Proportion (%)	December 31, 2017 Amount	December 31, 2017 Proportion (%)
Corporate deposits				
Demand	**308,220,456**	**31.62**	290,752,765	33.78
Time	**555,965,785**	**57.04**	511,302,211	59.41
Sub-total	**864,186,241**	**88.66**	802,054,976	93.20
Personal deposits				
Demand	**40,502,374**	**4.16**	21,166,325	2.46
Time	**57,161,099**	**5.86**	34,521,564	4.01
Sub-total	**97,663,473**	**10.02**	55,687,889	6.47
Other deposits	**2,577,816**	**0.26**	2,876,592	0.33
Accrued interest	**10,342,873**	**1.06**	N/A	–
Total	**974,770,403**	**100.00**	860,619,457	100.00

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB100.885 billion in total, representing an increase of RMB12.691 billion or 14.39% as compared to that at the end of last year. Please see "Consolidated Financial Statements – Consolidated Statement of Changes in Equity".

(IV) ANALYSIS OF THE LOAN QUALITY

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	December 31, 2018		December 31, 2017	
	Amount of loans	**Percentage (%)**	Amount of loans	Percentage (%)
Pass	**837,905,409**	**96.84**	654,461,569	97.26
Special mention	**14,053,511**	**1.62**	10,650,801	1.58
Non-performing	**10,414,180**	**1.20**	7,766,564	1.15
Substandard	**4,923,593**	**0.57**	3,359,505	0.50
Doubtful	**4,348,337**	**0.50**	2,859,317	0.42
Loss	**1,142,249**	**0.13**	1,547,742	0.23
Changes in fair value through other comprehensive income	**146,906**	**0.02**	N/A	N/A
Accrued interest	**2,712,663**	**0.31**	N/A	N/A
Total loans and advances	**865,232,669**	**100.00**	672,878,934	100.00

The loan quality of our Group was kept at an excellent level. As at the end of the reporting period, according to the five-category classification of the supervision system, the pass loans amounted to RMB837.905 billion, representing an increase of RMB183.444 billion as compared with that at the end of last year, accounting for 96.84% of total loans and advances to customers. Loans classified as special mention were RMB14.054 billion, representing an increase of RMB3.403 billion as compared with that at the end of last year, accounting for 1.62% of total loans and advances to customers. The non-performing loans were RMB10.414 billion, representing an increase of RMB2.648 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.20%, representing an increase of 0.05 percentage point as compared with that at the end of last year.

2. Distribution of loans and non-performing loans by business type

In thousands of RMB, except percentages

Item	December 31, 2018 Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	December 31, 2017 Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	**603,258,461**	**69.72**	**9,126,958**	**1.51**	518,596,693	77.07	6,961,201	1.34
Personal loans	**201,407,629**	**23.28**	**1,228,532**	**0.61**	133,932,657	19.90	805,363	0.60
Discounted bills	**57,707,010**	**6.67**	**58,689**	**0.10**	20,349,584	3.03	–	–
Changes in fair value through other comprehensive income	**146,906**	**0.02**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Accrued interest	**2,712,663**	**0.31**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Total loans and advances	**865,232,669**	**100.00**	**10,414,180**	**1.20**	672,878,934	100.00	7,766,564	1.15

As at the end of the reporting period, our non-performing corporate loans amounted to RMB9.127 billion, representing an increase of RMB2.166 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.51%, representing an increase of 0.17 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB1.229 billion, representing an increase of RMB423 million as compared with that at the end of last year, with a non-performing loan ratio of 0.61%, representing an increase of 0.01 percentage point as compared with that at the end of last year.

3. Distribution of loans and non-performing loans by industry

In thousands of RMB, except percentages

Item	December 31, 2018				December 31, 2017			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	**603,258,461**	**69.72**	**9,126,958**	**1.51**	518,596,693	77.07	6,961,201	1.34
Real estate	**118,527,240**	**13.70**	**737,467**	**0.62**	73,159,185	10.87	942,404	1.29
Leasing and commercial services	**116,611,687**	**13.48**	**366,293**	**0.31**	92,900,199	13.81	96,011	0.10
Manufacturing	**113,574,111**	**13.13**	**4,188,823**	**3.69**	115,674,946	17.19	3,434,370	2.97
Wholesale and retail trade	**80,961,514**	**9.36**	**2,405,271**	**2.97**	74,865,365	11.13	1,621,041	2.17
Administration of water conservancy, environment and public facilities	**54,183,720**	**6.26**	**2,991**	**0.01**	61,972,488	9.21	–	–
Construction	**45,329,965**	**5.24**	**309,999**	**0.68**	39,097,951	5.81	437,562	1.12
Financing	**16,865,207**	**1.95**	**–**	**–**	9,371,760	1.39	–	–
Electricity, heat, gas and water production and supply	**9,675,724**	**1.12**	**252,183**	**2.61**	7,914,379	1.18	77,548	0.98
Transportation, storage and postal service	**9,233,210**	**1.07**	**303,013**	**3.28**	13,858,268	2.06	172,674	1.25
Accommodation and catering	**5,624,076**	**0.65**	**98,632**	**1.75**	4,468,664	0.66	127,091	2.84
Mining	**5,286,317**	**0.61**	**16,104**	**0.30**	3,919,123	0.58	18,306	0.47
Others[(1)]	**27,385,690**	**3.17**	**446,182**	**1.63**	21,394,365	3.18	34,194	0.16
Personal loans	**201,407,629**	**23.28**	**1,228,532**	**0.61**	133,932,657	19.90	805,363	0.60
Discounted bills	**57,707,010**	**6.67**	**58,689**	**0.10**	20,349,584	3.03	–	–
Changes in fair value through other comprehensive income	**146,906**	**0.02**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Accrued interest	**2,712,663**	**0.31**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Total loans and advances	**865,232,669**	**100.00**	**10,414,180**	**1.20**	672,878,934	100.00	7,766,564	1.15

Note:

(1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education; health, social security and social welfare.

In 2018, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as industries with excess production capacity, real estate, etc., with a view to optimizing the allocation of credit resources continually.

4. Distribution of loans and non-performing loans by geographic region

In thousands of RMB, except percentages

	December 31, 2018				December 31, 2017			
	Amount of loans	**Percentage (%)**	**Amount of non-performing loans**	**Non-performing loan ratio (%)**	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta region	**461,768,587**	**53.37**	**4,741,626**	**1.03**	402,745,180	59.86	5,845,695	1.45
Midwestern China region	**170,822,059**	**19.74**	**1,397,987**	**0.82**	124,495,153	18.50	709,022	0.57
Bohai Rim region	**152,875,633**	**17.67**	**2,882,821**	**1.89**	90,467,487	13.44	1,075,278	1.19
Pearl River Delta region	**76,906,821**	**8.89**	**1,391,745**	**1.81**	55,171,114	8.20	136,569	0.25
Changes in fair value through other comprehensive income	**146,906**	**0.02**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Accrued interest	**2,712,663**	**0.31**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Total loans and advances	**865,232,669**	**100.00**	**10,414,180**	**1.20**	672,878,934	100.00	7,766,564	1.15

As at the end of the reporting period, taking into account the economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development. As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta region, where the non-performing loan ratio decreased by 0.42 percentage point as compared with that at the end of last year.

5. Distribution of loans and non-performing loans by security type

In thousands of RMB, except percentages

	December 31, 2018				December 31, 2017			
	Amount of loans	**Percentage (%)**	**Amount of non-performing loans**	**Non-performing loan ratio (%)**	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Collateralized loans	**350,785,476**	**40.54**	**3,645,845**	**1.04**	248,456,852	36.92	3,416,477	1.38
Pledged loans	**119,429,333**	**13.80**	**1,249,338**	**1.05**	119,379,949	17.74	63,370	0.05
Guaranteed loans	**208,182,269**	**24.06**	**4,718,278**	**2.27**	203,506,330	30.24	4,022,127	1.98
Unsecured loans	**126,269,012**	**14.59**	**742,030**	**0.59**	81,186,219	12.07	264,590	0.33
Discounted bills	**57,707,010**	**6.67**	**58,689**	**0.10**	20,349,584	3.03	–	–
Changes in fair value through other comprehensive income	**146,906**	**0.02**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Accrued interest	**2,712,663**	**0.31**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Total loans and advances	**865,232,669**	**100.00**	**10,414,180**	**1.20**	672,878,934	100.00	7,766,564	1.15

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the collateralized loans accounted for 40.54% of the total loans and advances to customers, which was a relatively high percentage; the collateralized loans balance was RMB350.785 billion, representing an increase of RMB102.329 billion compared with the end of last year; the balance of non-performing loans among collateralized loans was RMB3.646 billion, with the non-performing loan ratio of 1.04%, representing a decrease of 0.34 percentage point compared with that at the end of last year.

6. Ten largest borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Manufacturing	3,860,000.00	0.45
B	Real estate	3,500,000.00	0.40
C	Leasing and commercial services	3,498,000.00	0.40
D	Manufacturing	3,180,400.71	0.37
E	Leasing and commercial services	2,953,120.00	0.34
F	Real estate	2,800,000.00	0.32
G	Leasing and commercial services	2,615,650.00	0.30
H	Real estate	2,500,000.00	0.29
I	Manufacturing	2,395,002.31	0.28
J	Real estate	2,350,000.00	0.27
Total		29,652,173.02	3.43

As at the end of the reporting period, the balance of loans to the largest single borrower of the Group was RMB3.860 billion, representing 2.78% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB29.652 billion, representing 21.33% of the net capital and 3.43% of the total loans and advances of the Group.

7. Overdue loans and advances

In thousands of RMB, except percentages

	December 31, 2018		December 31, 2017	
Overdue period	**Amount**	**Percentages of total loans and advances to customers (%)**	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 day to 90 days	**2,335,939**	**0.27**	1,168,584	0.17
Overdue by 90 days to one year	**4,222,678**	**0.49**	3,588,877	0.53
Overdue by one year to three years	**3,759,409**	**0.43**	2,337,214	0.35
Overdue by more than three years	**333,107**	**0.04**	94,751	0.01
Total	**10,651,133**	**1.23**	7,189,426	1.07

As at the end of the reporting period, the balance of overdue loans amounted to RMB10.651 billion, representing an increase of RMB3.462 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB8.315 billion, representing an increase of RMB2.294 billion as compared with that at the end of last year.

8. **Renegotiated loans**

The Group exercised strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB1.605 billion, representing an increase of RMB1.285 billion as compared with that at the end of last year. Specifically, total renegotiated loans and advances that were overdue by more than three months were RMB1.326 billion, representing an increase of RMB1.276 billion as compared with that at the end of last year.

(9) Movements in the expected credit loss ("ECL") allowance on loans

Corporate loans and advances	Expected credit loss allowance Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance at January 1, 2018	11,434,519	1,934,148	5,382,531	18,751,198
New financial assets	3,481,544	938,892	7,221	4,427,657
Change in parameter	(555,283)	(65,961)	855,937	234,693
Termination (except write-offs and transfer out)	(306,452)	(268,211)	(803,317)	(1,377,980)
Transfers				
Transfer from stage 1 to stage 2	(95,219)	1,533,163	–	1,437,944
Transfer from stage 2 to stage 1	4,811	(41,132)	–	(36,321)
Transfer from stage 1 to stage 3	(41,486)	–	1,242,332	1,200,846
Transfer from stage 2 to stage 3	–	(820,085)	2,335,483	1,515,398
Subtotal	2,487,915	1,276,666	3,637,656	7,402,237
Write-offs *(Note)*	–	–	(1,681,840)	(1,681,840)
Transfer out	–	–	(679,207)	(679,207)
Other changes	12,191	207	113,028	125,426
ECL allowance as at December 31, 2018	13,934,625	3,211,021	6,772,168	23,917,814

Personal loan and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Expected credit loss allowance			
ECL allowance at January 1, 2018	1,638,110	82,464	567,702	2,288,276
New financial assets	1,698,137	71,023	104,354	1,873,514
Change in parameter	534,056	5,345	49,340	588,741
Termination (except write-offs)	(541,620)	(38,527)	(254,492)	(834,639)
Transfers				
Transfer from stage 1 to stage 2	(7,565)	90,260	–	82,695
Transfer from stage 2 to stage 1	238	(3,587)	–	(3,349)
Transfer from stage 1 to stage 3	(15,108)	–	384,310	369,202
Transfer from stage 2 to stage 3	–	(36,140)	97,213	61,073
Subtotal	1,668,138	88,374	380,725	2,137,237
Write-offs *(Note)*	–	–	(254,918)	(254,918)
Other changes	–	–	68,370	68,370
ECL allowance as at December 31, 2018	3,306,248	170,838	761,879	4,238,965

Note: On December 31, 2018, the outstanding contractual amount corresponding to assets written off by the Group was RMB1,936,758 thousand and the Group still tried to cover the legally entitled claims in full.

(V) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Group's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

As at December 31, 2018, capital adequacy ratio of the Group was 13.38%, tier-one capital adequacy ratio was 9.83%, core tier-one capital adequacy ratio was 8.38%, and leverage ratio was 5.10%, all of which met regulatory requirements.

Capital Adequacy Ratio (the Group)

In thousands of RMB, except percentages

Item	December 31, 2018	December 31, 2017
Core tier-one capital	**87,264,309**	74,653,783
Paid-in capital	**18,718,697**	17,959,697
Part of capital reserves that can be included	**22,130,353**	17,985,006
Surplus reserves	**4,885,381**	3,790,406
General risk reserves	**18,483,647**	17,243,730
Undistributed profits	**20,455,847**	17,321,758
Part of minority interests that can be included	**793,328**	353,186
Others	**1,797,056**	–
Core tier-one capital deductible items	**(220,671)**	(203,101)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	**(220,671)**	(203,101)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	**–**	–
Net core tier-one capital	**87,043,638**	74,450,682
Other tier-one capital	**15,063,441**	15,004,755
Other tier-one capital instruments and premium	**14,957,664**	14,957,664
Part of minority interests that can be included	**105,777**	47,091
Net tier-one capital	**102,107,079**	89,455,437
Tier-two capital	**36,923,021**	20,231,614
Tier-two capital instruments and premium that can be included	**25,000,000**	10,000,000
Excessive allowance for loan losses	**11,711,467**	10,137,431
Part of minority interests that can be included	**211,554**	94,183
Tier-two capital deductible items	**–**	–
Net capital base	**139,030,100**	109,687,051
Risk-weighted assets	**1,038,882,918**	898,580,080
Core tier-one capital adequacy ratio (%)	**8.38**	8.29
Tier-one capital adequacy ratio (%)	**9.83**	9.96
Capital adequacy ratio (%)	**13.38**	12.21

Leverage Ratio (the Group)

In thousands of RMB, except percentages

Item	**December 31, 2018**	December 31, 2017
Tier-one capital	**102,327,750**	89,658,538
Tier-one capital deductible items	**(220,671)**	(203,101)
Net tier-one capital	**102,107,079**	89,455,437
Adjusted asset balance inside the balance sheet	**1,606,961,915**	1,489,875,148
Asset balance of derivative products	**32,845,335**	11,555,394
Asset balance of securities financing transactions	**28,929,451**	42,072,900
Adjusted asset balance outside the balance sheet	**332,637,482**	308,952,602
Adjusted asset balance inside and outside the balance sheet	**2,001,374,183**	1,852,456,044
Leverage ratio (%)	**5.10**	4.83

As of December 31, 2018, capital adequacy ratio of the Company was 13.37%, tier-one capital adequacy ratio was 9.79%, core tier-one capital adequacy ratio was 8.32%, and leverage ratio was 5.03%, all of which met regulatory requirements.

Capital Adequacy Ratio (the Company)

In thousands of RMB, except percentages

Item	December 31, 2018	December 31, 2017
Core tier-one capital	**86,374,144**	74,276,535
Paid-in capital	**18,718,697**	17,959,697
Part of capital reserves that can be included	**22,130,353**	17,985,006
Surplus reserves	**4,882,975**	3,790,406
General risk reserves	**18,461,991**	17,243,730
Undistributed profits	**20,383,073**	17,297,696
Others	**1,797,056**	–
Core tier-one capital deductible items	**(1,742,290)**	(1,728,060)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	**(212,290)**	(198,060)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	**(1,530,000)**	(1,530,000)
Net core tier-one capital	**84,631,854**	72,548,475
Other tier-one capital	**14,957,664**	14,957,664
Net tier-one capital	**99,589,518**	87,506,138
Tier-two capital	**36,454,777**	20,022,159
Tier-two capital instruments and premium that can be included	**25,000,000**	10,000,000
Excessive allowance for loan losses	**11,454,777**	10,022,159
Tier-two capital deductible items	**–**	–
Net capital base	**136,044,295**	107,528,297
Risk-weighted assets	**1,017,500,610**	889,062,694
Core tier-one capital adequacy ratio (%)	**8.32**	8.16
Tier-one capital adequacy ratio (%)	**9.79**	9.84
Capital adequacy ratio (%)	**13.37**	12.09

Leverage Ratio (the Company)

In thousands of RMB, except percentages

Item	December 31, 2018	December 31, 2017
Tier-one capital	**101,331,808**	89,234,199
Tier-one capital deductible items	**(1,742,290)**	(1,728,060)
Net tier-one capital	**99,589,518**	87,506,138
Adjusted asset balance inside the balance sheet	**1,587,930,008**	1,480,458,676
Asset balance of derivative products	**32,845,335**	11,555,394
Asset balance of securities financing transactions	**27,557,542**	42,072,900
Adjusted asset balance outside the balance sheet	**332,504,955**	309,347,493
Adjusted asset balance inside and outside the balance sheet	**1,980,837,841**	1,843,434,463
Leverage ratio (%)	**5.03**	4.75

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

The Company, adopting an "active and solid" risk appetite, optimizes risk returns by actively adjusting the structure, operating by laws and innovating management approaches, and also helps to balance capital, risk and return, as well as assets and liabilities. The Company gradually improves the comprehensive risk management system that is in line with the full-asset class operation strategy, to ensure the Company's transformation and development with high quality and facilitate the fulfilment of the overall objective of "two most" in a healthy and orderly manner.

The Company's Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors takes responsibility for supervision of comprehensive risk management; and the Senior Management takes responsibility for implementing comprehensive risk management. The Company establishes chief risk officer. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit review committee, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the general department for comprehensive risk management and the leading executive department for management of credit risk, market risk (excluding interest rate risk of banking books), country risk and information technology risk; the planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of interest rate risk of banking book and liquidity risk; the internal control and compliance and legal affairs department at our head office is the leading executive department for management of operational risk and compliance risk; the executive office at our head office is the leading executive department for reputational risk management; the development and planning department at our head office is the leading executive department for strategic risk management.

The Company accredits risk monitoring officers to the departments subject to higher business complexity and relatively concentrative risks at our head office. The risk monitoring officer is responsible for helping the leading officers of accrediting departments organize risk management, who is independent of accrediting departments and directly responsible to the president of our head office, and carries out business judgment and reporting on risk issues independently. The Company accredits to branches risk monitoring officers, who help the president of the accrediting branch organize comprehensive risk management, and are independent of the accrediting branches and directly responsible to the president of our head office, and carry out business judgment and report on risk issues independently.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to the default of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in both on-and off-balance sheet businesses, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit and letters of guarantee, bond holdings and specific purpose carrier investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, head office credit, investment and transaction review committee, branch credit, investment and transaction review committee, sub-branch credit review team, head office risk management department and other credit risk control departments, business departments, financial technology departments, audit departments, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management, as well as formulating and carrying out relevant systems and policies for credit risk management.

The Company formulates fundamental credit policies based on the changes to our external operating environment and our internal operating and risk conditions. Such policies clarifies the policy guidance to certain aspects of our credit business, such as customer structure, industry structure, regional structure, key business area and other aspects. In addition, the Company regularly adjusts our credit policies according to the development of and trends in the macro economy and our industry.

The Company classifies our credit assets by taking comprehensive consideration of the following factors in accordance with the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBIRC, including the borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of the project being financed by the loans and the status of the guarantees. The Company's credit asset risks are initially classified by client managers, then examined by the head of the marketing department and reviewed by risk management personnel and finally determined by authorized individuals.

(1) Credit risk management for corporate businesses

The Company conducts a unified credit management of corporate customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company strictly complies with relevant regulatory requirements of the CBIRC and assigns loans (including trade finances), bill acceptances and discounting, overdrafts, bond investments, specific purpose carrier investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses whose credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limit of single corporate customers, group customers and industries.

The Company continuously enhances the construction of our credit system, revises the unified credit quota management system for our corporate customers, intensifies comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improved the concentration risk management, formulated the concentration risk management related system, clarified the responsibilities allocation and main methods of concentration risk management, and continued to promote the construction of concentration risk management.

The Company continuously enhances the management of loan risks via the financing platforms of local governments, strictly complies with the various lending policies and regulatory requirements of the CBIRC on the financing platforms of local governments, makes dynamic adjustments to the targets of credit granting, and further optimizes the lending structure of financing platforms to prevent the credit risks that may arise from governments' financing platforms; sets credit limits for the loans of local governments' financing platforms and enhances our monitoring and management on the loan risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate credit business prudently, establishes a guideline for development of business in the real estate industry, and adjusts our credit extension plans for the real estate industry in a timely manner. The Company sets credit limits for the loans we grant to the customers in the real estate industry and makes dynamic adjustments to such limits in a timely manner, and strengthens the monitoring and management of risks relating to existing loans.

The Company continuously enhances the management of loan risks for the industries with excessive production capacity, and strictly controls the loans we grant to the industries with seriously excessive production capacity.

(2) Credit risk management for small and micro enterprise business

The Company conducts unified credit extension management system on small and micro enterprise customers (including individual operators), and assigns all types of credit businesses of small and micro enterprise customers (including individual operators) under our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs and standardizes the procedures and requirements for credit extension to gradually cultivate a unique and standard credit extension model of the Company.

The Company continuously enhances the management of the credit risks of small and micro enterprise business. The Company strengthens our measures for risk mitigation, and strictly controls the overdue loans and non-performing loans by ways of tracking overdue loans and on-site & off-site monitoring.

(3) Credit risk management for retail business

The Company actively builds our credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company has also formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains loans with multiple borrowers as well as improves and optimizes the governance mechanism of credit risk for personal loans. The Company has continuously enhanced the selection and management of guarantees, and improved our ability to mitigate credit risks. The Company continued to strengthen subsequent management of personal loans such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre-business risk prevention, on-going risk monitoring during the process and post-business risk management and has formulated a complete set of rules and regulations to standardize various business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of the process for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

(4) Credit risk management for inter-bank finance business

The Company's inter-bank finance business mainly comprises financial inter-bank business, money market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. The credit risk faced with us is concentrated in money market business, bond investment business and financial inter-bank business.

The Company's inter-bank finance business involving customer's credit risk must be included in our unified credit extension management system. When conducting business, the Company will draw up the customer's credit lines in accordance with the relevant policies for centralized management of customer's risk.

The Company manages the risks in our bond investment business through access criteria, credit limit control and credit extension risk assessment; the bond investment business is included in our unified credit extension management system. The credit risk of the invested bonds is tracked and monitored together by traders in the front office and the relevant risk management departments. In addition, the relevant risk management departments will also evaluate the credit risk of the invested bonds regularly.

The Company assigns financial institution customers under the customer scope of unified credit management. The Company has formulated the management measures and relevant operating procedures for the unified total financing amount of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension of financial institution customers and carried out the risk classification and duration management of the financial inter-bank business.

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet businesses arising from unfavorable changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk can be divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk arising from adverse changes in interest rates, exchange rates, stock prices and commodity prices respectively. The term "market risk" in this section refers specifically to market risk other than interest rate risk in the banking book (for details for interest rate risk in the banking book, see "7. Interest rate risk management of banking book" below).

The objectives of our market risk management are to control our market risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market department, financial technology department, audit department, other departments, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, as well as formulating and carrying out relevant systems and policies for market risk management.

The Company mainly takes the measures such as limit management, hedging and reducing risk exposures to control market risk. The Company adopts the market risk measurement methods, such as duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC, formulated market risk management policies and procedures applicable to our business nature, scale, complexity and risk features, and aligned such policies and procedures with our overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

During the reporting period, the Company has updated market risk preferences and index system to further improve the market risk management systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management system (ALGO system). The Company evaluates the positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly measures the market risk through stress testing and other methods.

4. Liquidity risk management

Liquidity risk refers to the risks of failure to obtain adequate funds in time at a reasonable cost to repay debts when they are due, perform other payment obligations and meet other capital requirements in the ordinary course of business. The factors affecting the liquidity risk are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. The internal factors include the maturities of assets and liabilities, business structures, stability of deposits, ability to obtain financing in the market and various unexpected events.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at a reasonable cost, and to control our liquidity risk within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), financial markets department, business operation and management department of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. Senior Management is responsible for implementing and organizing the liquidity risk management, as well as formulating and carrying out relevant systems and policies for liquidity risk management.

The Company managed our liquidity risk in a centralized manner. By establishing a scientific and perfect liquidity risk management system, the Company can effectively identify, measure, monitor, control and report the liquidity risk. Specific measures for liquidity risk management include: continuously improving the systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the pre-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying the weak links in the Company's liquidity risk management based on the results of such tests, adjusting liquidity risk management strategies and the size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As of the end of the reporting period, our liquidity coverage ratio was 215.50%, our qualified liquid assets amounted to RMB116.111 billion, and the net cash outflows over the next 30 days was RMB53.879 billion; the total liquidity ratio of the local currencies and foreign currencies was 52.60%; net stable fund ratio was 109.69%, stable fund available was RMB907.003 billion and stable fund required was RMB826.904 billion.

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel and information technology systems, as well as external events. The types of operational risk loss incidents that the Company may expose to mainly include seven categories, such as internal fraud, external fraud, employment systems and accidents on safety of working places, incidents related to client, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, delivery and procedure management.

With "keeping operational risks tolerable and reasonable, and maximizing comprehensive benefits of the Bank after risk adjustment" as the target of operational risk management, the Company carries out whole-process management of operational risks, leverages the role of three preventive measures, and conducts risk control and management from different aspects, with special attention to giving play to the role of the first preventive measure in risk control.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, internal control and compliance and legal affairs department, other management departments, business departments, financial technology department and audit department of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the operational risk management, as well as formulating and carrying out relevant systems and policies for operational risk management.

During the reporting period, the Company managed our operational risk by following the principle of "full coverage, clearly defined responsibilities, honest report and quick response". The Company consolidated its foundation work, innovated its management mechanism and intensified its risk prevention and control approaches so as to enhance the quality and efficiency of operational risk management. It improved the operational risk management system, established application tools for operational risk management and provided trainings in operational risk management philosophy; underlined out key points of operational risk management and control, defined responsibilities of persons responsible for operational risk management and improved the long-term mechanism of risk management and control; standardized actions for information technology outsourcing, and enhanced the establishment of various information systems, so as to improve the capacity of systems to control, manage and support businesses of the Bank; established and perfected a mechanism for preventing legal risks, improved the ability to manage and control legal risks, and enhanced legal support for daily operation management work; organized professional trainings and consciousness-raising trainings for employees, and identified abnormal behaviors of employees and unsuitable positions, so as to effectively enhance risk management of behaviors of employees; used advanced technologies to enhance safety and security work, so as to eliminate safety hazards; continuously enhanced business continuity management and emergency plan management, so as to promote the establishment of emergency service guarantee mechanisms. During the reporting period, the operational risk management system of the Company operated steadily, with operational risks which were controllable as a whole.

6. Country risk management

Country risk refers to the risk incurred to the Company arising from the inability or refusal by the borrower or debtor to repay the debt, losses suffered by the Company or its commercial presence in such country or region and other losses suffered by the Company due to economic, political, social changes and events in a country or a region.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, financial markets department, retail banking department, business operation and management department of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management, as well as formulating and carrying out relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management system and limits management measures and schemes, clarified the organizational structure and division of responsibilities, limits framework, management mechanism, etc. with respect to country risk limits management, and set the index and threshold of country risk limits; and has regularly conducted assessment and monitoring on country risk, and accrued the provisions for country risk.

7. Interest rate risk management of banking book

Interest rate risk in the banking book is the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate level and term structure etc.

The objectives of our interest rate risk management of banking book are to control our interest rate risk in the banking book within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), business operation and management department of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the interest rate risk management of banking book, as well as formulating and carrying out relevant systems and policies for interest rate risk management in the banking book.

The Company measures and analyzes interest rate risks in the banking book, comprehensively using methods including the interest rate sensitivity gap analysis, net interest income sensitivity analysis, duration analysis and stress testing. According to internal and external management requirements, it takes measures in a timely manner, adjusts portfolios of asset and liability products and maturity structures, and in a timely manner the methods of determining domestic-currency and foreign-currency deposit and loan interest rates, so as to ensure that risks are kept tolerable and maximize the net interest income level of the Bank.

8. Reputational risk management

Reputational risk refers to the risk that a stakeholder will have a negative view on the Company as a result of our operations, management and other activities or external events.

Reputational risk management means the dynamic process of reputational risk identification, measurement or assessment, monitoring, control and reporting by the Company through formulation and implementation of a series of systems, measures and procedures, for achieving operational targets and building a good social image.

The objectives of our reputational risk management are to correctly respond to news relating to us, public relationships and our customer relationships, actively and effectively prevent reputational risk and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Company, stakeholders and the public.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, executive office, financial technology department, audit department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management, as well as formulating and carrying out relevant systems and policies for reputational risk management.

During the reporting period, the Company further improved the reputational risk management system, refined reputational risk management measures continuously enhanced the management of the sources of reputational risks, actively identified potential risks, improved emergency plans, standardized reputational risk reporting and treatment processes and shortened the response time for reputational risks. Meanwhile, the Company further strengthened positive publicity, innovated communication methods, enhanced public opinion guidance and improved the brand reputation of the Company.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or changes in the external business environment, including improper strategic design, inappropriate strategic implementation, and inapplicable stated strategy as a result of changes in the internal and external environment.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, development and planning department, financial technology department, audit department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the strategic risk management, as well as formulating and carrying out relevant systems and policies for strategic risk management.

Based on the principles of "Clear Responsibilities, Prospective Prevention, Overall Evaluation, Proper Adjustment", the Company constantly improve and perfect the strategic risk management system suitable for the scale and feature of its business, and has realised effective management of strategic risk. The main management measures include: comprehensively implementing strategic risk management systems and mechanisms, and carrying out strategic mid-term assessment; keeping a close eye on our peers to continuously improve the comprehensive benchmarking management system; continuously carrying out strategic publicity and steadily promoting the transformation and development of branches; enhancing strategic research and situation analysis to improve the strategic risk prediction and assessment ability; strengthening innovative implementation and active management, and reinforcing strategic resilience.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, regulations, rules and relevant business standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant manner.

The Company's compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, responsible person for compliance, risk management department, internal control and compliance and legal affairs department, other management departments, financial technology department, audit department of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management, as well as formulating and carrying out relevant systems and policies for compliance risk management.

The Company has established a relatively sound compliance risk management structure and a systematic compliance risk management system, and perfected three lines of defense for compliance risk management and dual reporting mechanism. We have continuously improved our compliance risk management mechanism and enhanced our risk management level to achieve an effective control over compliance risks.

During the reporting period, the Company proactively adapted to regulatory policy adjustment, actively responded to material changes in the financial situation, and risk management and control, and with the "strict internal control, enhance compliance and facilitate development" as the guiding principle, further perfected the compliance risk management system; with a focus on key points of regulation, market hotspots and main points of work, enhanced analysis, study and judgment to warn of compliance risks; implemented regulatory requirements, actively deployed the deepening of handling irregularities and misconducts, emphasized the key points of inspection, completely identified and solved prominent problems in operation and management, implemented the deepening of correction and accountability, so as to effectively prevent operational risk and improve the quality and efficiency of serving the real economy; thoroughly carried out the second-stage work in the special activity of "safeguarding by internal control and escorting by compliance", actively promoted the compliance culture of the Company, perfected the compliance audit mechanism and the compliance management system which was commensurate with the development of the Company, so as to create a sustainable compliance environment; continuously optimized system management, enhanced system compliance review, steadily promoted system formulation and amendment work, in order to comprehensively improve the quality and efficiency of system management; enhanced the understanding of policies and the publicity of new rules, identified and assessed compliance risks of new products, new businesses and major events, strengthened compliance demonstration for new business systems, and carried out post evaluation of new products, and supported product and business innovation, based on compliance; perfected the system integrating operational risk, internal control and compliance, enhanced the technical level of compliance management, so as to ensure the sound and steady development of business of the Company.

11. Information technology risk management

Information technology risk refers to the operational, legal and reputational risks incurred arising from natural factors, human factors, technical bugs and management defects when the information technology is applied in the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, chief information officer, risk management and internal control committee, information technology management committee, business continuity management committee, risk management department, financial technology department, relevant departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management, as well as formulating and carrying out relevant systems and policies for information technology risk management.

The Company established a well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO27001 management system and regulatory requirements; established the business continuity management system, information technology outsourcing risk management system, and established a well-organized information security management system and a well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company updated and improved the 2016-2020 Information Technology Development Plan of China Zheshang Bank (《浙商銀行信息科技2016-2020年發展規劃》) (Plan π), and formulated the Information Technology Development Plan of China Zheshang Bank (Enhancement Plan 2018-2020) (《浙商銀行信息科技發展規劃(2018-2020提升規劃)》) ("Plan π+"), built the brand of "platform-based service bank", using financial technology; actively built up the comprehensive information security ecosphere and implemented the security control of internet application; enhanced monitoring and assessment of important information systems, carried out special rectification activities in key fields; promoted the construction of "three centers in two places" in an orderly manner, perfected emergency plans, designed and carried out emergency exercises. During the reporting period, the systems operated stably, without the occurrence of any substantial information technology risk event.

12. Anti-money laundering management

Anti-money laundering management refers to a series of preventive measures and risk control behaviors taken to prevent the laundering activities for covering up or concealing by financial instruments the nature or source of the illegally obtained proceeds and the gains derived therefrom.

The objectives of our anti-money laundering management are to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting the internal control system suitable to the anti-money laundering requirements and our development strategy to effectively guard against and control the money laundering and terrorism financing, and crack down on compliance risk.

In accordance with the Company's governance structure, the Company has established and optimized the anti-money laundering organization framework and management mechanism, under which the Board of Directors, the Board of Supervisors, Senior Management and relevant departments are subject to layered management, take their respective responsibilities, coordinate and cooperate with each other.

During the reporting period, the Company faithfully performed its social responsibility and legal obligation with respect to anti-money laundering, continuously perfected the anti-money laundering organizational structure, systems and operating mechanisms, thus the foundation for anti-money laundering was further consolidated, and the work was carried out stably and orderly as a whole. Firstly, it formulated strategies of money laundering risk management, perfected risk management structures, continuously deepened work of preventing and controlling money laundering risks; secondarily, it properly identified beneficial owners of customers who were not a natural person, thus effectively enhancing the customer identification management; thirdly, it earnestly and properly reported large transactions and suspicious transactions, continuously improving the quality and efficiency of reporting suspicious transactions; fourthly, it organized and carried out sanction risk review, supported anti-money laundering investigation and assistant investigation, so as to enhance risk assessment, management and control of high-risk customers and businesses; fifthly, it continuously optimized the construction of the anti-money laundering business system and the list search service system, so as to continuously perfect the technical prevention and control system of anti-money laundering; sixthly, it actively carried out anti-money laundering publicity and trainings, promoted internal supervision and inspection of anti-money laundering in an orderly manner, and practically complied with all regulatory requirements of anti-money laundering.

(VII) BUSINESS SUMMARY

1. Corporate banking segment

(1) Corporate business

In terms of corporate business, the Company has focused on developing itself into a bank that provides corporate liquidity services, strived to promote the innovation upon product and financial services model as well as business transformation and development, actively served the key national strategies and real economy, and achieved multi-win of the society, enterprise and bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, the Company's corporate business developed quickly, with a rapid growth achieved and the core competitiveness further improved. As of the end of the reporting period, the Company had 93,427 corporate customers, representing an increase of 22,377 ones or 31.49% as compared with that at the end of last year; balance of corporate loans was RMB603.258 billion, representing an increase of RMB84.662 billion or 16.33% as compared to that at the end of last year.

The Company made positive response to the changing situation, grasped the opportunity in the economy changing to "new era", implemented the strategy of Chinese government to support the development of emerging industries and promote the transformation and upgrade of industrial structure, advanced business transformation and development, and obtained new breakthroughs. During the reporting period, the Company continuously deepened the application of financial technology. With three major platforms, namely pooled financing, Yiqiyin (易企銀) and chain of accounts receivable, it innovatively launched Yong Jin Treasure (湧金司庫), Order Connect (訂單通), Manifest Connect (倉單通), Installment Connect (分期通) and other innovative business models, and special credit models of "A+B" and "H+M", so as to help real enterprises reduce leverage and cost, and construct a corporate liquidity service bank. Meanwhile, it actively implemented the "Made in China 2025" strategy. It is the first in the industry to introduce the "funds, assets and services financing" systematic financial solution for intelligent manufacturing, constructing the first "intelligent manufacturing service bank" in the industry. At the end of the reporting period, the credit balance for the intelligent manufacturing segment of the Company was RMB53.480 billion, representing an increase of 12.04% compared with that at the end of last year.

(2) International business

During the reporting period, the Company's international business achieved a stable growth in business scale and benefits by accelerating product innovation and improving service capability. We have completed the international settlement of US$80.951 billion, representing an increase of 21.35% on a year-on-year basis; the income of intermediary business amounted to RMB736 million, representing an increase of 43.47% on a year-on-year basis. The statistical data of the State Administration of Foreign Exchange shows that, the amount of foreign exchange purchased and sold by the Company on behalf of customers during the reporting period reached US$49.549 billion, representing a year-on-year increase of 89.55%, and the Company was ranked first among national joint-stock commercial banks in terms of such growth; the amount of foreign exchange collected and paid by the Company reached US$56.828 billion, representing a year-on-year increase of 23.04%, and the Company was ranked third among national joint-stock commercial banks, in terms of such growth.

The Company actively innovated cross-border financing services, diversified financing types, optimized business functions and improved the processing experience, based on liquidity services to export enterprises; introduced a credit model based on big data of enterprises including export declaration, foreign exchange collection and tax rebate, so as to relieve credit problems of medium-sized and small enterprises; comprehensively used "go global" cross-border financial services including letter of guarantee, export project financing, overseas bond issue and listing consulting, so as to satisfy overseas project contracting and cross-border investment and financing demands under the "Belt and Road Initiative". As of the end of the reporting period, the international trade finance balance of the Company on and off the balance sheet was US$8.443 billion (local and foreign currencies converted to USD).

The Company made efforts to develop agency businesses for foreign exchange transactions to assist enterprises in hedging and avoiding exchange rate risks. It continuously diversified the product system of "Zheshang Huiliying (浙商匯利盈)", providing diversified and personalized hedging products; continuously perfected "Zheshang Trading Treasure (浙商交易寶)", a trading terminal for online foreign exchange transactions of enterprises, so as to enrich business functions and improve service experience; and properly carried out bank-enterprise communication to develop risk philosophies and increase the risk aversion of enterprises. During the reporting period, the amount of foreign exchange transactions conducted by the Company on behalf of customers reached US$50.359 billion, representing a year-on-year increase of 49.99%.

The Company accelerated internet-based development of international businesses to improve the service efficiency and customer experience. It actively put into practice the concept of FinTech development, enabling online channels including corporate and personal internet banking, mobile banking and intelligent teller machine, to completely cover international businesses; created special online functions including "Yongjin Global Transfer (湧金全球匯)" cross-border remittance, "Yongjin Export Pool (湧金出口池)" trade finance, "Zheshang Trading Treasure (浙商交易寶)" foreign exchange transaction, and quick import Letter of Credit issuance via online banking, thus providing customers with high-quality service experience through convenient, rapid and whole-process online processing.

(3) Corporate liquidity service bank

With a focus on creating customer value, the Company innovated the concept of "Internet + Real-economy Enterprise + Financial Service", and constructed the pooled financing platform, Yiqiyin (易企銀) platform and accounts receivable chain platform. It continuously deepened the application of financial technology. With "three major platforms", it innovatively launched Yong Jin Treasure (湧金司庫), Order Connect (訂單通), Manifest Connect (倉單通), Installment Connect (分期通) and other innovative business models, and special credit models of "A+B" and "H+M", so as to help real enterprises reduce leverage and cost, and construct a "corporate liquidity service bank".

1. Pooled financing platform

With a focus on two core requirements of enterprises, namely "reducing financing costs and improving service efficiency", the Company innovated "pooled" and "online" financing business models. Based on the "three pools" (namely Yongjin Bill Pool (湧金票據池), Yongjin Asset Pool (湧金資產池) and Yongjin Export Pool (湧金出口池)), it introduced the online supply chain finance "1 + N" solution and "Zhizhen Loan (至臻貸)", forming a complete set of comprehensive corporate liquidity financial service solutions to help enterprises activate current assets such as bills receivables and accounts receivables and realize online operation, self-service financing, drawdown on demand, and instant drawdown and immediate repayment, thus reducing their provisions for payment and total amount of loans, and corporate financial leverage, interest expenditure and financing costs. As at the end of the reporting period, the Company had 22,290 contracted customers of Asset Pool (Bill Pool), representing an increase of 43.58% compared with that at the end of last year, and the asset balance in the pool was RMB350.679 billion, representing an increase of 22.65% compared with that at the end of last year; the Company had 3,069 contracted customers of Export Pool, with an accumulated 100,800 pooled accounts receivables, an accumulated pooled asset amount of US$10.897 billion, and accumulated extended export receivables financing of US$3.564 billion; for Zhizhen Loan (至臻貸), there were 1,645 contracted customers, representing an increase of 26.25% compared with that at the end of last year, and the financing balance was RMB50.125 billion, representing an increase of 44.68% compared with that at the end of last year.

2. *Yiqiyin platform*

Yiqiyin (易企銀) platform is an innovative and comprehensive financial service platform through which the Bank innovates the philosophy of "Internet + Real-economy Enterprise + Financial Service", integrates professional technologies such as settlement, credit and financing, and innovates the model of cooperation with enterprise group, core supply chain enterprises and internet transaction platform, so as to provide cost-reducing, efficiency-increasing, safe and efficient services for its members, and upstream and downstream enterprises. The Bank provides custody service, liquidity service and individualized services for Yiqiyin (易企銀) platform, which facilitates online financing and cost reduction of upstream and downstream enterprises in the supply chain, and support core enterprises to develop a good supply chain ecosystem. At the end of the reporting period, the Company launched 234 Yiqiyin platforms, representing an increase of 172.09% compared with that at the end of last year, and the total financing amount from the platforms reached RMB36.785 billion, representing an increase of 485.28% compared with that at the end of last year.

3. *Accounts receivable chain platform*

The accounts receivable chain platform is another significant innovation by the Bank in applying the blockchain technology to corporate accounts receivable business to enhance the corporate liquidity services, as well as an enterprise-bank cooperation platform designed and developed by the Bank based on innovative technologies including internet and blockchain, to solve problems of enterprises as to corporate accounts receivable. It is specifically used for handling corporate accounts receivable businesses including issuance, acceptance, confirmation, payment, transfer, pledge and honoring. Through such platform, corporate accounts receivable can be converted into an electronic payment, settlement and financing tool to help enterprises easily mobilize liquid assets, reduce payables, activate receivables, to realize "reducing leverage and cost", lower cost and improve efficiency, and relieve problems of difficult and expensive financing confronting medium-sized and small enterprises. At the end of the reporting period, the Company launched 1,410 accounts receivable chain platforms, representing an increase of 1,268.93% compared with that at the end of last year, and the total amount issued from the platforms reached RMB122.878 billion, representing an increase of 4,044.28% compared with that at the end of last year.

2. Inter-bank financial segment

(1) Business overview

In the new market environment, for the inter-bank financial segment, the Company actively implemented the new philosophy of "high-quality development", under the basic principle of serving the real economy; proactively responded to financing demands of the real economy, comprehensively using the advantages of such segment; optimized the segment risk management and control level, promoted the transformation to a "transaction bank", and finally met the win-win target of satisfying financing demands of customers and achieving efficient development of its businesses.

(2) Financial market business

In terms of financial market business, the Company continued to build a comprehensive FICC (Fixed income, Currency & Commodity) trading platform which integrates proprietary investment and financing, proprietary trading and trading agency service, and continuously strengthened its capabilities of innovating cross-border businesses and businesses between markets and asset classes, and its abilities to serve customers. It cooperated with corporate, retail and inter-bank business departments and branches of the Bank in promoting business development. Since 2018, the Company has successfully obtained the membership of Shanghai Futures Exchange for proprietary trading, the primary membership of the International Swaps and Derivatives Association (ISDA), the "Bond Connect" market maker qualification, the "foreign currency interbank lending quotation bank" qualification from China Foreign Exchange Trade System, regular clearing membership of Shanghai Clearing House for central clearing businesses of RMB interest rate swaps and regular clearing membership of Shanghai Clearing House for central clearing businesses of credit default swaps, thus further expanding room for the development of financial market businesses of the Bank.

For the local currency transaction, in 2018, there was a decline in the market yield of local currency bonds and a downward trend in bond yield. According to the change in market environment, the Company adjusted the bond investment strategies in a timely manner, changing its strategy from taking defensive positions in last year to cautiously taking long positions, and increasing the bond size in a timely manner. The bond and derivative transactions of the Company were relatively flexible. In 2018, the amount of bond transactions was RMB4,177.739 billion, representing a year-on-year increase of 109.44%, and the amount of interest rate swap transactions was RMB617.479 billion, representing a year-on-year increase of 118.54%.

For the foreign currency transaction, the Company enhanced research and judgment on the foreign exchange market, and achieved comprehensive development of spot, swap and option businesses. It spread out risks, using diversified trading portfolio strategies, and actively carried out agency businesses for foreign exchange to meet customer demands. During the reporting period, the amount of inter-bank foreign exchange market transactions reached US$995.165 billion, representing a year-on-year increase of 52.87%; the amount of oversea interest rate derivatives transactions reached US$1,045.524 billion, representing a year-on-year increase of 52.73%. During the reporting period, the Company won the Third Prize in "2018 Best Investment Institutions of Foreign Currency Bonds in Asia (the PRC/Hong Kong)" of The Assets.

For the precious metal transactions, the Company effectively captured the trend of the precious metal market and opportunities of the price difference between domestic and foreign markets and the difference between future and spot prices, and actively conducted precious metal transactions, especially silver transactions. In 2018, the amount of precious metal transactions made by the Company reached 75,861.23 tons, representing a year-on-year increase of 201.24%. During the reporting period, the Company was ranked among top 10 companies in terms of proprietary trading of gold both in Shanghai Gold Exchange and Shanghai Futures Exchange, and the proprietary trading of silver ranked among the best. Through proprietary trading and customer silver transactions, our Bank started to show its influence in the silver market.

(3) Capital market business

During the reporting period, the Company adhered to the basic principle of serving the real economy and actively complied with requirements of regulatory policies. It actively promoted business transformation according to new regulations on asset management, optimized business models and product systems, improved business processes and the ability to proactively manage assets.

It provided comprehensive financial services for high-quality listed companies and leading non-listed companies, actively using equity investment and financing instruments, with a focus on key regions and industries. It further enhanced product innovation and carried out beneficial exploration of fields including direct investment in equity and debt-to-equity swap, thus preliminarily forming a relatively sound innovative business system and supporting mechanism.

It comprehensively promoted business structure adjustment, deepened risk prevention and control mechanisms, and improved the return on assets and quality, thus further optimizing the business profitability structure and maturity structure during the reporting period.

(4) Financial inter-bank business

Financial inter-bank businesses were actively transformed, in the new market environment in 2018. In terms of overall scale, the Company conformed to the trend and downsized the scale; in terms of asset allocation, it enhanced financing support for corporate customers, and made low-cost and highly customized financing plans for entities of the Company through diversified inter-bank investment products, so as to better meet demands of the real economy.

With a focus on serving the real economy and under the principle of "customer orientation and sales enhancement", the Company carried out upgrade and transformation in strict compliance with requirements of regulatory policies.

(5) *Asset management business*

The Company's asset management business is centered on serving our customers professionally, aiming to build a professional platform that is equipped with cross-market and multi-tool applications, which enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfill customers' investment and financing needs. The Company positively accommodated to the market and policy changes, attached importance to advancing the optimization of asset structure and customer structure, made full efforts to satisfy various investment and financing demands of individuals, companies and inter-bank customers, and strived to build a respected asset management business brand featured by "professional management, customer first, differentiated competition and leading efficiency".

As of the end of the reporting period, the balance of our wealth management products amounted to RMB340.317 billion, representing a decrease of 2.55% as compared to that at the beginning of the year, wherein, the proportion of funds for the individuals, companies and inter-bank customers respectively represented an increase of 39.89 percentage points, a decrease of 2.07 percentage points and a decrease of 37.82 percentage points as compared to that at the beginning of the year. During the reporting period, the Company issued wealth management products of a total of RMB754.170 billion, representing an increase of 24.77% on a year-on-year basis, and gained the fee income from asset management business of RMB1.390 billion. During the reporting period, the Company continuously built an asset management brand and won such professional awards as "2018 Junding Award for Bank Wealth Management Brands in China (2018中國銀行理財品牌君鼎獎)" and "2018 Junding Award for Excellent Wealth Management Institutions (2018優秀財富管理機構君鼎獎)" by the Securities Time, Yongle No.1 "2017 Gold Bull Bank Wealth Management Product Award (2017金牛銀行理財產品獎)" by China Securities Journal, "2018 Top 300 Dealers in the Interbank RMB Market (2018年度銀行間本幣市場交易300強)" by National Interbank Funding Centre.

(6) *Investment banking business*

For the investment banking business, the Company adhered to the principle of customer orientation, carried out businesses with a focus on basic demands of customers, realized innovation-driven development, improved the service ability and enhanced internal control management, constructed a direct financing service bank, continuously enhanced market competitiveness and influence, and maintained the good development trend of making great progress while ensuring stability.

During the reporting period, the Company continuously innovated various investment banking products and business models which met market demands. It successfully used various mature and innovative products in the inter-bank market, and enhanced the development of an investor base. It made efforts to provide customers with direct financing services through investment banking business. It continuously served the real economy, and responded to national policies in relation to supporting private enterprises, by actively supporting the implementation of bond financing support plans for private enterprises. The Company, acting the capacity of sole lead underwriter, joint lead underwriter and otherwise, underwrote various bonds in a total amount of RMB200.117 billion in the interbank market for the year, representing a year-on-year increase of 46.60%, including debt financing instruments of non-financial enterprises, local government bonds, financial bonds and asset-backed securities.

The Company was granted the "2018 Junding Award of Investment Banking (Industry) in China (2018中國區銀行（行業）投行君鼎獎)" and the "2018 Junding Award of Bond Underwriting Bank in China (2018中國區債券承銷銀行君鼎獎)" by Securities Times, the "Annual Excellent Trading Asset-backed Notes (年度優秀交易資產支持票據)" by China Securitization Forum, the "2018 Excellent CCDC Member — Excellent Issuing Institution Award (2018年度中債優秀成員優秀發行機構獎)" and Credit Risk Mitigation Instrument Innovation Business Promotion Award by Shanghai Clearing House, for the investment banking business.

(7) Asset custodian business

The Company actively explored and expanded the market space, adhered to the "one-stop" financial service philosophy of the inter-bank financial segment, further explored the market demand, enhanced the development of the basic customer base of the custodian business, and continuously promoted the optimization of the custodian business structure. During the reporting period, the Company improved the business operation efficiency and customer service satisfaction through optimization of the custodian business system. It has established a special custody service platform consisting of three functional systems: custodian business support, custodian business processing and public network service of custodian business. As at the end of the reporting period, the balance of assets under custody reached RMB1.61 trillion, of which the size of assets under public offering funds was RMB141.143 billion, representing an increase of 68.21% on a year-on-year basis; the accumulated income from custody fees amounted to RMB525 million, representing an increase of 5.28% on a year-on-year basis.

3. Large retail segment: small enterprise business

During the reporting period, the Company continued to enhance professional operation of small and micro enterprise finance, improved the service system and service ability, and promoted rapid and sound development of small and micro enterprise finance. As at the end of the reporting period, the balance of national-standard small and micro enterprise loans reached RMB204.546 billion, representing an increase of RMB22.341 billion or 12.26% compared with that at the end of last year, and the small and micro enterprise loans accounted for 23.90% of all loans, so the Company was ranked first among national joint-stock commercial banks in terms of such proportion.

Accelerating development of inclusive finance and further consolidation of advantages of a benchmark. During the reporting period, the Company met the target of "two increases and two controls" with high-quality development of small and micro enterprise finance: as at the end of the reporting period, the balance of small and micro enterprise loans with the total credit line for an individual customer less than RMB10 million (inclusive) (hereinafter referred to as "small and micro enterprise loans under inclusive finance") was RMB140.578 billion, representing an increase of RMB29.654 billion or 26.73% compared with that at the beginning of the year; the number of borrowers reached 74.2 thousand, representing an increase of 6.6 thousand compared with that at the beginning of the year; the interest rate level of loans was relatively stable and met the regulatory objective; the asset quality remained excellent, the non-performing asset ratio of small and micro enterprise loans under inclusive finance was 1.03%, representing a decrease of 0.11 percentage point compared with that at the beginning of the year. The Company was ranked among the leading national commercial banks[note] in terms of the proportion of small and micro enterprise loans under inclusive finance and asset quality. During the reporting period, it won the "Best Livelihood Finance Award (最佳民生金融獎)" in the PRC banking industry, the Outstanding Unit Supporting Agriculture and Small Enterprises in Zhejiang Province and otherwise.

Note: Including 6 state-owned large-scale commercial banks and 12 nationwide joint-stock commercial banks.

Continuously optimizing the granting method and promoting the rapid growth of the small and micro customer base. The Company actively participated in the development of new economy, enhanced the finance service for the industry chain and industrial parks of small and micro enterprises, and supported the transformation and upgrade of small and micro enterprises, using special products including "Zhizao Loan (智造貸)". As at the end of the reporting period, the balance of small and micro enterprise loans granted by the Company in new industries was RMB52.051 billion, representing an increase of RMB9.843 billion or 23.32% compared with that at the beginning of the year. During the reporting period, the Company had 100 additional core enterprise industry chain projects, providing 1,092 small and micro business customers with loans in the amount of RMB3.211 billion; made efforts to promote the development of industrial parks of small and micro enterprises, granting the total credit line of RMB12.735 billion for standard factory buildings of industrial parks; and supported the development of intelligent manufacturing enterprises, providing 569 small and micro business customers with intelligent equipment loans in the amount of RMB0.471 billion. As at the end of the reporting period, the total number of small and micro business customers served by the Company reached 223.8 thousand, representing an increase of 33.78%.

Accelerating digital inclusive transformation and giving play to the advantages of new technologies. Through financial technologies including internet and big data, the Company provided small and micro business customers with 24/7 service and reduced loan application costs and time costs of customers; accelerated the development of pure online businesses, promoting the pure online "Easy Loan (點易貸)" business and launching the "House Mortgage Easy Loan (房抵點易貸)" business, thus realizing 5-minute application and 1-hour approval with nil commission. As at the end of the reporting period, the total amount of credit granted in pure online businesses exceeded RMB10 billion, serving approximately 32 thousand small and micro business customers.

Deeply tapping into customer potential and improving the comprehensive service level. The Company strengthened the use of its special liquidity service products including the "three major platforms", and enhanced the comprehensive marketing of products including international business, settlement product and retail, so as to provide customers with more flexible and convenient financial services and increase the stickiness of small and micro business customers. As at the end of the reporting period, the average number of products used by small and micro business customers was 5.03, representing an increase of 0.51 compared with that at the beginning of the year.

4. Large retail segment: retail banking business

For the retail banking business, the Company persisted in constructing a personal wealth management bank to create value together with customers. It stuck to fintech innovation, perfected business systems, rapidly promoted platform-based development of retail businesses, continuously optimized product and service experience, and accelerated its shift to coordinated development in terms of profitability, quality and size.

As at the end of the reporting period, total amount of the Company's personal financial assets reached RMB412.969 billion, representing an increase of 51.26% as compared with that at the beginning of the year; the number of effective individual customers was 4.5492 million, representing an increase of 26.69% as compared with that at the beginning of the year.

(1) Personal deposit and loan business

The Company continuously enhanced the innovation of personal deposit products and focused on perfecting the core deposit product system. It launched products including "Kuailijia (快利加)", "Shenglijia (升利加)" and "Huilijia (匯利加)", further enriching the existing deposit products of "Jia" series; meanwhile, it launched RMB personal structured deposit products, expanding the sources of basic deposits and driving a relatively increase in personal deposits. It achieved stable and rapid development of personal loan business by continuous online and offline marketing of basic and innovative personal loans and use of technologies for risk control. As at the end of the reporting period, the balance of the personal deposits was RMB97.663 billion, representing an increase of 75.38% as compared with that at the beginning of the year; balance of personal consumption loans and personal housing loans, was RMB75.376 billion, representing an increase of 95.85% as compared with that at the beginning of the year, with a non-performing ratio of 0.20%. The good asset quality was maintained continuously.

(2) Wealth management

The Company is committed to meeting the integrated financial needs for customer development, continuously improving its wealth management capability through financial technology. Focusing on "Finance Market" and "Wealth Cloud", the Company provided customers with comprehensive liquidity solutions, and in conjunction with the wealth management product system including Yongle Finance, Characteristic Deposit and Delegated Investment & Finance, continuously improved the return on assets for customers, while meeting liquidity demands of customers. At the end of the reporting period, the balance of personal wealth management was RMB299.742 billion, representing an increase of 80.03% as compared with that at the beginning of the year, accounting for 88.08% of the total wealth management balance. The balance of new characteristic deposits reached RMB55.081 billion, representing an increase of 193.41% as compared with that at the beginning of the year . The income of commission fee for sales agency business reached RMB206 million, representing an increase of 96.19% on a year-on-year basis.

(3) Private banking

During the reporting period, based on the private banking service philosophy of "passing of wealth and wisdom, for sustainable development" and through perfecting products, optimizing special services, strengthening the establishment of a professional team and otherwise, the Company improved the capacity in terms of customer service, wealth appreciation and asset allocation, thus developing the core competitiveness of private banking. It successively launched many private-banking investment and wealth management products with controllable risks, higher earnings and diversified terms. It made efforts to develop "24/7 free car pickup for airport and high-speed rail" service and the unique "Charming Zheshang – Z20" series of value-added services integrating investment forum, hotspot analysis, cultural experience and health maintenance. As at the end of the reporting period, the Company had 6,773 monthly private banking customers with the daily average financial assets of RMB6 million and above, representing an increase of 47.95% as compared with that at the beginning of the year.

(4) Credit card business

For the credit card business, the Company adhered to the flexible and convenient operation philosophy, deeply tapped into the financial character of internet, and realized the business transformation of credit cards. It successively launched theme co-branded cards including Qidian Card (起點卡), Shenzhou Chuxing Card (神州出行卡). It launched the Xinyi Card (信易貸) which features "real-time issuance, convenience and rapidness". It launched a pocket money product which allows "immediate borrowing and repayment" and continuously perfected the scenario-based instalment system, covering instalments of a parking space loan, tuition loan, home decoration loan and car loan. With a focus on the "interesting life" theme, it acquired online and offline merchants, and enriched marketing scenarios, further enriching the living rights and interests of card holders, and built a distinguishable brand identity.

As at the end of the reporting period, the Company has totally issued 3.48 million credit cards, with 982.8 thousand cards newly issued during the reporting period; the cumulative consumption amount was RMB72.417 billion, representing an increase of 176.02% over the same period of last year and the overdraft balance was RMB19.168 billion, representing an increase of 165.32% over the beginning of the year with the non-performing credit card rate being 1.06%.

5. Internet Finance and Electronic Banking

(1) e-finance

During the reporting period, for the e-finance business, the Company made further efforts to transfer the target customers of e-finance to the real economy, continuously perfected bottom-layer products, and innovated business models and cooperation methods with a focus on creating customer value. According to features of application in various real production and living scenarios, it designed and provided a scenario scheme and a personal-corporate business linkage scheme based on technical solutions to improve the financial service ability.

(2) Electronic banking

The Company has formed an electronic banking service system consisting of online banking, mobile banking, direct banking, telephone banking, WeChat banking and self-service banking. The replacement rate of electronic banking channels was 98.35%, making it the industry leader in this regard. With excellent performance in the establishment of e-channels and creation of customer experience, the Company won two awards in the "China E-banking Award (中國電子銀行金榜獎)" by China Financial Certification Authority, namely "2018 Best Online Banking Customer Experience Award (2018年度最佳網上銀行用戶體驗獎)" and "2018 Best Mobile Banking Function Award (2018年度最佳手機銀行功能獎)".

Online banking

During the reporting period, based on the genuine need of enterprises, the Company continuously optimized corporate online banking functions and focused on enhancing the ability to serve group customers, and realized the use of all function applications of subsidiaries with a set of group enterprise USBKeys; innovated and perfected service scenarios, providing the function of payment agency in special scenarios; simplified operations of frequently used functions, and intelligentized channel routing, so as to further reduce customer operations and optimize customer experience. As at the end of the reporting period, the number of customers of the Company with a corporate online banking certificate reached 112.6 thousand, representing a year-on-year increase of 35.66%, and the number of transactions conducted through corporate online banking for the year reached 53,212.0 thousand, with the transaction amount of RMB9,938.746 billion.

During the reporting period, the personal online banking (version 4.0) of the Company went live. It is customer-oriented and focuses on simplifying operations of frequently used functions, enriching channel service scenarios and perfecting the efforts for channel consistency and otherwise. It enhances interactive intelligent application to improve customer experience and extend customer channel services, through active application of advanced technologies including big data, artificial intelligence. As at the end of the reporting period, the number of customers of the Company with a personal online banking certificate reached 1,119.1 thousand, representing a year-on-year increase of 48.84%, and the number of transactions conducted through personal online banking for the year reached 71,818.6 thousand, with the transaction amount of RMB1,011.031 billion.

Mobile banking

During the reporting period, the Company cooperated with leading biometric identification technology providers in comprehensively applying the face identification technology to mobile banking and other mobile clients, for more convenient use by customers and safer and more reliable identity authentication; reducing manual operations, by incorporating transaction reuse and other technologies in transfer, remittance and other core functions, and enhancing the intelligent level of main interactive modes including login, search and push, so as to further increase the efficiency of use by customers; adding "utility fee payment", "QR code withdrawal", "face recognition transfer", "financial calendar reminder" and other functions, in order to further enrich channel service scenarios and enhance the customer stickiness. As at the end of the reporting period, the number of personal mobile banking customers of the Company was 2,486.9 thousand, representing a year-on-year increase of 130.89%.

Direct banking

During the reporting period, the Company continuously carried out optimization and upgrade, adding the face recognition login function and allowing gesture password login and fingerprint password login, thus providing more flexible and convenient options for customers; meanwhile, it optimized the anti-money laundering function series, making a connection to the anti-money laundering blacklist system and supplementing important personal information which is missing, thus making the direct banking safer and more controllable. As at the end of the reporting period, the number of direct banking customers was 1,365.8 thousand.

Telephone banking

The Company upheld the service philosophy of "customer-oriented, beyond expectation" and broke the traditional mindset on customer service. It constructed an integrated service platform which provided customers with 24/7 service covering the whole sales process (namely before, during and after sales), by continuously expanding all-media service channels, transforming intelligent customer service operation models, and deeply tapping into customer needs with big data. It provided customers with rapid, comprehensive and professional high-quality services, through intelligent voice, intelligent online robot, telephone operator service, online service, video call, WeChat, email and other means.

During the reporting period, the total number of calls from customers was 4,456.5 thousand, of which the number of calls to operators was 1,782.6 thousand, with the customer satisfaction of 99.88%; the number of serving customers online was 589.2 thousand person-times, with the service response rate of 97.67%; the complaint resolution rate was 100%.

WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform for new financial services and brand publicity. It launched its official mini app, which allows customers to search for its wealth management products, precious metals, foreign exchange rate and other information, via WeChat scanning, thus enabling customers to get knowledge of the most special financial products of the Company at any time and thoroughly obtain the most valuable dynamic information. Such app has the "Finance Market (財市場)" module, which covers purchase, transfer and management of various wealth management products, providing "one-stop" service for customers in wealth management and investment. In addition, it allows online appointment, realizing seamless connection between e-channel (online) and service outlet (offline). As at the end of the reporting period, the number of WeChat banking users of the Company was 1,729.1 thousand, and messages pushed by WeChat banking were read over 2.58 million times.

Self-service banking

During the reporting period, the Company continuously promoted the construction of self-service banking channels, providing automated teller machines, cash recycling systems and various other 24/7 self-service financial services for customers, which completely satisfied customers' needs for financial services including deposit, withdrawal, transfer, balance enquiry and password modification. Meanwhile, in order to meet customers' needs for opening an account via self-service banking, the Company provided self-service card machines in outlets with a large customer flow and a high volume of businesses to greatly relieve the problem of long-time waiting for opening a new account. As at the end of the reporting period, the Company had 242 self-service banks and 1,726 self-service machines.

6. Business of Hong Kong Branch

During the reporting period, Hong Kong Branch earnestly made preparation for opening based on requirements of Hong Kong Monetary Authority, and officially opened on April 10, 2018. Ever since the opening, Hong Kong Branch has been actively complied with the Company's requirement of "compliant operation and steady development". Through effective measures including enhancing the cooperation with domestic institutions, conducting comprehensive risk management, accelerating the development of information technology systems, strengthening internal management, it laid a solid foundation for development, innovated the development philosophy, and gave play to the advantages of platforms, which realized steady development of businesses and was already paying off.

With the advantage of cross-border linkage with the parent bank, Hong Kong Branch focused on strategic opportunities including the "Guangdong-Hong Kong-Macao Greater Bay Area" and the "Belt and Road Initiative", and provided professional cross-border financial solutions and financial services for high-quality "going global" customers who met requirements of national policies. Through close cooperation with banking peers, it implemented trade finance, bilateral loan, syndicated loan and other projects, which were influential in the industry. Meanwhile, it was engaged in financial market business activities including trading agency, proprietary trading, banking account bond investment and money market transaction, laying a solid foundation for opening the branch and effectively improving the competitiveness and influence of the Company in the international market.

As at the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK$24.146 billion, of which financial assets at fair value through other comprehensive income amounted to HK$5.937 billion, accounting for 24.59%; loans and advances to customers amounted to HK$5.143 billion, accounting for 21.30%; amounts due from head office and overseas offices amounted to HK$4.705 billion, accounting for 19.49%; placements with banks amounted to HK$4.347 billion, accounting for 18.00%; and trade bills amounted to HK$3.707 billion, accounting for 15.35%. During the reporting period, the operating income was HK$0.196 billion.

(VIII) INFORMATION ABOUT MAJOR SUBSIDIARIES

As a controlling subsidiary of China Zheshang Bank, Zheyin Financial Leasing obtained its business license on January 18, 2017, with a registered capital of RMB3 billion. Its business scope covers the leasing business, transfer and acquisition of financial leasing assets, investing in fixed-income securities, accepting lease deposits from lessees, accepting time deposits of three months (inclusive) or longer from non-bank shareholders, inter-bank borrowing, taking loans from financial institutions, overseas borrowings, sale-and-disposal of the leased properties, economic consultation, and other businesses approved by CBIRC. As of the end of the reporting period, Zheyin Financial Leasing had a total number of employees of 88, total assets of RMB20.582 billion, net assets of RMB3.190 billion, and net profit in 2018 of RMB143 million.

(IX) OUTLOOK

China remains in an important period of strategic opportunities and will remain so for a long time to come. The world faces a significant change that has not occurred previously in a hundred years, which poses a challenge but also provides a great opportunity for the great rejuvenation of the Chinese nation. The year 2019, which marks the 70th anniversary of the founding of the People's Republic of China, is a key year for securing a decisive victory in building a moderately prosperous society in all respects. The three battles against potential financial risk, poverty and pollution will continue to be prioritized, and more efforts will go toward stimulating the vitality of micro entities. The economy operation is kept within the proper range. Efforts will be made to further stabilize employment, the financial sector, foreign trade, foreign capital, investment and expectations. The macro policy will enhance countercyclical regulation, so a proactive fiscal policy and a prudent monetary policy will continue to be implemented. The proactive fiscal policy will allow greater tax and fee reduction and more fiscal spending, and improve the efficiency of allocation and utilization of fiscal funds. The prudent monetary policy is maintained to an appropriate degree, and policies focusing on unblocking the policy transmission mechanism will be successively published, which will direct reasonable and sufficient liquidity to the real economy.

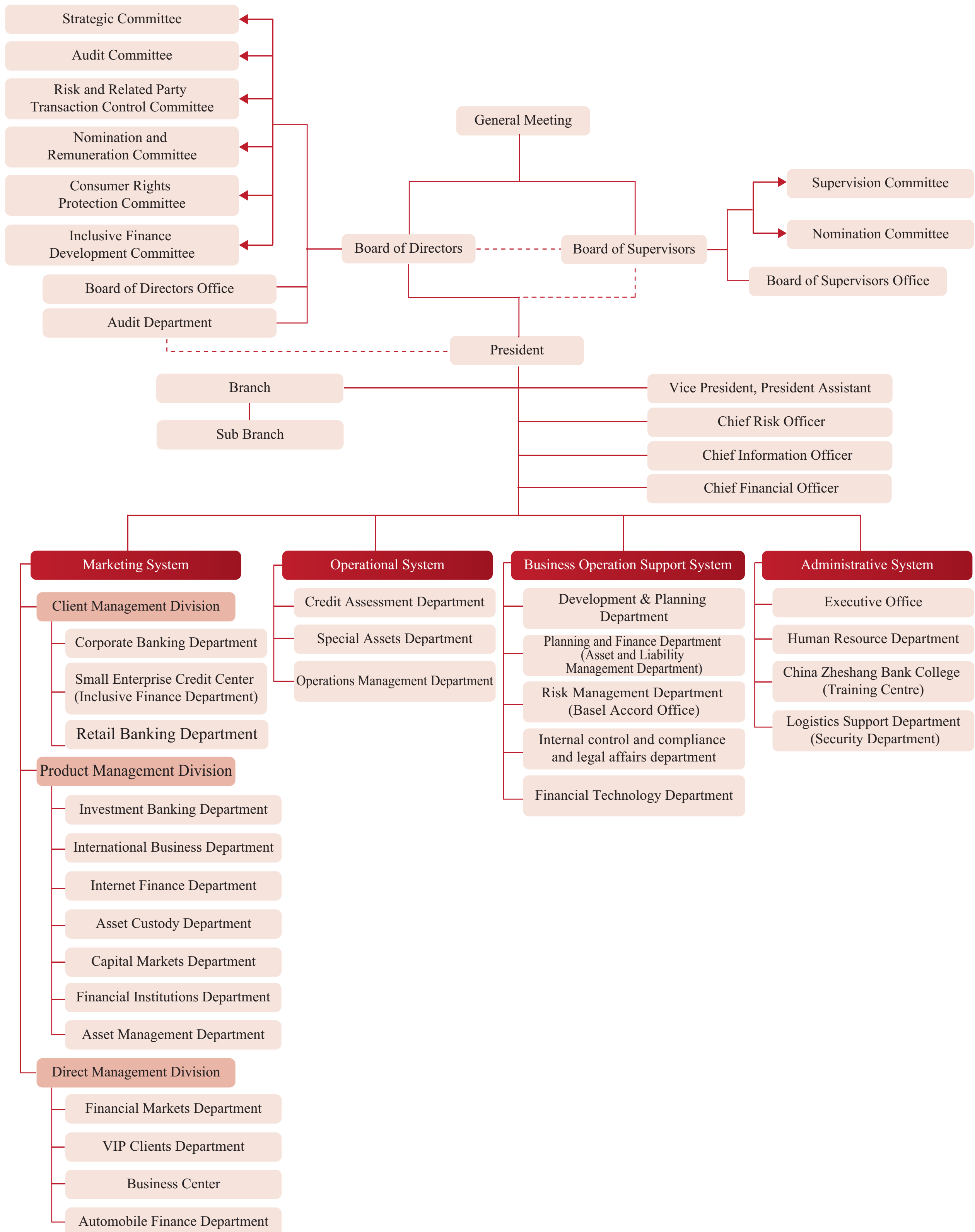
In 2019, financial-industry regulation remains strict. Strict regulation and risk prevention will remain the focus in the financial sector. The basic principle of enhancing macro-prudential regulation, preventing systemic financial risk and insisting on structured deleveraging will remain unchanged, and the orientation of the financial sector serving the real economy will be more prominent.

The banking industry of China is also in the key period of reform and transformation. Deep integration of financial technology and the banking industry has become an irreversible trend. The financial technology has become a core drive for bank innovation and represented material restructuring and reconstruction of traditional banking businesses. The banking industry still faces a grim and complicated risk situation, with internal inventory risk and non-performing loans, which have not been resolved. In the financial sector, further expansion of openness to foreign countries is accelerated, which promotes acceleration of the transformation and development of the banking industry.

In 2019, the Company will thoroughly implement the spirit of the 19th CPC National Congress; focus on the "Two Most" overall goal and the full asset operation strategy; insist on serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement; in a planned manner, promote the change of development modes, adjustment and optimization of structure, enhancement of customer base, prevention and addressing of risks, comprehensive and strict bank governance, and otherwise. The Company will accelerate the development and concentration of new momentum, develop new advantages of transformation and development, and construct a platform-based service bank, so as to achieve a higher-quality, more beneficial and sustainable development.

CORPORATE GOVERNANCE

(I) CHART OF ORGANIZATIONAL STRUCTURE



(II) OVERVIEW OF CORPORATE GOVERNANCE

Corporate governance is a key support to realize business transformation. As a nationwide joint-stock commercial bank established in the "2000s", the Company made unremitted efforts to pursue standardized business operation and extraordinary corporate governance. The Company continuously improves corporate governance structure set by the Shareholder's General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management according to the relevant laws, regulations and regulatory requirements, and the governance bodies of the Company operate independently, effectively check and balance one another, cooperate with each other and operate in an coordinated manner.

The Board of Directors of the Company makes efforts to establish a corporate governance mechanism which clearly defines responsibilities, provides for a proper combination of check and balance and collaboration, and ensures scientific and democratic decision-making, standard and high-efficiency operation, under the principle of corporate governance complying with laws and regulations, by reference to the best practices of excellent companies, based on perfecting the corporate governance mechanism and system, and with a focus on giving play to the decision-making role of the Board of Directors.

In 2018, the year of election of the Board of Directors, the Company earnestly evaluated the composition of the Board of Directors and special committees thereof and went through required election procedures, thus keeping the stability and continuity of the Board on the basis of sufficient negotiation and communication, and enhancing the diversified power of the Board. Taking the preparation for the A share listing as an opportunity, it amended basic systems of corporate governance, including the Articles of Association, rules of procedure for special committee, annual report work rules and related party transaction management measures, thus laying a solid foundation for the operation of corporate governance. It actively organized in-depth study and research on management requirements of the Interim Measures for the Equity Management of Commercial Banks, and thoroughly identified its own problems, practically formulated and implemented a scheme to realize a positive interaction between equity management and corporate governance improvement.

The meetings held during the reporting period were as follows: one annual general meeting, one domestic shareholders' class meeting, one H shareholders' class meeting; ten meetings of Board of Directors, one meeting of Strategic Committee, two meetings of Audit Committee, thirteen meetings of Risk and Related Party Transaction Control Committee, four meetings of Nomination and Remuneration Committee, two meetings of Consumer Rights Protection Committee, one meeting of Inclusive Finance Development Committee; eleven meetings of the Board of Supervisors, two meetings of Supervision Committee and four meetings of Nomination Committee.

(III) GENERAL MEETING

Pursuant to the Articles of Association, the shareholders' general meeting is the top governing body of the Company, which manages and supervises the Company through the Board of Directors and the Board of Supervisors. The Company raised an independent resolution for each actually independent matter at the general meeting, and voted by ballot to ensure that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

During the reporting period, the Company held the 2017 Annual General Meeting, the 2018 First Class Meeting for Domestic Shareholders and the 2018 First Class Meeting for H Shareholders on June 27, 2018. For details of relevant proposals and relevant announcements about resolutions adopted at the meetings, please refer to the circular for the general meetings dated May 11, 2018 and poll results announcement in connection with the general meetings dated June 27, 2018 published by the Company on the websites of Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The Chairman of the meetings has explained the detailed procedures for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

(IV) BOARD OF DIRECTORS

1. Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors of the Company comprised 18 Directors, of which 3 were executive Directors, namely Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun; 8 were non-executive Directors, namely Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng (whose qualification for appointment as a Director is pending the ratification of his eligibility by CBIRC), Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting and Mr. Xia Yongchao; 7 were independent non-executive Directors, namely Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai. Not less than 1/3 of the members of the Board of Directors of the Company were independent non-executive Directors, and at least one of the independent non-executive Directors fully complied with the Rule 3.10(2) of the Hong Kong Listing Rules, who had appropriate professional qualifications or accounting or related financial management expertise. The number and composition of independent non-executive Directors are in compliance with relevant laws, regulations and requirements of the Hong Kong Listing Rules.

The Board of Directors was rationally structured with experienced members. The executive Directors are diligent, professional and efficient, while the non-executive Directors are equipped with rich banking or enterprise management experiences, and the independent non-executive Directors' knowledge and background covering various areas including economy, finance, securities, accounting and law.

During the reporting period, all Directors diligently performed their duties, being present or in attendance at relevant meetings in a timely manner; actively participated in discussion on affairs, trainings, thematic study and discussion activities; prudently expressed professional opinions; paid continuous attention to conditions of operation and management of the Company; proactively improved their ability to perform their duties; continuously improved the scientificity and efficiency of decisions, with their high sense of responsibility and excellent professionalism; ensured that commercial activities of the Company complied with national laws and regulations and requirements of regulatory authorities; and effectively protected legitimate rights and interests of shareholders.

2. Board Diversity Policy

The Company considers the diversity of the members of the Board of Directors as an important impetus to support the Company in enhancing the corporate governance level and achieving sustainable development. The Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or service period, thus ensuring the Board of Directors have diversified viewpoints and angles in performing their duties, and forming into a composition model of the Board matched with the Company's development model.

The Board Diversity Policy of the Company comprises of chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversity of the Board to strengthen the execution of the Board, and affirming the importance of diversity of the Board to achieve strategic objectives. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. Among the incumbent 18 Directors, three of them are female, and 14 are with post graduate diploma or master's degree or above, including two with doctoral diploma and one director ordinarily residing in Hong Kong. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board is able to effectively make independent judgments and scientific decision when studying and considering material issues.

3. Responsibilities of the Board of Directors

According to the Articles of Association, the Board of Directors is the decision-making organ of the Company and shall undertake ultimate responsibility for the operation and management of the Company. The main responsibilities are as follows: to convene general meetings, present proposals and report to shareholders at the general meetings; to implement the resolutions of the general meetings; to formulate medium and long-term development plans and development strategies of the Bank and supervise the implementation of such development plans and development strategies; to decide the annual appraisal indices for the operation of the Bank and approve the annual operation plans of the Bank; to formulate our annual financial budgets and final accounts; to formulate our profit distribution plans and plans for recovery of losses; to formulate proposals for increase or decrease of our registered capital, issuance of shares or bonds with the capital replenishment nature; to decide on issuance of bonds other than those with the capital replenishment nature by the Bank; and to formulate proposals for merger, demerger, dissolution and liquidation of the Bank.

The Senior Management has the rights to make decision in daily operation independently under the authority of the Board, and the Board will not intervene specific daily affairs of operation and management of the Company.

The Board is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board and its committees reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, strengthened the Company's risk management and internal control, and further enhanced the Company's corporate governance policy and regular practice.

4. Meetings and proposals of Board of Directors

During the reporting period, the Company held ten meetings of Board of Directors, among which four were regular meetings and six were interim meetings. The main proposals considered at the Board meetings were as follows:

Work Report of the Board of Directors of China Zheshang Bank for 2017
Work Report of President of China Zheshang Bank for 2017
Social Responsibility Report of China Zheshang Bank for 2017
Final Financial Report of China Zheshang Bank for 2017
Profit Distribution Plan of China Zheshang Bank for 2017
Business Operation Plan of China Zheshang Bank for 2018
Annual Budget Report of China Zheshang Bank for 2018
Report on Comprehensive Risk Management of China Zheshang Bank for 2017
Internal Audit Work Report of China Zheshang Bank for 2017
Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions of China Zheshang Bank for 2017
2017 CZBank Work Report on Protection of Consumer Rights and Interests
2017 CZBank Work Report on Anti-money Laundering
CZBank Green Finance Construction Outline
Proposal on Adjustment to 2018-2020 Development Progress of the Third Five-Year Plan
Proposal on Results of 2017 Performance Evaluation of Directors by the Board of Directors of CZBank
Proposal on Extension of the Validity Period of A Share IPO and Listing Plan of CZBank
Proposal on the Rules of Procedure for the Inclusive Finance Development Committee of the Board of CZBank
Proposal on Amendment to Articles of Association (Current) of China Zheshang Bank Co., Ltd.
Proposal on Amendment to Articles of Association (A+H) of China Zheshang Bank Co., Ltd.
Proposal on List of Candidates for the Fifth Session of the Board of Directors of CZBank
Proposal on Election of Chairman of the Fifth Session of the Board of Directors of CZBank
Proposal on Election of Members of Special Committees of the Fifth Session of the Board of CZBank
Proposal on Appointment of President of CZBank
Proposal on Appointment of Vice President, Assistant to President, Chief Risk Officer, Chief Information Officer and Chief Finance Officer of CZBank
Proposal on Participation by CZBank in Capital Contribution to National Financing Guarantee Fund
2018 Interim Report of CZBank (International Standard)
Financial Statements and Audit Reports of CZBank for the Six Months Ended June 30, 2018 (Domestic Standard)
Proposal on Related Party Transaction Management Measure of China Zheshang Bank Co., Ltd. (2018)
Proposal on CZBank Basic System of Comprehensive Risk Management (2018)
Proposal on CZBank Basic System of Market Risk Management (2018)
Proposal on CZBank Basic System of Liquidity Risk Management (2018)
Proposal on CZBank Basic System of Management of Interest Rate Risks in the Banking Book (2018)
Proposal on CZBank Basic System of Information Technology Risk Management (2018)

5. Attendance of Directors at the Meetings

The following table sets forth the records of attendance in person of each director at the meetings convened by the Board of Directors and by special committees under Board of Directors and at the shareholders' general meetings held in 2018.

Directors	Board of Directors	Strategic Committee	Audit Committee	Risk and related transaction control Committee	Nomination and remuneration Committee	Consumer Rights Protection Committee	Inclusive Finance Development Committee	General Meeting
Executive Directors								
Shen Renkang	10/10	1/1	–	–	–	–	1/1	1/1
Xu Renyan	10/10	–	–	–	–	–	–	1/1
Zhang Luyun	7/10	–	–	–	–	–	–	1/1
Non-executive Directors								
Huang Zhiming	1/1	–	–	–	–	–	–	–
Wei Dongliang	1/1	–	–	–	–	–	–	–
Gao Qinhong	8/10	–	–	10/11	–	2/2	–	0/1
Hu Tiangao	9/10	–	2/2	–	–	–	–	1/1
Zhu Weiming	10/10	–	–	–	–	–	–	1/1
Lou Ting	9/10	1/1	–	–	–	–	1/1	1/1
Xia Yongchao	1/1	–	–	–	–	–	–	–
Independent non-executive Directors								
Tong Benli	9/10	–	1/2	11/11	4/4	2/2	–	1/1
Yuan Fang	10/10	–	1/1	13/13	–	2/2	–	1/1
Dai Deming	10/10	1/1	1/1	–	–	–	1/1	1/1
Liu Pak Wai	10/10	1/1	–	–	–	–	1/1	1/1
Zheng Jindu	9/10	–	–	–	3/4	–	–	0/1
Zhou Zhifang	1/1	–	–	2/2	–	–	–	–
Wang Guocai	1/1	–	–	2/2	–	–	–	–
Resigned Directors								
Liu Xiaochun	1/1	1/1	–	–	–	–	1/1	–
Wang Mingde	5/5	1/1	–	–	–	–	1/1	1/1
Wang Yibing	5/5	–	–	–	–	–	–	0/1
Shen Xiaojun	5/5	–	1/1	–	–	–	–	1/1
Jin Xuejun	9/9	–	1/1	–	4/4	–	–	1/1

Notes:

(1) Times of attention in person/number of meetings that he/she should attend during the reporting period.

(2) The above Directors who did not attend the meetings in person had appointed other Directors to attend such meetings on their behalf.

(3) The annual general meeting for 2017, the 2018 first class meeting for domestic shareholders and the 2018 first class meeting for H shareholders held on June 27, 2018 have been counted as one general meeting.

(4) During the reporting period, Mr. Huang Xufeng, whose qualification for appointment as a Director was pending the ratification of his eligibility by CBIRC, was in attendance at certain meetings of the Board, and he will start to perform his duties upon such approval. For details of the change of Directors, please see "INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS"

(5) The Chairman held a meeting with non-executive Directors (including independent non-executive Directors) without the attendance of executive Directors.

6. Information on Survey and Training of the Directors

During the reporting period, certain Board members visited Shenyang Branch and Jinan Branch and carried out field research to collect primary data and understand specific conditions of grass-roots organizations as to strategy implementation, risk management and otherwise, and heard the opinions and suggestions of the branches on operation and management of the Board and the head office, targetedly put forward guiding opinions, and in a timely manner, submitted to the Senior Management, relevant opinions and suggestions of branch outlets.

The Company has always paid attention to continuous training of Directors to ensure that all Directors properly understand the operation and businesses of the Company, and their responsibilities under relevant laws and regulatory requirements. During the reporting period, the Company engaged an intermediary agency to provide tutoring on A share listing for Board members, and organized Directors to study the Systems and Procedures in Relation to A-share IPO, the Financial Disclosure Requirements and Hot Audit Issues, the Continuing Obligations of Directors, Supervisors and senior management of Hong Kong Listed Companies, the Requirements of Listed Company Governance on Directors, Supervisors, senior management and Shareholders Holding Over 5% of Shares in Aggregate and Relevant Legal Responsibilities and otherwise. In addition, the Board members actively participated in affiliated person seminars of The Hong Kong Institute of Chartered Secretaries, the Second Qiantangjiang Forum with the theme of "the way to high-quality development" and other lectures and trainings, thus effectively widening their vision for macro decision-making, improving the ability to understand policies and strengthening the intellectual capital of the Board.

According to the training records for 2018 kept by the Company, the status of relevant trainings for Directors is as follows:

Directors	Scope of Provision of Information and Trainings Corporate Governance	Finance/ Business	Compliance/ Operation
Executive Directors			
Shen Renkang	✓	✓	✓
Xu Renyan	✓	✓	✓
Zhang Luyun	✓	✓	✓
Non-executive Directors			
Huang Zhiming	✓	✓	✓
Wei Dongliang	✓	✓	✓
Huang Xufeng*	✓	✓	✓
Gao Qinhing	✓	✓	✓
Hu Tiangao	✓	✓	✓
Zhu Weiming	✓	✓	✓
Lou Ting	✓	✓	✓
Xia Yongchao	✓	✓	✓
Independent non-executive Directors			
Tong Benli	✓	✓	✓
Yuan Fang	✓	✓	✓
Dai Deming	✓	✓	✓
Liu Pak Wai	✓	✓	✓
Zheng Jindu	✓	✓	✓
Zhou Zhifang	✓	✓	✓
Wang Guocai	✓	✓	✓
Resigned Directors			
Liu Xiaochun	✓	✓	✓
Wang Mingde	✓	✓	✓
Wang Yibing	✓	✓	✓
Shen Xiaojun	✓	✓	✓
Jin Xuejun	✓	✓	✓

* Mr Huang Xufeng, whose qualification for appointment as a Director was pending the ratification of his eligibility by CBIRC.

7. Performance of Independent Non-executive Directors

As of the end of the reporting period, the Company had seven independent non-executive Directors, fulfiling the number and percentage requirements of CBIRC, CSBC and the Hong Kong Listing Rules. The Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee and Consumer Rights Protection Committee under the Board were all chaired by independent non-executive Directors, and the independent non-executive Directors formed majority in the three committees. During the reporting period, the independent non-executive Directors actively participated in and provided suggestions and advices at the meetings of Board of Directors and the special committees to make effective contribution. Besides, they maintained effective communication with the Company through various means, including site visits, special surveys and attending trainings etc.

The independent non-executive Directors have presented their professional advice on the resolutions considered by the Board of Directors, including offering independent written opinions on significant matters, such as the Profit Distribution Scheme, the appointment of Senior Management, the engagement of auditors and significant related party transactions. In addition, for the special committees under the Board of Directors, the independent non-executive Directors made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Company has received the annual confirmations from the independent non-executive Directors according to Rule 3.13 of the Hong Kong Listing Rules regarding their independence, and considered that none of the independent non-executive Directors were involved in any factor set out in Rule 3.13 of the Hong Kong Listing Rules that may cast doubt on their independence. Therefore, the Company believes that all independent non-executive Directors meet the independence criteria as set out in the Hong Kong Listing Rules.

8. Responsibilities of Directors in Preparation of Financial Reports

The Directors of the Company acknowledged that they were responsible for preparing the financial report of the Company for the year ended December 31, 2018. The Board of Directors undertook that there were no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, save for the information disclosed in this annual report of the Company.

The Directors shall review and confirm the financial reports for each accounting period, so as to ensure that the financial reports truly and fairly reflect the financial status, operation results and cash flow of the Company.

When preparing the financial report for the year ended December 31, 2018, the Directors adopted and applied suitable accounting policies and made prudent and reasonable judgment.

9. Election, Change and Removal of Directors

According to the Articles of Association, the Directors shall be elected or replaced at the general meeting and shall each serve a term of three years. Directors may, after expiry of their term of office, hold a consecutive term upon re-election. A director, before his/her term of office expires, shall not be dismissed by the general meeting without any cause. The term of a Director shall start from the date of appointment and end upon the expiry of the current session of the Board.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and regulations (however, any claim which may be made under any contract will not be affected).

For the change of Directors during the reporting period, please refer to "Directors, Supervisors, senior management, Employees and Institutions" of this report.

(V) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

There are six special committees under the Board of Directors of the Company, including Strategic Committee, Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee, Consumer Rights Protection Committee and Inclusive Finance Development Committee.

1. Strategic Committee

As of the end of the reporting period, the Strategic Committee of the Company consisted of seven Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Other committee members included Mr. Xu Renyan, executive Director, Mr. Huang Zhiming, non-executive Director, Mr. Wei Dongliang, non-executive Director, Mr. Zhu Weiming, non-executive Director, Mr. Liu Pak Wai, independent non-executive Director, Mr. Zheng Jindu, independent non-executive Director.

According to the Articles of Association, the main duties of the Strategic Committee are as follows: to research and formulate business targets, medium and long-term development plans and development strategies of the Company; to supervise and inspect the implementation of annual business plans and investment plans; and to deal with other matters as authorized by the Board.

During the reporting period, the Strategic Committee mainly considered the Final Financial Report for 2017, Profit Distribution Plan for 2017, Business Operation Plan for 2018, Annual Budget Report for 2018, proposals or reports on extension of the validity period of A share IPO and listing plan of CZBank, adjustment to 2018-2020 development progress of the Third Five-Year plan and other proposals or reports.

2. Audit Committee

As of the end of the reporting period, the Audit Committee of the Company consisted of three Directors. Mr. Dai Deming, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, and Mr. Hu Tiangao, non-executive Director.

According to the Articles of Association, main duties of the Audit Committee are to examine our accounting policies, financial position, financial reporting procedures, and risk and compliance status; to propose the appointment or replacement of external auditors; to supervise our internal audit system and its implementation; to facilitate communication between internal auditors and external auditors; to review our financial information and the related disclosure and prepare conclusive reports on the authenticity, accuracy, completeness and timeliness of the audited financial reports to be submitted to our Board of Directors for consideration; to deal with other matters as prescribed by relevant laws, regulations, departmental rules and regulations of the securities regulatory authority in the place(s) of listing of the Company's shares and as authorized by the Board of Directors.

During the reporting period, the Audit Committee mainly considered the Annual Report for 2017, Internal Audit Work Report for 2017, Proposal on Employing Accounting Firm for 2018, Interim Report for 2018 as well as other proposals or reports. The Audit Committee also reviewed the independence of external auditors and provided recommendations to the Board on the appointment of external auditors, and considered the audit fees of external auditors for 2018.

During the reporting period, no former partners of any auditing firm which was responsible for auditing accounts of the Company were appointed by the Company as members of the Audit Committee. The Company will also amend the Rules of Procedure for the Audit Committee of the Board of Directors of CZBank, in due course, pursuant to the latest requirements of the Hong Kong Listing Rules.

3. Risk and Related Party Transaction Control Committee

As of the end of the reporting period, the Risk and Related Party Transaction Control Committee of the Company consisted of three Directors. Mr. Zhou Zhifang, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Yuan Fang, independent non-executive Director, and Mr. Wang Guocai, independent non-executive Director.

According to the Articles of Association, main duties of the Risk and Related Party Transaction Control Committee are to supervise the risk control by Senior Management of the Company; to assess our risk profile; to offer proposals on improving our risk management and internal controls; to review and approve general related party transactions of the Company or accept the filing of general related party transactions; to review and approve of major related party transactions of the Company or the transactions which are subject to reporting, announcement and/or independent shareholders' approvals under the relevant stipulations of securities regulatory authority in the place(s) of listing of the Company's shares, which shall be submitted to the Board of Directors by the committee for approval; and to deal with other matters as authorized by the Board.

The Risk and Related Party Transaction Control Committee will review the effectiveness of the Company's risk management procedures and internal control procedures, to ensure the efficiency of the Company's business operations and achieve the Company's objectives and strategies.

During the reporting period, the Risk and Related Party Transaction Control Committee primarily examined the Basic System for Comprehensive Risk Management of China Zheshang Bank, the Report on Comprehensive Risk Management for 2017, Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions for 2017, Proposal on Risk Preference Statement, Report on Internal Control Appraisal for 2017, the 2018 List of Related Parties of the Bank as well as other proposals or reports.

4. Nomination and Remuneration Committee

As of the end of the reporting period, the Nomination and Remuneration Committee of the Company consisted of three Directors. Mr. Tong Benli, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Zheng Jindu, independent non-executive Director, and Mr. Zhou Zhifang, independent non-executive Director.

According to the Articles of Association, main duties of the Nomination and Remuneration Committee are to propose to the Board on the membership of the Board based on the business operations, asset size and equity structure of the Company; to draft the standard and procedure for the selection of Directors and senior management, and propose the same to the Board; to recommend candidates for Chairman and Vice Chairman to Board of Directors, and provide review comments on the candidates of Directors and senior management members including the President, Vice President, Financial Principal, Secretary to the Board and etc; to draft the remuneration policy and scheme for Directors and senior management, and make proposals to the Board; and to deal with other matters as prescribed by relevant laws, administrative regulations, departmental rules and regulations of the securities regulatory authority in the place(s) of listing of the Company's shares and as authorized by the Board of Directors.

The Nomination and Remuneration Committee under the Board makes recommendations to the Board on the remuneration package of individual executive Directors and senior management.

The nomination procedures for a director candidate of the Company are: the eligible shareholders will recommend candidates for directorship to the Company for consideration; the Nomination and Remuneration Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the candidates for directorship will be submitted in the general meeting by written resolutions. For details, please refer to the section headed " Directors and Board of Directors" in Articles of Association.

Criteria for selection and recommendation of candidates for directorship is that Directors shall have professional knowledge and work experiences necessary for performing their duties and meet conditions specified by CBIRC, with their qualification for appointment subject to approval by CBIRC.

The Company appoints or re-appoints its Directors in strict compliance with the Articles of Association of the Company. Pursuant to the Board diversity policy requirements in the Board Diversity Policy of China Zheshang Bank Co., Ltd., the Nomination and Remuneration Committee shall also pay attention to complementarities among candidates for directorship in terms of knowledge structure, professional competence and experience, cultural and educational background, gender and otherwise, to ensure that the Directors are well equipped, experienced and have diversified perspectives and views.

During the reporting period, the Nomination and Remuneration Committee mainly considered the 2017 Appraisal Results of Duty Performance of Directors by the Board, the 2017 Appraisal Results of Duty Performance of senior management by the Board, 2017 Remuneration Scheme for senior management, Measures for Performance Appraisal and Rewards & Punishments of senior management for 2018, recommended candidates for chairman of the fifth session of the Board of CZBank, and reviewed the qualification for appointment as the president of CZBank and other proposals or reports.

The Nomination and Remuneration Committee has established a policy on Directors' remuneration and regularly evaluated the performance of the executive Directors and approved the terms of service contracts of executive Directors. In addition, the Nomination and Remuneration Committee has implemented the policies on the nomination of directors as well as the nomination procedures and selection and recommendation criteria on candidates for directors. The Nomination and Remuneration Committee has reviewed the structure, number and composition of the Board (including skills, knowledge and experience) during the reporting period to make recommendations on any changes proposed on members of the Board for the purpose of complying with the long-term strategies of the Company.

5. Consumer Rights Protection Committee

As of the end of the reporting period, the Consumer Rights Protection Committee of the Company consisted of three Directors. Mr. Wang Guocai, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Yuan Fang, independent non-executive Director, and Mr. Zhou Zhifang, independent non-executive Director.

According to the Articles of Association, main duties of the Consumer Rights Protection Committee are to formulate strategies, policies and objectives of the consumer rights protection work; to guide, urge and supervise the Senior Management to effectively execute and implement relevant work, and regularly listen to the Senior Management's special reports on the progress of consumer rights protection work; to supervise and evaluate the comprehensiveness, timeliness and effectiveness of our consumer rights protection work as well as relevant duty performance status of the Senior Management; and to deal with other matters as authorized by the Board.

During the reporting period, the Consumer Rights Protection Committee mainly considered the 2017 Work Report on Protection of Consumer Rights and Interests, 2018 Work Plan, 2018 Half-year Work Summary on Protection of Financial Consumer Rights and Interests and other proposals or reports.

6. Inclusive Finance Development Committee

As of the end of the reporting period, the Inclusive Finance Development Committee of the Company consisted of seven Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Other committee members included Mr. Xu Renyan, executive Director, Mr. Huang Zhiming, non-executive Director, Mr. Wei Dongliang, non-executive Director, Mr. Zhu Weiming, non-executive Director, Mr. Liu Pak Wai, independent non-executive Director, Mr. Zheng Jindu, independent non-executive Director.

Main duties of the Inclusive Finance Development Committee are to formulate the development planning of inclusive finance business, deliberate the operation plans, and evaluate the assessment methods.

During the reporting period, the Inclusive Finance Development Committee mainly considered the Rules of Procedure for the Inclusive Finance Development Committee of the Board, 2018 Inclusive Finance Work Plan and other proposals or reports.

(VI) BOARD OF SUPERVISORS

The Board of Supervisors is a supervisory body of the Company and is accountable to the general meetings, and oversees the strategic planning, business decisions, financial activities, risk management, internal control and corporate governance of the Company, and the duty performance of the Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, Shareholders, employees, creditors and other stakeholders.

1. Composition of Board of Supervisors

The Board of Supervisors of the Company consists of 11 members, of which the three shareholder representative Supervisors are from large enterprises and have extensive experience in business management and professional knowledge in finance; the four employee representative Supervisors have participated in banking operation and administration for a long time, and thus accumulated rich professional experience in finance; and the four external Supervisors have been engaged in finance, economics, accounting, taxation, international trade, etc., and have thus accumulated extensive experience in those fields and unique perspectives. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

A Supervision Committee and a Nomination Committee are established under the Board of Supervisors of the Company.

2. Performance of Board of Supervisors

The Board of Supervisors performs its supervisory duties primarily by holding regular meetings of supervisors and special committees to consider relevant issues, attending shareholders' general meetings, board meetings and special committee meetings; attending related meetings on operation and management held by the Senior Management; reviewing related work reports or professional reports of the Senior Management and departments; making performance appraisal on directors, supervisors or senior management; reviewing various documents, information and statements of the Company; carrying out special investigations and surveys at branches; putting forward work suggestions to the Board of Directors and Senior Management; appointing third-party professional agency to carry out special audit or verification and evaluation; directly supervising key matters, under the leadership of the Board of Supervisors office, with the participation of relevant departments of the head office and consultation with external experts and otherwise.

During the reporting period, the Board of Supervisors convened eleven meetings, all of which were on-site meetings. 25 proposals were considered, 26 reports were reviewed and 3 work under research and discussion were arranged regarding development plans, business operations, risk management, financial activities, internal control and case prevention, internal audit, corporate governance, annual report and evaluation of the duty performance of the Directors, Supervisors and Senior Management.

According to the provisions of relevant laws, regulations and the Articles of Association of the Company, the supervisors attended one meeting for all general meetings, six meetings for all on-site meetings of the Board of Directors, seven meetings of some special committees under the Board of Directors, and performed supervision on legal compliance of holding general meetings and Directors' meetings, the procedures for voting by poll as well as the Directors' attendance of meetings, providing opinions and voting, etc.

All the four external Supervisors of the Company can exercise the supervision function independently. In performing their duties, the external Supervisors took the initiative to know about the Company's operation and management situations by attending meetings of the Board of Supervisors, convening meetings of the special committees under the Board of Supervisors, being present at the meetings of the Board of Directors and its special committees, participating in the survey activities of the Board of Supervisors on branch outlets, and reviewing carefully all kinds of documents, data and statements. Meanwhile, they expressed their independent opinions or suggestions about major issues, and exchanged opinions with the Board of Directors and Senior Management about the problems found out, which played an active role for the Board of Supervisors to perform their supervision duties.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

3. Information on Training and Survey of Supervisors

During the reporting period, the Board of Supervisors organized three lectures, and carried out 8 survey activities.

The Board of Supervisors actively organized Supervisors to participate in lectures and activities to improve their ability to perform their duties and professional level, including re-creation of innovative development advantages of private enterprises in the new age, the problem of trade frictions between China and the United States, outlook of real estate market facing multiple difficulties in an economic downturn clear-up period and other special lectures. In addition, Supervisors actively participated in Qiantangjiang Forum, hearing reports and discussions on recent economic and financial hot spots, thus improving their prejudgment on economic and financial situation.

In the year, Supervisors were organized to carry out investigations in 8 branches, namely Jinan Branch, Ningbo Branch, Zhoushan Branch, Jinhua Branch, Nanjing Branch, Suzhou Branch, Wuhan Branch and Changsha Branch, with the themes of high-quality transformation development of branches, business and risk management of "three major platforms" and otherwise, heard opinions and suggestions of the branches, and prepared an investigation report, which provided the Board and the Senior Management with a reference in the form of Reference Information (參閱信息), in a timely manner, thus playing an active role in operation and management improvement of our Bank.

(VII) SPECIAL COMMITTEES UNDER BOARD OF SUPERVISORS

The Supervision Committee and the Nomination Committee under the Board of Supervisors consisted of six Supervisors and five Supervisors, respectively and the external Supervisor served as the committee chairman.

1. SUPERVISION COMMITTEE UNDER BOARD OF SUPERVISORS

As of the end of the reporting period, the Supervision Committee under Board of Supervisors of the Company consisted of six Supervisors. Mr. Yuan Xiaoqiang, the external Supervisor, served as the committee chairman and other committee members included Mr. Zheng Jianming, the employee representative Supervisor, Mr. Huang Haibo, the shareholder representative Supervisor, Mr. Ge Meirong, the shareholder representative Supervisor, Mr. Jiang Rong, the employee representative Supervisor, and Ms. Cheng Huifang, the external Supervisor.

According to the Articles of Association, the main duties of the Supervision Committee under Board of Supervisors are as follows: to draft plans of supervision on the financial activities of the Company and conduct relevant inspections; to supervise the Board of Directors' adoption of prudent business philosophy and value standards and formulate development strategies in line with the actual situations of the Company; to regularly evaluate and report on the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors for compilation of evaluation reports; to instruct the work of the internal audit department of the Company; to carry out a review of any resigning senior management when necessary; to supervise the duty performance by Directors, Supervisors and senior management; to supervise and inspect major operational decisions of the Company; to supervise and inspect risk management of the Company; to supervise and inspect the soundness and effectiveness of the internal control of the Company; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Supervision Committee held a total of 2 meetings, considering the 2017 Annual Report, audit work in 2017, the 2017 Social Responsibility Report, accounting policy change, the Internal Audit Charter, the 2018 Interim Report of the Company and otherwise, and hearing the report on the financial position of the Company in 2017 and otherwise. Moreover, the members of the Supervision Committee also attended five on-site meetings of the Risk and Related Party Transaction Control Committee under the Board of Directors and two meetings of the Audit Committee under the Board of Directors, supervised financial position of the Bank, the process of consideration on related party transactions and Directors' duty performance.

2. NOMINATION COMMITTEE UNDER BOARD OF SUPERVISORS

As of the end of the reporting period, the Nomination Committee under Board of Supervisors of the Company consisted of five Supervisors. Mr. Wang Jun, the external Supervisor, served as the committee chairman and other committee members included Mr. Yu Jianqiang, the shareholder representative Supervisor, Mr. Wang Chengliang, the employee representative Supervisor, Mr. Chen Zhongwei, the employee representative Supervisor, and Mr. Huang Zuhui, the external Supervisor.

According to the Articles of Association, the main duties of the Nomination Committee under Board of Supervisors are as follows: to draft standards and procedures of electing and appointing Supervisors; to recommend qualified candidates of external Supervisors; to make an initial evaluation on the qualifications of candidates of shareholder representatives serving as Supervisors and external Supervisors and give suggestions to the Board of Supervisors; to propose to the Board of Supervisors candidates of Chairman and Vice Chairman of the Board of Supervisors based on the actual condition of the Company; to propose to the Board of Supervisors candidates of chairmen of various special committees; to supervise the election and appointment of Directors; to draft remuneration plans for Supervisors, make proposals to the Board of Supervisors and supervise the implementation of the said plans after they have been considered by the Board of Supervisors and have been submitted to the general meetings for consideration; to supervise the scientificity and rationality of the remuneration system and policy of the whole Bank as well as the remuneration scheme of senior management; to be responsible for drafting measures for evaluating the duty performance of Directors, Supervisors and senior management, making proposals to the Board of Supervisors and implementing these measures after submitting them to the Board of Supervisors for consideration and decision-making; to assist the Board of Supervisors office with the establishment of a duty performance supervision recording system for Directors, Supervisors and senior management and complete the duty performance supervision records; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Nomination Committee of the Board of Supervisors held a total of 4 meetings, mainly considering the results of 2017 performance evaluation of Directors, Supervisors and senior management of the Company, nominating candidates for Shareholder Supervisor and external Supervisor of the fifth session of the Board of Supervisors, recommending candidates for chairman and deputy chairman of the fifth session of the Board of Supervisors, and members of special committees, and discussing the work plan of the fifth session of the Nomination Committee.

(VIII) COMPANY OPERATION AND DECISION-MAKING SYSTEM

The general meeting is the Company's power organ which manages and supervises the Company through the Board of Directors and Board of Supervisors. The President is employed by the Board of Directors to take charge of the daily operation and management of the Company. The Company adopts the one-level legal person system. All the branches and sub-branches are non-independent accounting units. They carry out the operation and management activities according to the authorization of the headquarters and are accountable to the headquarters.

According to the Articles of Association, the Board of Directors exercises the functions and powers of appointing or dismissing the Bank's president, listening to the work report of the president and reviewing his performance, monitoring and ensuring the Senior Management's efficient fulfillment of management duties. The Company adopts a system by which the President shall assume overall responsibility in operation and management of the Company, and the President shall be accountable to the Board of Directors.

The Company has no controlling Shareholder and de facto controller. The Company and the Shareholders are completely independent in terms of assets, businesses, personnel, organisations and finance, etc.. The Company has complete and independent operation capacity. The Board of Directors, Board of Supervisors and internal units of the Company operate independently.

(IX) CHAIRMAN AND PRESIDENT

In the Company, the positions of Chairman and President are served by different persons, and each position has clearly defined responsibilities, fulfiling the requirements of the Hong Kong Listing Rules. Mr. Shen Renkang serves as the Chairman of the Company and exercises his duties to preside over the general meetings, convene and preside over the meetings of Board of Directors and supervise and inspect the implementation of the resolutions of the Board of Directors. Mr. Xu Renyan is the President of the Company and exercises his duties to lead the operation and management of the Company, reports to the Board of Directors and organizes the implementation of the resolutions of the Board of Directors, the annual operation plan and investment scheme of the Company.

(X) COMPANY SECRETARY

Mr. Liu Long is one of the joint company secretaries of the Company, while Ms. Chan Yin Wah, an Associate Director of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), is the joint company secretary fulfiling the relevant qualification requirements of the Hong Kong Listing Rules. The company secretary is mainly responsible for facilitating the operation of the Board of Directors, ensuring the effective communication between the members of the Board of Directors and the observation of the policies and procedures of the Board of Directors, and ensuring the compliance with Hong Kong Listing Rules and other regulations by the Company. Any Director can discuss with, seek advice from and obtain information from the company secretary. The main contact in the Company for Ms. Chan Yin Wah is Mr. Liu Long.

During the reporting period, both Mr. Liu Long and Ms. Chan Yin Wah have complied with the requirements of Rule 3.29 of the Hong Kong Listing Rules.

(XI) SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Company has adopted a Code of Conduct for Securities Transactions by Directors and Supervisors no less exacting than the Model Code in the Appendix 10 of the Hong Kong Listing Rules. The Company had inquired all the Directors and Supervisors and confirmed that they had been complying with the aforesaid Code of Conduct during the reporting period.

(XII) RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or other material/affiliated relationship between the Directors, Supervisors and senior management of the Company.

(XIII) SHAREHOLDERS' RIGHTS

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

1. To hold extraordinary general meeting

At the request of the Shareholders separately or jointly holding 10% or more of the total Shares, the Company shall hold an extraordinary general meeting within two months.

When the Shareholders request to convene an extraordinary general meeting or a Shareholders' class meeting, the following procedures shall be observed: the Shareholders separately or jointly holding 10% or more of the total Shares submit a written proposal to the Board of Directors and explain the meeting topics. The Board of Directors shall reply in written form within ten days after receiving the proposal as for agreeing or disagreeing to convene the extraordinary general meeting or a Shareholders' class meeting.

If the Board of Directors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, a notice of convening the general meeting shall be sent within five days after the resolution made by the Board of Directors. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or a Shareholders' class meeting, or fails to reply within ten days after receiving the proposal, the Shareholders separately or jointly holding 10% or more of the total Shares have the right to propose to the Board of Supervisors to hold the extraordinary general meeting or a Shareholders' class meeting, provided that written request shall be submitted to the Board of Supervisors.

If the Board of Supervisors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, the notice of convening the general meeting shall be sent within five days after the receipt of the request. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Supervisors fails to provide the notice of holding general meeting or a Shareholders' class meeting within the specified period, it shall be deemed that Board of Supervisors will not convene and preside over the general meeting or a Shareholders' class meeting, the Shareholders separately or jointly holding 10% or more of the total Shares may convene and preside over such meetings at their own discretion.

If the Board of Supervisors or the Shareholders decide to convene the general meeting on their own, they shall notify the Board of Directors in writing and file with the local banking supervisory authorities and other regulatory authorities. The Board of Directors and the secretary to the Board of Directors shall cooperate. The Board of Directors shall provide the register of members as of the record date, and the reasonable cost required for the meeting shall be borne by the Company, which shall be deducted from the payment due to the default Directors.

2. To make proposal to the general meeting

The Shareholders separately or jointly holding 3% or more of the voting Shares have the right to make proposals to the general meeting.

The Shareholders separately or jointly holding 3% or more of the voting Shares may make temporary proposal and submit in written form to the convener ten days before the holding date of the general meeting or at least two days before the deadline for providing supplementary notice of general meeting as stipulated by Hong Kong Listing Rules (whichever is earlier). The convener shall issue the supplementary notice of the general meeting within two days after receiving the relevant proposal to disclose the contents of the temporary proposal.

3. To hold interim meeting of Board of Directors

At the request of the shareholders separately or jointly holding 10% or more of the total Shares, the chairman shall convene and preside over an interim meeting of Board of Directors within ten days after receiving the proposal.

4. To make inquiries with the Board of Directors

The shareholders have the right to obtain the relevant information according to the laws, regulations and Articles of Association. They can obtain the copies of the Articles of Association after paying the relevant costs. They have the right to access and copy the following information after paying reasonable fees: any and all parts of the share register; personal information of the Directors, Supervisors and senior management of the Company; the Company's equity status; the report of total par values, quantity, maximum price and minimum price of each class of shares repurchased by the Company since the last financial year as well as the total expenses the Company paid for this; meeting minutes of general meetings, resolutions of the meetings of Board of Directors, resolutions of the meetings of Board of Supervisors; bond stubs of the Company; the audited financial report, report of Board of Directors, report of Board of Supervisors, and report of auditors for the last fiscal period, the annual report for the last fiscal period that has been filed with the State Administration for Industry and Commerce and other regulatory authorities. For the contact details, please refer to "Company Profile" of this report.

(XIV) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place of listing of the Company. On the basis of comprehensively implementing various regulatory rules, the Company continuously sorts out and perfects the implementation details of information disclosure management matter from the aspect of system construction and work procedure design.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and procedures of the Hong Kong Listing Rules.

During the reporting period, the Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations, and a total of 53 various announcements were released synchronously on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of the Company's governance.

(XV) Investor Relations Management

The Company consistently conducts good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition of the Company.

During the reporting period, by taking advantage of additional H shares issuance, the opening of Hong Kong Branch and the press conference for results announcement, the Company strengthened market communication and introduction, and conducted several management roadshows in Hong Kong, Beijing and Shanghai. They made in-depth exchange with the investors and the analysts, timely answered the questions that are concerns of the investors, and effectively expanded the coverage of the investors.

During the reporting period, the Company formulated and perfected the administrative measures for investor relations in accordance with the regulatory requirements of the place of listing and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled the matters in connection with investor relations, timely answered and fed back the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhanced the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about advice and proposals for the Company's operation and development from capital market.

(XVI) MAJOR CHANGES OF THE ARTICLES OF ASSOCIATION

The Company held the annual general meeting for 2017 on June 27, 2018. The resolution on the amendment to the Articles of Association was considered and passed at the meeting. In order to earnestly implement requirements of the higher-level party committee and regulatory authorities on incorporating the party building work into the Articles of Association, and in accordance with the Interim Measures for the Equity Management of Commercial Banks (Order No. 1 [2018] of the China Banking Regulatory Commission) and the Guidelines on Management and Regulation of Consolidated Financial Statements of Commercial Banks (Yin Jian Fa [2014] No.54), the Company amended relevant contents of the Articles of Association then applicable and the Articles of Association applicable upon A share listing, by reference to practices of banking peers and in consideration of the share capital structure in relation to the issue of additional H shares of the Company and otherwise. For details of the amendments, please see the general meeting circular of the Company dated May 10, 2018 published on the websites of the Stock Exchange and the Company. The amendments to the then applicable Articles of Association of the Company were approved by CBIRC on October 18, 2018; the amendments to the Articles of Association applicable upon A share listing was pending approval by CBIRC and will become effective and be implemented from the date of listing on the Shanghai Stock Exchange of A shares issued by the Company in a public offering.

(XVII) STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules. The Company has been in full compliance with the code provisions set out in the Code during the reporting period.

(XVIII) RISK MANAGEMENT AND INTERNAL CONTROL

In accordance with the requirements of Commercial Banking Law (《商業銀行法》), Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations, the Company has established standardized corporate governance structure and defined the scope of rights, responsibility assignment and rules of procedures for the general meeting, Board of Directors, Board of Supervisors and Senior Management. Such organizations as Audit Committee and the Risk and Related Party Transaction Control Committee have been established under the Board of Directors to take charge of the establishment and implementation of sufficient and effective risk management and internal control system and review of the sufficiency and effectiveness of such systems. The Supervision Committee has been established under the Board of Supervisors to take charge of the supervision on sufficiency and effectiveness of internal control systems of the Board of Directors and Senior Management. The risk management and internal control committee has been established under the Senior Management to take charge of the organization and coordination of internal control management as well as establishment and improvement of the concept, system and organizational structure of internal control.

The Company has strictly complied with the relevant requirements of the Hong Kong Listing Rules, established and continuously improved internal control and risk management system by taking account of the practical situation of the Company to reasonably ensure that the operation management complies with the laws and rules, that the assets are safe and that the financial reports and relevant information are true and complete to improve the operating efficiency and effectiveness and to promote the fulfillment of development strategy. The risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board can only provide reasonable and not absolute assurance against material misstatement or loss.

For more information of risk management and internal control of the Company, please see the section headed "Management Discussion and Analysis – Risk Management" in this report.

During the reporting period, the Company continuously optimized internal control management systems, thoroughly carried out the special activity of "safeguarding by internal control and escorting by compliance", thus effectively improving the internal management level. It continuously implemented three permanent internal control mechanisms, namely circular internal control improvement mechanism, internal control issues identification and rectification mechanisms, and internal control accountability and inspection rewards and punishment mechanism. It advocated the philosophy of "internal control first" and strengthened and improved the circular internal control mechanism which incorporates "philosophy-system-training-execution-inspection-rectification-reward and punishment-evaluation". It systemically teased out key points of risk control of important businesses and key processes, and sufficiently identified and assessed risks in operation. It enhanced the inspection of important businesses, and according to the overall arrangement of the regulatory authority, earnestly carried out special rectification work to handle chaos in the banking market, and strengthened the supervision and inspection of institutions at all levels, all products and businesses, so as to prevent and address risks. It perfected information system control, commissioned and operated the "three-in-one" system covering risk, internal control and compliance, optimized off-site monitoring systems and internal control default management systems, and continuously monitored main risks. It optimized performance evaluation systems, amended assessment measures of internal control and compliance management, perfected incentive and constraint systems and talent motivation assurance systems, and continuously improved the normativity of bank-wide operation and management activities. It carried out employee education and trainings, enhanced dynamic management of employee behaviors, organized the supervision of the performance of employees holding key positions, thus effectively improving the professional quality of employees and their consciousness of internal control and compliance management.

(XIX) EXTERNAL AUDITORS AND THEIR REMUNERATION

For the Company's external auditors and their remuneration, please see "Directors' Report – External auditors and their remuneration" of this report.

The responsibility statement of the Company's external auditors on its financial statements is set out in "Independent Auditor's Report" of this report.

(XX) INTERNAL AUDIT

The Company has established the internal audit department, which is subject to an independent and vertical audit organization system, and as required, will establish an audit agency. The internal audit department independently performs the audit, supervision, evaluation and consultation functions, and is responsible and reports to the Board of Directors and the Audit Committee thereof. The internal audit team is continuously being expanded, with staffing complying with regulatory requirements, sufficient auditor training courses and budgets. It has established systems consisting of the Internal Audit Charter of China Zheshang Bank Co., Ltd., the CZBank Basic System of Internal Audit, the CZBank Internal Audit Standards and otherwise, and the onsite and offsite inspection model and the audit quality "three-level re-check" mechanism.

The audit department of the Company is responsible for reviewing, evaluating and supervising the improvement of operation activities, risk management, internal control and compliance management and corporate governance effect of commercial banks; in a timely manner, reporting problems identified in an audit; putting forward independent audit opinions and management opinions; carrying out subsequent audit and evaluating rectification effects; promoting the effective rectification of problems identified in an audit; and it is responsible for the quality of an audit project.

During the reporting period, the audit work of the Company was conducted mainly through audit of economic responsibilities of employees holding key positions, evaluation and audit of internal control of business units, special audit in important business fields, together with audit accountability, surprise audit and other methods; it helped expand the aspects and fields of audit, realize pre-audit, process management and responsibility investigation, give full play to the audit and supervision functions, and constructed an internal audit philosophy and model which "are oriented towards risk prevention and focus on enhancement of internal control, with an aim of perfecting the corporate governance, improving the service level and achieving value appreciation"; and further promoted the improvement in the internal control and risk management level of the Company, and facilitated sound and steady development of all businesses of the Bank.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(I) CHANGES IN ORDINARY SHARES

During the reporting period, changes in the Company's Ordinary Shares were as follows:

Unit: Share, %

	December 31,2017		Change in the number during the reporting period	December 31, 2018	
	Number	Proportion		Number	Proportion
Domestic Shares	14,164,696,778	78.87	–	**14,164,696,778**	**75.67**
H Shares	3,795,000,000	21.13	+759,000,000	**4,554,000,000**	**24.33**
Total Ordinary Shares	17,959,696,778	100.00	+759,000,000	**18,718,696,778**	**100.00**

Note:

1. During the reporting period, the Company issued 759,000,000 additional H Shares.

2. As of the end of the reporting period, the Company had 29 holders of domestic Shares in total and 133 holders of H Shares in total.

(II) SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF ORDINARY SHARES

Unit: Share, %

No.	Name of shareholder	Nature of Shareholder	Change in the shares during the reporting period	Number of shares held at the end of period	Shareholding proportion	Class of Shares	Number of pledged shares
1	HKSCC Nominees Limited[(1)]	–	+759,012,950	4,553,752,850	24.33	H Shares	Unknown
	in which: Zhejiang Seaport (Hong Kong) Co., Limited	–	–	864,700,000	4.62	H Shares	490,000,000
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned Legal Person	–	2,655,443,774	14.19	Domestic Shares	–
3	Traveller Automobile Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	1,346,936,645	7.20	Domestic Shares	–
4	Hengdian Group Holdings Limited	Domestic Non-State-owned Legal Person	–	1,242,724,913	6.64	Domestic Shares	–
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned Legal Person	–	841,177,752	4.49	Domestic Shares	–
6	Minsheng Life Insurance Company Ltd.	Domestic Non-State-owned Legal Person	–	803,226,036	4.29	Domestic Shares	–
7	Zhejiang Yongli Industry Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	548,453,371	2.93	Domestic Shares	495,131,821
8	Tong Lian Capital Management Co., Ltd.	Domestic Non-State-owned Legal Person	–	543,710,609	2.90	Domestic Shares	–
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	518,453,371	2.77	Domestic Shares	517,414,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic Non-State-owned Legal Person	–	508,069,283	2.71	Domestic Shares	508,069,283

Note:

(1) The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system. Except for 490,000,000 shares held by Zhejiang Seaport (Hong Kong) Co., Limited were pledged, whether the rest of the H Shares were pledged was unknown to the Bank.

(III) INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

As at December 31, 2018 Unit: Share, %

<table>
<tr><th>No.</th><th>Name of Shareholder</th><th>Number of shares held (Share)</th><th>Separately shareholding ratio</th><th>Jointly shareholding ratio</th><th>Reasons for being the Substantial Shareholders</th><th>Number of pledged shares</th><th>Controlled shareholders</th><th>De facto controllers</th><th>Parties acting in concert</th><th>Ultimate beneficial owners</th></tr>
<tr><td>1</td><td>Zhejiang Provincial Financial Holdings Co., Ltd.</td><td>2,655,443,774</td><td>14.19</td><td>14.19</td><td>Holding 5% or more of our Bank's shares</td><td>–</td><td>Zhejiang Province Financial Development Company</td><td>Zhejiang Provincial Department of Finance</td><td>Nil</td><td>Zhejiang Provincial Financial Holdings Co., Ltd.</td></tr>
<tr><td>2</td><td>Zhejiang Provincial Energy Group Co., Ltd.</td><td>841,177,752</td><td>4.49</td><td rowspan="3">7.94</td><td rowspan="3">Holding 5% or more of our Bank's shares in total with the related parties</td><td>–</td><td>State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province</td><td rowspan="3">State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province</td><td>Nil</td><td>Zhejiang Provincial Energy Group Co., Ltd.</td></tr>
<tr><td>3</td><td>Zhejiang Energy Capital Holdings Co., Ltd. (H share)</td><td>365,633,000</td><td>1.95</td><td>–</td><td>Zhejiang Provincial Energy Group Co., Ltd.</td><td>Nil</td><td>Zhejiang Energy Capital Holdings Co., Ltd.</td></tr>
<tr><td>4</td><td>Zhejiang Energy International Co., Ltd. (H share)</td><td>280,075,000</td><td>1.50</td><td>–</td><td>Zhejiang Provincial Energy Group Co., Ltd.</td><td>Nil</td><td>Zhejiang Energy International Co., Ltd</td></tr>
<tr><td>5</td><td>Traveller Automobile Group Co., Ltd.</td><td>1,346,936,645</td><td>7.20</td><td>7.20</td><td>Holding 5% or more of our Bank's shares</td><td>–</td><td>Shenzhen Xianglong Equity Investment Management Co., Ltd</td><td>Lin Xiangmei (林香美)(2)</td><td>Nil</td><td>Traveller Automobile Group Co., Ltd.</td></tr>
<tr><td>6</td><td>Zhejiang Hengyi High-tech Material Co., Ltd.</td><td>508,069,283</td><td>2.71</td><td rowspan="3">6.64</td><td rowspan="3">Holding 5% or more of our Bank's shares in total with the related parties</td><td>508,069,283</td><td>Zhejiang Hengyi Petrochemical Co., Ltd.</td><td rowspan="3">Qiu Jianlin (邱建林)</td><td>Nil</td><td>Zhejiang Hengyi High-tech Material Co., Ltd.</td></tr>
<tr><td>7</td><td>Zhejiang Hengyi Group Co., Ltd.</td><td>494,655,630</td><td>2.64</td><td>494,655,630</td><td>Qiu Jianlin</td><td>Nil</td><td>Zhejiang Hengyi Group Co., Ltd.</td></tr>
<tr><td>8</td><td>Zhejiang Hengyi Petrochemical Co., Ltd.</td><td>240,000,000</td><td>1.28</td><td>240,000,000</td><td>Hengyi Petrochemical Co., Ltd.</td><td>Nil</td><td>Zhejiang Hengyi Petrochemical Co., Ltd.</td></tr>
</table>

<table>
<tr><th>No.</th><th>Name of Shareholder</th><th>Number of shares held (Share)</th><th>Separately shareholding ratio</th><th>Jointly shareholding ratio</th><th>Reasons for being the Substantial Shareholders</th><th>Number of pledged shares</th><th>Controlled shareholders</th><th>De facto controllers</th><th>Parties acting in concert</th><th>Ultimate beneficial owners</th></tr>
<tr><td>9</td><td>Hengdian Group Holdings Limited</td><td>1,242,724,913</td><td>6.64</td><td>6.64</td><td>Holding 5% or more of our Bank's shares</td><td>–</td><td>Hengdian Association For Economics Corporation</td><td>Hengdian Association For Economics Corporation</td><td>Nil</td><td>Hengdian Group Holdings Limited</td></tr>
<tr><td>10</td><td>Zhejiang Seaport (Hong Kong) Co., Limited</td><td>864,700,000</td><td>4.62</td><td rowspan="2">5.34</td><td rowspan="2">Holding 5% or more of our Bank's shares in total with the related parties</td><td>490,000,000</td><td>Zhejiang Seaport Asset Management Co., Limited</td><td rowspan="2">State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province</td><td>Nil</td><td>Zhejiang Seaport (Hong Kong) Co., Limited</td></tr>
<tr><td>11</td><td>Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.</td><td>135,300,000</td><td>0.72</td><td>–</td><td>State-owned Assets Supervision and Administration Commission of the People's Government of Ningbo Municiple</td><td>Nil</td><td>Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.</td></tr>
<tr><td>12</td><td>Guangsha Holding Group Co., Ltd</td><td>457,005,988</td><td>2.44</td><td rowspan="3">5.10</td><td rowspan="3">Holding 5% or more of our Bank's shares in total with the related parties</td><td>457,004,756</td><td>Lou Zhongfu</td><td rowspan="3">Lou Zhongfu (樓忠福)</td><td>Nil</td><td>Guangsha Holding Group Co., Ltd</td></tr>
<tr><td>13</td><td>Zhejiang Dongyang Third Construction Co., Ltd.</td><td>354,480,000</td><td>1.89</td><td>354,480,000</td><td>Guangsha Holding Group Co., Ltd</td><td>Nil</td><td>Zhejiang Dongyang Third Construction Co., Ltd.</td></tr>
<tr><td>14</td><td>Zhejiang Guangsha Co., Ltd.</td><td>143,169,642</td><td>0.76</td><td>143,169,600</td><td>Guangsha Holding Group Co., Ltd</td><td>Nil</td><td>Zhejiang Guangsha Co., Ltd.</td></tr>
</table>

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlled shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
15	Minsheng Life Insurance Company Ltd.	803,226,036	4.29	4.29	Dispatch Supervisors to our Bank	–	China Wanxiang Holding Co., Ltd.	Lu Weiding (魯偉鼎)	Nil	Minsheng Life Insurance Company Ltd.
16	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	2.45	4.06	Jointly dispatch Supervisors to our Bank	–	Keqiao District Shaoxing China Light &Textile City Market Development & Operation Group Co., Ltd.	Shaoxing City Keqiao Finance Bureau	Nil	Zhejiang China Light & Textile Industrial City Group Co., Ltd.
17	Keqiao District Shaoxing China Light &Textile City Market Development & Operation Group Co., Ltd.	302,993,318	1.62			–	Shaoxing City Keqiao District Stateowned Assets Investment and Operation Co., Ltd.		Nil	Keqiao District Shaoxing China Light &Textile City Market Development & Operation Group Co., Ltd.
18	Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	2.93	2.93	Dispatch Directors to our Bank	495,131,821	Shaoxing Keqiaoyongyang Assets Management Co., Ltd.	Zhou Yongli (周永利)	Nil	Zhejiang Yongli Industry Group Company Ltd.
19	Zhejiang RIFA Holding Group Co., Ltd.	518,453,371	2.77	2.77	Dispatch Supervisors to our Bank	517,414,000	Wu Jie (吳捷)	Wu Jie (吳捷)	Nil	Zhejiang RIFA Holding Group Co., Ltd.

Note:

(1) For the definition of substantial shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirement of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC. The substantial shareholders of the Bank has reported their related parties, and the Bank will regularly maintain and update the list of related parties to continuously lift the level of management of related party transactions. The Bank has disclosed the related party transactions for 2018 in this annual report. Due to limitations on space, this annual report does not provide the list of related parties of substantial shareholders.

(2) As Traveller Automobile Group Co., Ltd., a shareholder of the Company, was temporarily unable to confirm its de facto controller, the disclosures about the information, such as the de facto controller of that shareholder, equity interest and short positions, were based on its shareholding structure information in the industrial and commercial registration.

(IV) PLEDGE AND FREEZING OF ORDINARY SHARES

As at the end of the reporting period, to the knowledge of the Company, 4,888,676,403 shares of the Bank (representing 26.12% of the total ordinary shares in issue) were pledged; 1,537,240,209 shares were subject to judicial freezing. During the reporting period, 11,130,000 shares of the Bank held by Zhejiang Jingfa Industry Group Co., Ltd. were subject to judicial auction, of which 9,460,000 shares and 1,670,000 shares were acquired by Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (杭州民生醫藥控股集團有限公司) and Zhuji Hongyi Electronic Science and Technology Co., Ltd. (諸暨宏億電子科技有限公司) respectively through auction, and share transfer registration has been completed for all of such shares.

(V) INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of December 31, 2018, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	Domestic Shares	Long position	2,655,443,774	14.19	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Share	Long position	2,655,443,774	14.19	18.75
Traveller Automobile Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Lin Xiangmei (林香美)	Interests of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Qiu Jianlin (邱建林)	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Group Holdings Limited.	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74
Lou Zhongfu (樓忠福)	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Wang Shuifu (王水福)	Interests of controlled corporation	Domestic share	Long position	850,546,358	4.54	6.00
Chen Guihua (陳桂花)	Interests of controlled corporation	Domestic share	Long position	850,546,358	4.54	6.00
Chen Xiaxin (陳夏鑫)	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.54	6.00
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.49	5.94
Zhejiang Provincial Energy Group Company Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.45	14.18
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner	H Shares	Long position	365,633,000	1.95	8.03
Zhejiang Energy International Co., Ltd. (浙江能源國際有限公司)	Beneficial owner	H Shares	Long position	280,075,000	1.50	6.15
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.29	5.67
China WanXiang Holding Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67
Lu Weiding (魯偉鼎)	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.06	5.37
Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.06	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	5.28
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,000,000,000	5.34	21.96
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	864,700,000	4.62	18.99
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	864,700,000	4.62	18.99
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.99	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.66	15.04
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
Hong Kong Xinhu Investment Co., Ltd.	Beneficial owner	H share	Long position	389,037,000	2.08	8.54
Xinhu Zhongbao Co., Ltd.	Interests of controlled corporation	H share	Long position	389,037,000	2.08	8.54
Zhejiang Xinhu Group Co., Ltd.	Interests of controlled corporation	H share	Long position	389,037,000	2.08	8.54
Huang Wei (黃偉)	Interests of controlled corporation	H share	Long position	389,037,000	2.08	8.54
FTLife Insurance Company Limited	Beneficial owner	H share	Long position	338,595,000	1.81	7.44
Tongchuangjiuding Investment Management Group Co., Ltd.	Interests of controlled corporation	H share	Long position	338,595,000	1.81	7.44
Tongchuang Jiuding Investment Holding Co. Ltd.	Interests of controlled corporation	H share	Long position	338,595,000	1.81	7.44
FTL Asia Holdings Limited	Interests of controlled corporation	H share	Long position	338,595,000	1.81	7.44
Bright Victory International Limited	Interests of controlled corporation	H share	Long position	338,595,000	1.81	7.44
Wu Gang (吳剛)	Interests of controlled corporation	H share	Long position	338,595,000	1.81	7.44
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.34	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	Long position	858,918,727 note	4.59	18.86
	Interest of controlled corporation	H Shares	Short position	858,692,476 note	4.59	18.86
CITIC Securities International Company Limited	Interest of controlled corporation	H Shares	Long position	858,918,727 note	4.59	18.86
	Interest of controlled corporation	H Shares	Short position	858,692,476 note	4.59	18.86
CLSA B.V.	Interest of controlled corporation	H Shares	Long position	858,918,727 note	4.59	18.86
	Interest of controlled corporation	H Shares	Short position	858,692,476 note	4.59	18.86
CITIC CLSA Global Markets Holdings Limited	Interest of controlled corporation	H Shares	Long position	858,918,727 note	4.59	18.86
	Interest of controlled corporation	H Shares	Short position	858,692,476 note	4.59	18.86
CSI Capital Management Limited	Beneficial owner	H Shares	Long position	858,918,727 note	4.59	18.86
	Beneficial owner	H Shares	Short position	17,403,890 note	0.09	0.38
CSI Financial Products Limited	Beneficial owner	H Shares	Short position	841,288,586 note	4.49	18.47
Goncius I Limited	Beneficial owner	H Shares	Long position	792,843,890 note	4.24	17.41
	Beneficial owner	H Shares	Short position	792,843,890 note	4.24	17.41

Note:

This part involves derivative instrument. For the details, please refers to the relevant information about disclosure of interests, which was published on the website of the Stock Exchange.

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on December 31, 2018.

(VI) INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.19% of the shares of the Company and was the Company's largest Shareholder.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with a registered capital of RMB12.0 billion, and is a financial investment management platform established by Zhejiang Provincial Government. It is a state-owned enterprise directly subordinated to the provincial government, which is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. It is mainly engaged in financial equity investment, government equity investment fund management and asset management business.

(VII) ISSUE AND LISTING OF SECURITIES

In order to keep the core capital adequacy ratio remaining constantly at the required level, and to meet the capital requirements of the Company for its continuous business development, with the approval under the Circular (Yin Jian Fu [2018] No.16) of the CBIRC and the Circular (Zheng Jian Xu Ke [2018] No.486) of the CSRC, on March 29, 2018, the Bank allotted and issued to not less than 6 placees, who and whose ultimate beneficial owners were not connected persons of the Bank, at a placing price of HK$4.80 per share, 759,000,000 new H Shares (the aggregate nominal value amounted to RMB 759,000,000), respectively representing approximately 16.67% and 4.05% of entire issued H shares and the entire issued share capital of the Bank as enlarged by the allotment and issue of the placing shares. The gross proceeds from the placing amounted to HK$3,643.2 million, and the net proceeds, after deducting all relevant costs and expenses, including commission and legal fees, were approximately HK$3,615.2 million and all were used to replenish the core tier 1 capital of the Bank. The net price (after deducting all applicable costs and expenses, including commission and legal fees) to be raised per H Share was approximately HK$4.76. The closing price of our H Shares was HK$4.89 on the date when the Placing Agreement was entered (i.e. on March 23, 2018).

The total number of the issued ordinary Shares of the Company increased from 17,959,696,778 Shares to 18,718,696,778 Shares as a result of the issue of the placing shares. Upon the completion, the total number of issued H Shares increased from 3,795,000,000 Shares to 4,554,000,000 Shares, and the number of domestic shares remained unchanged at 14,164,696,778 Shares.

(VIII) ISSUE OF BONDS

On March 10, 2014, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2012] No. 783) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2013] No. 46), The Company publicly issued China Zheshang Bank Co., Ltd.'s 2014 financial bonds of RMB4.5 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of subordinated bonds was AAA.

On December 24, 2015, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2015 financial bonds of RMB5.0 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On February 24, 2016, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 financial bonds of RMB10 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On September 14, 2016, according to the approvals under the documents issued by CBIRC (Yin Jian Fu [2016] No. 102) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 125), the Company publicly issued China Zheshang Bank Co., Ltd.'s 2016 Tier 2 capital bonds of RMB10 billion in the national interbank bond market. This tranche of bonds has a term of 10 years and bear interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Raised proceeds will all be used to replenish the tier-two capital of the Company. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

On June 13, 2018, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2017] No. 339) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2017] No. 232), the Company publicly issued the first tranche of tier-two capital bonds of 2018 of China Zheshang Bank Co., Ltd.'s in an amount of RMB15 billion in the national interbank bond market. This tranche of bonds has a term of 10 years and bears interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Raised proceeds will all be used to replenish the tier-two capital of the Company. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

On August 27, 2018, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2017] No.189) and People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2017] No.174), the Company publicly issued the first tranche of 2018 financial bonds of China Zheshang Bank Co., Ltd. in the amount of RMB20 billion in the national inter-bank bond market. This tranche of bonds has a term of 3 years and bears interest at fixed interest rate, and all proceeds from the issue of the bonds will be used to extend small and micro corporate loans pursuant to applicable laws and approval from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

(IX) INFORMATION ABOUT OFFSHORE PREFERENCE SHARES

1. ISSUANCE AND LISTING OF OFFSHORE PREFERENCE SHARES

Pursuant to the approval of the CBIRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360) the Bank made a non-public issuance of US$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017 (Stock Code of Preference Shares: 4610).

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBIRC and the CSRC, the capital raised from the Offshore Preference Shares issuance were used to replenish the Bank's additional tier 1 capital, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure.

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US$/ share)	Initial Annual Dividend Rate (%)	Issue Volume (Share)	Total Issue Amount (US$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	March 29, 2017	20	5.45	108,750,000	2,175,000,000	March 30, 2017	108,750,000

2. RELEVANT ARTICLES WITH RESPECT TO RIGHTS AND INTERESTS OF THE OFFSHORE PREFERENCE SHARES HAVE BEEN INCLUDED TO THE COMPANY'S ARTICLES OF ASSOCIATION, WHICH CAN BE FOUND ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY.

3. NUMBER OF SHAREHOLDERS AND SHAREHOLDING OF OFFSHORE PREFERENCE SHARES

As of the end of the reporting period, the total number of shareholders (or nominees) of the Company for the Offshore Preference Shares was one, being The Bank of New York Depository (Nominees) Limited as the nominee.

Name of Shareholders	Nature of Shareholders	Share Class	Increase/ Decrease during the Reporting Period (Share)	Shareholders Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
The Bank of New York Depository (Nominees) Limited	Foreign legal Person	Offshore Preference Shares	108,750,000	100	108,750,000	–	unknown

Notes:

(1) Particulars of shareholding of the Offshore Preference Shares shareholders were calculated according to the information specified in the register of Offshore Preference Shares shareholders of the Bank.

(2) As the issuance was an offshore non-public offering, the register of Offshore Preference Shares shareholders set out the information of the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as the nominee of the placees in the clearing systems of Euroclear Bank S.A.／N.V. and Clearstream Banking S.A. as of the end of the reporting period.

4. DISTRIBUTION OF PROFITS FROM THE OFFSHORE PREFERENCE SHARES

The Bank paid the dividend to the holders of the Offshore Preference Shares in cash once a year. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in distribution of the remaining profits with the holders of the ordinary shares.

According to the resolution and authorization of the general meeting, the Board meeting dated December 20, 2017 deliberated and adopted the Proposal for Distributing Dividends of Offshore Preference Shares, approving the Bank to distribute the dividends of Offshore Preference Shares for the first time on March 29, 2018. Pursuant to relevant laws and regulations of China, while distributing the dividends of offshore preference shares to the offshore non-resident corporate shareholders, the Bank shall withhold and pay on behalf the corporate income tax according to the tax rate of 10%. According to relevant articles and conditions of the Bank with respect to Offshore Preference shares, relevant taxes and dues shall be paid by the Bank. The dividends of Offshore Preference Shares distributed this time totaled to US$131,708,333.33, including: US$118,537,500 actually paid to shareholders of the offshore preference shares according to the annual interest rate of 5.45%; and the corporate income tax of US$13,170,833.33 withheld and paid on behalf according to the tax rate of 10% pursuant to relevant legal regulations.

For the implementation plan for initial distribution of the dividends of Offshore Preference Shares, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company.

The above dividend was paid in cash on March 29, 2018.

5. REDEMPTION OR CONVERSION OF OFFSHORE PREFERENCE SHARES

During the reporting period, there was no redemption or conversion of the Offshore Preference Shares issued by the Bank.

6. RESTORATION OF VOTING RIGHTS OF OFFSHORE PREFERENCE SHARES

During the reporting period, there was no restoration of voting rights of the Offshore Preference Shares issued by the Bank.

7. ACCOUNTING POLICIES ADOPTED FOR OFFSHORE PREFERENCE SHARES AND THE REASONS THEREOF

In accordance with the Accounting Standards for Enterprises No.22 — Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 — Presentation of Financial Instruments and the Rules on Differences between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as IAS 39-Financial Instruments: Recognition and Measurement and IAS 32-Financial Instruments: Disclosures and Presentation formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares meet the requirements of being accounted as equity instruments, so they can be calculated as the equity instruments.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic Information of Directors, Supervisors and Senior Management

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period *(RMB in ten thousand)*
Shen Renkang (沈仁康)	Male	January 1963	Chairman, Executive Director	July 2014	June 2018 to June 2021	0	0	115.18
Xu Renyan (徐仁艷)	Male	August 1965	Executive Director, President	May 2004	July 2018 to June 2021	0	0	555.16
Zhang Luyun (張魯芸)	Female	December 1961	Executive Director	January 2015	June 2018 to June 2021	0	0	108.17
Huang Zhiming (黃志明)	Male	April 1976	Non-executive Director	June 2018	October 2018 to June 2021	0	0	–
Wei Dongliang (韋東良)	Male	September 1974	Non-executive Director	June 2018	October 2018 to June 2021	0	0	–
Huang Xufeng (黃旭鋒)	Male	October 1979	Non-executive Director	June 2018	The date of approval of the qualification for appointment to June 2021	0	0	–
Gao Qinhong (高勤紅)	Female	July 1963	Non-executive Director	May 2004	June 2018 to June 2021	0	0	–
Hu Tiangao (胡天高)	Male	September 1965	Non-executive Director	May 2004	June 2018 to June 2021	0	0	–
Zhu Weiming (朱瑋明)	Male	March 1969	Non-executive Director	October 2016	June 2018 to June 2021	0	0	–
Lou Ting (樓婷)	Female	October 1976	Non-executive Director	February 2015	June 2018 to June 2021	0	0	–
Xia Yongchao (夏永潮)	Male	February 1970	Non-executive Director	June 2018	October 2018 to June 2021	0	0	–
Tong Benli (童本立)	Male	August 1950	Independent non-executive Director	February 2015	June 2018 to June 2021	0	0	30.00
Yuan Fang (袁放)	Male	March 1957	Independent non-executive Director	February 2015	June 2018 to June 2021	0	0	30.00

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period *(RMB in ten thousand)*
Dai Deming (戴德明)	Male	October 1962	Independent non-executive Director	February 2015	June 2018 to June 2021	0	0	30.00
Liu Pak Wai (廖柏偉)	Male	January 1948	Independent non-executive Director	February 2015	June 2018 to June 2021	0	0	30.00
Zheng Jindu (鄭金都)	Male	July 1964	Independent non-executive Director	December 2015	June 2018 to June 2021	0	0	30.00
Zhou Zhifang (周志方)	Male	December 1956	Independent non-executive Director	June 2018	October 2018 to June 2021	0	0	7.50
Wang Guocai (王國才)	Male	November 1956	Independent non-executive Director	June 2018	October 2018 to June 2021	0	0	7.50
Liu Xiaochun (劉曉春)	Male	March 1959	Former Vice Chairman, Executive Director, President	July 2014	February 2015 to April 2018	0	0	509.14
Wang Mingde (王明德)	Male	November 1942	Former Vice Chairman, Non-executive Director	August 2010	February 2015 to June 2018	0	0	–
Wang Yibing (汪一兵)	Female	April 1966	Former non-executive Director	February 2015	February 2015 to June 2018	0	0	–
Shen Xiaojun (沈小軍)	Female	July 1959	Former non-executive Director	March 2009	February 2015 to June 2018	0	0	–
Jin Xuejun (金雪軍)	Male	June 1958	Former Independent Non-executive Director	August 2010	February 2015 to October 2018	0	0	25.00
Yu Jianqiang (于建強)	Male	March 1962	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	February 2015	June 2018 to June 2021	0	0	496.27

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period *(RMB in ten thousand)*
Zheng Jianming (鄭建明)	Male	January 1973	Employee Representative Supervisor, Vice Chairman of Board of Supervisors	June 2013	June 2018 to June 2021	0	0	–
Huang Haibo (黃海波)	Male	February 1978	Shareholder Representative Supervisor	June 2018	June 2018 to June 2021	0	0	–
Ge Meirong (葛梅榮)	Male	September 1964	Shareholder Representative Supervisor	June 2018	June 2018 to June 2021	0	0	–
Wang Chengliang (王成良)	Male	June 1963	Employee Representative Supervisor	January 2005	June 2018 to June 2021	0	0	–
Chen Zhongwei (陳忠偉)	Male	September 1970	Employee Representative Supervisor	January 2013	June 2018 to June 2021	0	0	–
Jiang Rong (姜戎)	Male	December 1969	Employee Representative Supervisor	July 2015	June 2018 to June 2021	0	0	–
Yuan Xiaoqiang (袁小強)	Male	March 1963	External Supervisor	February 2015	June 2018 to June 2021	0	0	30.00
Wang Jun (王軍)	Male	April 1970	External Supervisor	February 2015	June 2018 to June 2021	0	0	30.00
Huang Zuhui (黃祖輝)	Male	June 1952	External Supervisor	February 2015	June 2018 to June 2021	0	0	30.00
Cheng Huifang (程惠芳)	Female	September 1953	External Supervisor	June 2016	June 2018 to June 2021	0	0	30.00
Tao Xuegen (陶學根)	Male	October 1953	Former Shareholder Representative Supervisor	June 2005	February 2015 to June 2018	0	0	–
Zhou Yang (周洋)	Male	October 1988	Former Shareholder Representative Supervisor	February 2015	February 2015 to June 2018	0	0	–
Ge Lixin (葛立新)	Male	October 1966	Former Employee Representative Supervisor	July 2004	February 2015 to June 2018	0	0	–
Zhang Rulong (張汝龍)	Male	January 1966	Former Employee Representative Supervisor	July 2004	February 2015 to June 2018	0	0	–
Jiang Zhihua (蔣志華)	Male	August 1943	Former external Supervisor	May 2004	February 2015 to June 2018	0	0	15.00

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period *(RMB in ten thousand)*
Xu Manxuan (徐蔓萱)	Male	October 1963	Vice President	September 2002	June 2018 to June 2021	0	0	512.69
Wu Jianwei (吳建偉)	Male	February 1971	Vice President	March 2015	June 2018 to June 2021	0	0	508.67
Liu Long (劉龍)	Male	September 1965	Vice President, Secretary of the Board	September 2014	June 2018 to June 2021	0	0	508.97
Zhang Rongsen (張榮森)	Male	October 1968	Vice President	September 2017	June 2018 to June 2021	0	0	329.04
Liu Guishan (劉貴山)	Male	June 1963	Assistant to President, Chief Risk Officer	October 2007	October 2018 to June 2021	0	0	111.07
Chen Haiqiang (陳海強)	Male	October 1974	Assistant to President	March 2015	October 2018 to June 2021	0	0	110.10
Luo Feng (駱峰)	Male	September 1979	Assistant to President	July 2006	Approval date of the qualification for appointment to June 2021	0	0	111.61
Sheng Hongqing (盛宏清)	Male	July 1971	Assistant to President	June 2018	Approval date of the qualification for appointment to June 2021	0	0	94.20
Song Shizheng (宋士正)	Male	April 1964	Chief Information Officer	October 2003	December 2018 to June 2021	0	0	91.68
Jing Feng (景峰)	Male	December 1979	Chief Finance Officer	July 2008	December 2018 to June 2021	0	0	83.47
Ye Jianqing (葉建清)	Male	March 1963	Former Vice President	January 2004	February 2015 to March 2018	0	0	364.27
Zhang Changgong (張長弓)	Male	October 1965	Former Vice President	January 2015	June to December 2018	0	0	525.42
Jiang Yulin (姜雨林)	Male	June 1968	Former Vice President	April 2016	June to October 2018	0	0	414.12

Note:

(1) As at the end of the reporting period, the qualification of Mr. Huang Xufeng for appointment as a Director was pending the ratification of his eligibility by CBIRC, and it would not be mentioned again in this annual report.

(2) Nomination of Directors of the fifth session of the Board of the Company by shareholders is as follows: Huang Zhiming (Director) was nominated by Zhejiang Provincial Financial Holdings Co., Ltd. (shareholder); Wei Dongliang (Director) was nominated by Zhejiang Provincial Energy Group Co., Ltd., Zhejiang Energy Capital Holdings Co., Ltd., and Zhejiang Energy International Co., Ltd. (shareholders); Huang Xufeng (Director) was nominated by Traveller Automobile Group Co., Ltd. (shareholder); Gao Qinhong (Director) was nominated by Zhejiang Hengyi Group Co., Ltd., Zhejiang Hengyi Petrochemical Co., Ltd. and Zhejiang Hengyi High-tech Material Co., Ltd. (shareholders); Hu Tiangao (Director) was nominated by Hengdian Group Holdings Limited (shareholder); Zhu Weiming (Director) was nominated by Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. and Zhejiang Seaport (Hong Kong) Co., Limited (shareholders); Lou Ting (Director) was nominated by Guangsha Holding Group Co., Ltd., Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd. (shareholders); Xia Yongchao (Director) was nominated by Zhejiang Yongli Industry Group Co., Ltd. (shareholder).

(3) Nomination of shareholder Supervisors for the fifth session of the Board of Supervisors of the Bank is as follows: Yu Jianqiang (Supervisor) was nominated by Minsheng Life Insurance Company Ltd.(shareholder); Huang Haibo (Supervisor) was nominated by Zhejiang RIFA Holding Group Co., Ltd. (shareholder); Ge Meirong (Supervisor) was nominated by Zhejiang China Light & Textile Industrial City Group Co., Ltd. and Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd. (shareholders).

(4) The Company's employee representative Supervisors receive their remuneration with respect to their posts as employees and do not receive any remuneration as employee representative Supervisors.

(5) The qualification of Mr. Luo Feng and Mr. Sheng Hongqing for appointment as senior management is pending the ratification of their eligibilities by CBIRC and they will perform their duties upon such approval.

2. Changes of Directors, Supervisors and Senior Management During the Reporting Period

Directors

Due to change in work commitments, Mr. Liu Xiaochun resigned as an executive Director, a deputy chairman and a member of the Strategic Committee and the Inclusive Finance Development Committee of the Board of the Bank, with effect from April 18, 2018.

Due to the expiry of the term of office of the fourth session of the Board, the Company held the 2017 general meeting on June 27, 2018, at which 18 persons were elected as members of the fifth session of the Board, namely Mr. Shen Renkang, Mr. Xu Renyan, Ms. Zhang Luyun, Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting, Mr. Xia Yongchao, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai; Mr. Wang Mingde, Ms. Wang Yibing and Ms. Shen Xiaojun ceased to serve as non-executive Directors of the Company; and Mr. Jin Xuejun ceased to act as an independent non-executive Director of the Company. Among the new Directors, the qualification of Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Xia Yongchao, Mr. Zhou Zhifang and Mr. Wang Guocai for appointment as a Director were approved by the regulatory authority, while the qualification of Mr. Huang Xufeng for appointment as a Director is pending the ratification of his eligibility by the regulatory authority.

Supervisors

On May 10, 2018, the Bank convened the meeting of employees' representatives, at which Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Jiang Rong were elected as employee representative Supervisors of the fifth session of the Board of Supervisors, with a 3-year term of office commencing on June 27, 2018, being the date on which the fifth session of the Board of Supervisors was elected at the 2017 annual general meeting of the Bank.

On June 27, 2018, the Bank convened the 2017 annual general meeting, at which Mr. Yu Jianqiang, Mr. Huang Haibo and Mr. Ge Meirong were elected as shareholder Supervisors and Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Ms. Cheng Huifang as external Supervisors for the fifth session of the Board of Supervisors. The fifth session of the Board of Supervisors comprised 3 shareholder Supervisors and 4 external Supervisors elected at the general meeting, and 4 employee representative Supervisors elected on May 10, 2018.

On June 27, 2018, Mr. Zhang Rulong and Mr. Ge Lixin, both were employee representative Supervisor for the fourth Session of the Board of Supervisors, retired upon the expiry of their term of office. Mr. Jiang Zhihua, external Supervisor of the Bank, retired upon the expiry of his term of office.

Senior Management

On March 15, 2018, Mr. Ye Jianqing resigned and ceased to act as a vice president of the Company due to other work commitments.

Mr. Liu Xiaochun resigned as president of the Company due to work changes. Such resignation was considered at the first extraordinary meeting of the 4th session of the Board of the Company of 2018 and was effective from April 18, 2018.

On April 18, 2018, the appointment of Mr. Xu Renyan as president of the Company was approved at the first extraordinary meeting of the 4th session of the Board of the Company of 2018. His qualification for appointment as a president was approved by CBIRC on July 30, 2018.

On May 7, 2018, it was approved at the thirteenth meeting of the 4th session of the Board of the Company that Mr. Liu Guishan was appointed as the assistant to president and the chief risk officer of the Company, Mr. Chen Haiqiang and Mr. Luo Feng as the assistants to president, Mr. Song Shizheng as the chief information officer, Mr. Jing Feng as the chief finance officer of the Company. The qualifications of Mr. Liu Guishan and Mr. Chen Haiqiang for appointment as senior management were approved by CBIRC on October 18, 2018. The qualifications of Mr. Song Shizheng and Mr. Jing Feng for appointment as senior management were approved by CBIRC on December 12, 2018. The qualification of Mr. Luo Feng for appointment as senior management is pending the ratification of his eligibility by CBIRC and will perform his duty upon the approval.

On June 27, 2018, it was approved at the first meeting of the 5th session of the Board of the Company that Mr. Sheng Hongqing was engaged as assistant to president of the Company. His qualification for appointment as Senior Management is pending the ratification of his eligibility by CBIRC and he will perform his duties upon such approval.

On October 23, 2018, Mr. Jiang Yulin tendered his resignation and ceased to act as a vice president of the Company due to his personal commitments.

On December 11, 2018, Mr. Zhang Changgong tendered his resignation and ceased to act as a vice president of the Company due to change in his personal work commitments.

3. Posts held by Directors and Supervisors in Shareholders

Name	Employer	Post	Term of Office
Huang Zhiming	Zhejiang Provincial Financial Holdings Co., Ltd.	Member of the party committee and employee Director General Manager of the Financial Management Department	Since 2017
Wei Dongliang	Zhejiang Energy Capital Holdings Co., Ltd.	Member of the party committee and general manager	Since 2016
Gao Qinhong	Zhejiang Hengyi Group Co., Ltd.	Chief financial advisor	Since 2012
Hu Tiangao	Hengdian Group Holdings Limited	Director and vice president	Since 1995
Zhu Weiming	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Director of the Financial Affairs Department	Since 2017
Lou Ting	Guangsha Holding Group Co., Ltd.	Chief executive officer	Since 2013
	Zhejiang Guangsha Co., Ltd.	Deputy chairman	Since 2017
Xia Yongchao	Zhejiang Yongli Industry Group Co., Ltd.	Executive deputy general manager	Since 2001
Huang Haibo	Zhejiang RIFA Holding Group Co., Ltd.	Director and chief financial officer	Since 2014 (director) Since 2013 (chief financial officer)
	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Chairman	Since 2018
Ge Meirong	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	Secretary of the party committee and chairman	Since 2018

4. Profile of Directors, Supervisors and Senior Management and Information of Their Concurrent Post

Directors

Shen Renkang (沈仁康)

Mr. Shen Renkang (沈仁康) is currently the secretary of the Communist Party of China ("CPC") committee, chairman of the Board and executive Director of the Company. He holds a postgraduate degree. Mr. Shen had successively held the posts of member of the CPC standing committee, vice county chief, vice county secretary of CPC committee, acting county chief and county chief of Qingtian County, Zhejiang; he served as the vice mayor of Lishui City, Zhejiang and concurrently held the position of CPC working committee secretary of management committee of Lishui Economic Development Zone and member of the standing committee of Lishui City, Zhejiang; he served as the deputy secretary of the municipal CPC committee of Lishui City, Zhejiang, during which period he concurrently held the position of politics and law committee secretary in the municipal CPC committee of Lishui City; and he also served as deputy secretary of municipal CPC committee, acting mayor and mayor of Quzhou City, Zhejiang Province.

Xu Renyan (徐仁艷)

Xu Renyan (徐仁艷) is currently the deputy secretary of the CPC committee, executive Director and president of the Company, He holds a postgraduate degree and is a senior accountant and certified tax agent. Mr. Xu had successively held positions of the deputy section chief and the section chief of financial section, accounting department, Zhejiang provincial branch of PBOC; vice director of accounting department, Zhejiang provincial branch of PBOC; vice director and director of accounting and financial department, Hangzhou central branch, PBOC; a member of the CPC committee and vice president of Hangzhou central branch, PBOC; a member of the CPC committee and vice president of China Zheshang Bank Co., Ltd. and concurrently held the position of director and chairman of Zhejiang Zheyin Financial Leasing Co., Ltd..

Zhang Luyun (張魯芸)

Ms. Zhang Luyun (張魯芸) is currently the deputy secretary of CPC committee, executive Director and director of labor union working committee at the head office of the Company. She holds an EMBA degree, and is a senior economist and post-secondary education assistant researcher. Ms. Zhang had held the position of vice director of information division and chief of press section of Hangzhou Municipal General Office. She was a member of the CPC committee and vice president of Hangzhou Radio & TV University; secretary for confidential information at division chief level of organization department of Zhejiang provincial CPC committee; a member of the CPC committee, vice general manager and director of Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司); and non-executive director of Zhejiang Expressway Co., Ltd. (浙江滬杭甬高速公路股份有限公司).

Huang Zhiming (黃志明)

Mr. Huang Zhiming is currently a non-executive Director of the Company, with a postgraduate degree. Mr. Huang acted as a confidential secretary, project leader of the No.2 Investment Department, deputy director of the General Office and director of the General Management Office in Zhejiang Provincial Financial Development Company; chairman of the board of supervisors of Zhejiang Nongdu Agricultural Products Co., Ltd. (浙江省農都農產品有限公司); supervisor of Wuchan Zhongda Group Co., Ltd. (物產中大集團股份有限公司), general manager of the Risk and Compliance Department and director of the General Office at Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司);chairman of the board of supervisors of Zhejiang Industry Fund and executive supervisor of Zhejiang Guarantee Group. He currently serves as member of the CPC Committee, employee director, general manager of the Financial Management Department of Zhejiang Provincial Financial Holdings Co., Ltd., director of Caitong Securities Co., Ltd. (財通證券股份有限公司) and director of Yongan Futures Co., Ltd. (永安期貨股份有限公司), and chairman of the Board of Hangzhou Jinxi Hotel (杭州金溪山莊).

Wei Dongliang (韋東良)

Mr. Wei Dongliang is currently a non-executive Director of the Company, with a postgraduate degree, as well as an electrical engineer with professional qualification of business administration economy (intermediate). Mr. Wei served as the secretary of the General Office of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司); assistant to general manager, vice general manager and a member of CPC committee of Zhejiang Zheneng Lanxi Power Generation Co., Ltd. (浙江浙能蘭溪發電有限責任公司); vice general manager and a member of CPC committee of Zhejiang Province Water Conservancy and Hydropower Investment Group Co., Ltd. (浙江省水利水電投資集團有限公司); vice director and director of asset operation department of Zhejiang Provincial Energy Group Company Ltd.; director and vice chairman of Qianjiang Water Resources Development Co., Ltd. (錢江水利開發股份有限公司); and director and vice chairman of Zheshang Property and Casualty Insurance Company Limited (浙商財產保險股份有限公司). He currently serves as general manager and a member of CPC committee of Zheneng Capital Holding Co., Ltd. (浙能資本控股有限公司), and general manager of Zheneng Equity Investment Fund Management Co., Ltd. (浙能股權投資基金管理有限公司).

Huang Xufeng (黃旭鋒)

Mr. Huang Xufeng is currently a non-executive Director of the Company, with a postgraduate degree. Mr. Huang had held the posts of senior staff member of the Market Operation and Coordination Department of the Ministry of Commerce; person-in-charge at the research division of the Special Commissioner's Office in Hangzhou of the Ministry of Commerce; assistant general manager of HXFB Financial & Investment Management Co., Ltd (華夏富邦金融投資管理有限公司).; assistant general manager of ABC International (China) Investment Co., Ltd (農銀國際（中國）投資有限公司). and general manager of its investment banking division; and deputy general manager of the Investment Center of Anbang Insurance Group (安邦保險集團投資中心). Mr. Huang now serves as the deputy general manager of Anbang Asset Management Co., Ltd (安邦資產管理有限責任公司). and the general manager of the Investment Management Department of Anbang Insurance Group (安邦保險集團).

Gao Qinhong (高勤紅)

Ms. Gao Qinhong (高勤紅) is currently a non-executive Director of the Company. She holds a postgraduate degree and is a senior economist. Ms. Gao worked as accountant and credit manager of Xiaoshan branch of Industrial and Commercial Bank of China. She also served as accountant and credit manager of Zhejiang provincial branch of Industrial and Commercial Bank of China; section chief of credit and loan section and division-level inspector of Hangzhou branch and vice president of Wulin sub-branch, Shanghai Pudong Development Bank Co., Ltd.; vice general manager and chief financial officer and director of Zhejiang Hengyi Group Co., Ltd. (浙江恒逸集團有限公司) and director of Hengyi Petrochemical Co., Ltd. (恒逸石化股份有限公司). She currently serves as chief financial advisor of Zhejiang Hengyi Group Co., Ltd..

Hu Tiangao (胡天高)

Mr. Hu Tiangao (胡天高) is currently a non-executive Director of the Company. He holds an EMBA degree and is a senior economist. Mr. Hu served as vice president of Dongyang sub-branch, Bank of China. He is currently a director and vice president of Hengdian Group Holdings Limited (橫店集團控股有限公司); director of Hengdian Group DMEGC Magnetics Co., Ltd. (橫店集團東磁股份有限公司); director of Apeloa Pharmaceutical Co., Ltd. (普洛藥業股份有限公司); director of Innuovo Technology Co., Ltd. (英洛華科技股份有限公司); director of Hengdian Group Tospo Lighting Co.,Ltd. (橫店集團得邦照明股份有限公司) and director of Hengdian Entertainment Co., Ltd. (橫店影視股份有限公司).

Zhu Weiming (朱瑋明)

Mr. Zhu Weiming (朱瑋明) is currently a non-executive Director of the Company. He holds a postgraduate degree. Mr. Zhu successively held the positions of vice director and director of the general manager service department at Jiaxing Power Generation Co., Ltd.; vice general manger and secretary of the board for Zhejiang Southeast Electric Power Company Limited; vice general manager at Zhoushan Marine Comprehensive Development and Investment Co., Ltd.; vice director of the investment and development department at Zhejiang Marine Development & Investment Group Co., Ltd.; vice director of the investment and development department as well as vice director and director of the finance and asset management department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.. He is currently the director of the financial affairs department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.; chairman of Zhejiang Seaport Asset Management Co., Limited (浙江海港資產管理有限公司); chairman and general manager of Zhejiang Seaport Bulk Commodity Exchange Co., Ltd. (浙江海港大宗商品交易中心有限公司) and director of Donghai Marine Insurance Company Limited (東海航運保險股份有限公司) and Ningbo Commerce Bank Co.Ltd. (寧波通商銀行股份有限公司) respectively.

Lou Ting (樓婷)

Ms. Lou Ting (樓婷) is currently a non-executive Director of the Company. She holds an undergraduate degree and is an intermediary financial economist. Ms. Lou held several positions in Jinhua branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司), including assistant manager of business department I, assistant manager of operating department, manager of business and sales department III, vice general manager of international business department and business development department, manager of Jindong District and Dongyang District's regional business development department III and president of Dongyang sub-branch. She is now the chief executive officer of Guangsha Holding Group Co., Ltd. (廣廈控股集團有限公司) and vice chairman of Zhejiang Guangsha Co., Ltd. (浙江廣廈股份有限公司).

Xia Yongchao (夏永潮)

Mr. Xia Yongchao is currently a non-executive Director of the Company. He is a senior economist, with an MBA degree. Mr. Xia had held the posts of secretary of Shaoxing Yongli Industrial Corporation; manager of the Treasury Department of Zhejiang Yongli Industry Group Co., Ltd.; director of the polyester factory of Zhejiang Yongli Group; and chairman of Shaoxing Motor Mart Co., Ltd.. Mr. Xia now serves as the deputy general manager of Zhejiang Yongli Industry Group Co., Ltd.; the deputy chairman of Sinatay Life Insurance Co., Ltd.; the chairman of Zhejiang Lingyan Capital Management Co., Ltd.; and a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd..

Tong Benli (童本立)

Mr. Tong Benli (童本立) is currently an independent non-executive Director of the Company. He holds a postgraduate degree and is a professor and a senior accountant. Mr. Tong held the position of division chief of budget division of Zhejiang Provincial Department of Finance; associate dean, dean and secretary of CPC committee of Zhejiang College of Finance & Economics (now known as Zhejiang University of Finance and Economics); independent non-executive director of Zhejiang Medicine Co., Ltd. (浙江醫藥股份有限公司), Hangzhou Sunyard System Engineering Co., Ltd. (杭州信雅達系統工程股份有限公司), Zhejiang Narada Power Source Co., Ltd. (浙江南都電源動力股份有限公司), Soyea Technology Co., Ltd. (數源科技股份有限公司), Zhejiang Reclaim Construction Group Co., Ltd. (浙江省圍海建設集團股份有限公司) and Hangzhou Changqiao Travelling Investment Co., Ltd. (杭州長喬旅遊投資集團股份有限公司) respectively. Mr. Tong is currently an independent non-executive director of Hangzhou Jiebai Group Co., Limited (杭州解百集團股份有限公司), Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂利康製藥股份有限公司), Zhejiang Zhengyuan Zhihui Technology Co., Ltd. (浙江正元智慧科技股份有限公司) and Zhejiang Pujiang Rural Commercial Bank Co., Ltd. (浙江浦江農村商業銀行股份有限公司) respectively.

Yuan Fang (袁放)

Mr. Yuan Fang (袁放) is currently an independent non-executive Director of the Company. He holds an undergraduate degree, with the securities practice qualification. Mr. Yuan served as vice president of Zhejiang Academy of Bank (now known as Zhejiang Financial College); vice division chief of finance management division, Zhejiang provincial branch of People's Bank of China; vice general manager of Zhejiang Provincial Securities Trading Center; vice president of Tianyi Securities Co., Ltd. (天一證券有限責任公司); general manager of Zhejiang Property & Stock Exchange Co., Ltd. (浙江產權交易所有限公司); vice president of Coslight Technology International Group Co., Ltd. (光宇集團有限公司); chairman of Zhejiang Provincial Securities and Listed Company Research Association. He is currently the independent non-executive director of Myshare Bank of Wanzhou (溫州民商銀行) and the Chairman of the Supervisory Committee of Zhejiang Qiantangjiang Jinyanyuan Consultation Co., Ltd.

Dai Deming (戴德明)

Mr. Dai Deming (戴德明) is currently an independent non-executive Director of the Company. He holds a doctoral degree and is a professor. Mr. Dai has been teaching at the accounting department of Renmin University of China, being a lecturer, associate professor and professor successively. Mr. Dai was an independent non-executive director of CRRC Corporation Limited (中國南車股份有限公司), Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司), and Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司) respectively. He currently serves as vice chairman of Accounting Society of China and independent non-executive director of Qingdao Haier Co., Ltd. (青島海爾股份有限公司), BOC Aviation Limited, China Securities Co., Ltd. (中信建投證券股份有限公司), Power Construction Corporation of China, and Poly Developments and Holdings Group Co., Ltd.

Liu Pak Wai (廖柏偉)

Mr. Liu Pak Wai (廖柏偉) is currently an independent non-executive Director of the Company. He holds a doctoral degree and is a professor. Mr. Liu has been teaching at the Chinese University of Hong Kong, being a lecturer, senior lecturer, professor and chair professor of the Chinese University of Hong Kong successively, during which, he also worked as pro-vice chancellor of the Chinese University of Hong Kong. He served as director of Institute of Global Economics and Finance, the Chinese University of Hong Kong, and an independent non-executive director of Hang Lung Properties Limited (恒隆地產有限公司). Mr. Liu now works as a professor of Lau Chor Tak Institute of Global Economics and Finance, the Chinese University of Hong Kong, a director of Hong Kong Institute of Monetary Research under the HKMA, an independent non-executive director of Transport International Holdings Limited (載通國際控股有限公司) and Hang Lung Group Limited (恒隆集團有限公司) respectively; and a council member of Shenzhen Finance Institute. Mr. Liu was awarded the Hong Kong Silver Bauhinia Star in 1999 and was appointed Hong Kong Justice of the Peace in 2006.

Zheng Jindu (鄭金都)

Mr. Zheng Jindu (鄭金都) is currently an independent non-executive Director of the Company. He holds a postgraduate degree and is a qualified first grade lawyer. Mr. Zheng was a lecturer at the Faculty of Law of Hangzhou University (now known as Zhejiang University), a vice director and partner of Zhejiang Guoqiang Law Firm (浙江國強律師事務所) and an independent non-executive director of Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司). Mr. Zheng is currently a director and partner of Zhejiang L&H Law Firm (浙江六和律師事務所) and he is also the managing director of Ninth Council of All China Lawyers Association (中華全國律師協會), the member of the 12th CPPCC National Committee of Zhejiang Province, the president of Ninth Council of Zhejiang Lawyers Association (浙江省律師協會), the vice-president of Seventh Council of Zhejiang Law Association (浙江省法學會) and the president of Hangzhou Three Chamber of Commerce (杭州市三門商會會長). He serves as an independent non-executive director of Hangzhou United Rural Commercial Bank Co. Ltd., Sundy Land Investment Co., Ltd. (宋都基業投資股份有限公司), HangZhou ShenHao Technology Co., Ltd. (杭州申昊信息科技股份有限公司) and Wonderful-wall Materials Co., Ltd. (墻煌新材料股份有限公司).

Zhou Zhifang (周志方)

Mr. Zhou Zhifang is currently an independent non-executive Director of the Company. He is a senior economist, with an undergraduate degree. Mr. Zhou held the posts of deputy unit chief at People's Bank of China, Jiangshan Sub-branch; deputy unit chief at Industrial and Commercial Bank of China, Jiangshan Sub-branch; director at the business department and the savings department, vice president, member of the CPC committee, leader of the discipline inspection team, deputy secretary of the CPC committee, vice president (in charge), secretary of the CPC committee and president of Industrial and Commercial Bank of China, Quzhou Branch; vice president and member of the CPC committee of Industrial and Commercial Bank of China, Jiangxi Branch; vice president, member of the CPC committee, and general manager and secretary of the CPC committee of the business department of Guangdong Branch of Industrial and Commercial Bank of China; president and secretary of the CPC committee of Ningbo Branch of Industrial and Commercial Bank of China; director of Shanghai Branch of the Internal Audit Bureau of Industrial and Commercial Bank of China; and senior expert (at president level) of Zhejiang Branch of Industrial and Commercial Bank of China of during which he acted as leader of the third inspection team in the head office of Industrial and Commercial Bank of China.

Wang Guocai (王國才)

Mr. Wang Guocai is currently an independent non-executive Director of the Company. He is a senior economist, with an undergraduate degree. Mr. Wang held the posts of vice president and president of Yuhuan Sub-branch of Industrial and Commercial Bank of China; president of Wenling Sub-branch of Industrial and Commercial Bank of China; vice president and president of Taizhou Branch of Industrial and Commercial Bank of China; and expert of Zhejiang Branch of Industrial and Commercial Bank of China.

Supervisors

Yu Jianqiang (于建強)

Mr. Yu Jianqiang (于建強) is currently the chairman of the Board of Supervisors and a shareholder representative Supervisor of the Company. He holds a postgraduate degree. Mr. Yu worked successively in the Communist Youth League of Zhejiang Provincial CPC Committee as vice minister in propaganda department and the head of United Front Work Department. He also served as general secretary and vice chairman of Zhejiang Youth United Association. He successively worked as vice section chief and chief in the Office of the Food and Drug Administration of Zhejiang (during which period he concurrently worked as director of the planning and finance department from October 2003 to December 2005); and assistant to the chief executive officer of Minsheng Life Insurance Company Ltd. (民生人壽保險股份有限公司).

Zheng Jianming (鄭建明)

Mr. Zheng Jianming (鄭建明) is currently the vice chairman of the Board of Supervisors, director of the Board of Supervisors Office, employee representative Supervisor and member of the discipline inspection commission. He holds a postgraduate degree and is an economist. Mr. Zheng successively worked as the office secretary and vice director of Zhejiang provincial branch of PBOC, and office secretary and vice director of the secretary section of Hangzhou Central Branch of PBOC. He successively held the positions of vice division chief and secretary at director level in the General Office of the People's Government of Zhejiang Province.

Huang Haibo (黃海波)

Mr. Huang Haibo is currently a shareholder representative Supervisor of the Company. He holds an undergraduate degree and is an accountant. Mr. Huang used to work as a financial accountant at Zhejiang Rifa Textile Machinery Co., Ltd., financial officer in Shanghai Rifa Digital System Co., Ltd., financial manager, chief financial officer and vice president at Zhejiang RIFA Holding Group Co., Ltd.. Mr. Huang is now the director and chief financial officer in Zhejiang RIFA Holding Group Co., Ltd..

Ge Meirong (葛梅榮)

Mr. Ge Meirong is currently a shareholder representative Supervisor of the Company. He holds an undergraduate degree and is a senior economist. He used to work as secretary of the Youth League Committee of Wanghua Village, Shaoxing County, youth officer of the district office in Pingshui District, Shaoxing County, agricultural assistant in Hengxi Township, Shaoxing County, standing committee member of the Youth League Committee, head of the Agro-industrial Department, deputy secretary of the Youth League Committee, member of the CPC Committee, secretary of the Youth League Committee, secretary of the CPC Committee in Shaoxing County, deputy secretary of the CPC Committee in Qianqing Town, Shaoxing County, deputy secretary of the CPC Committee and mayor of Keqiao Town, Shaoxing County, secretary of the CPC Committee and director of the

Working Committee of the People's Congress of Keyan Street, Shaoxing County, secretary of the CPC Committee and director of the Working Committee of the People's Congress of Keqiao Street, Shaoxing County, director and secretary of the CPC Committee of Shaoxing County Economic and Trade Bureau, secretary of the CPC Committee and director of the Housing Demolition Management Office of Shaoxing County, director of the Urban Village Transformation Office of Shaoxing County and deputy office director of the People's Government of Shaoxing County, secretary of the CPC Working Committee of Huashe Street, Shaoxing County, deputy head of the United Front Work Department of the CPC Shaoxing County Committee, secretary of the Party Committee at the Industry & Commerce Association of Shaoxing County, director of the Ethnic and Religious Affairs Bureau of Shaoxing County and deputy secretary of the CPC Committee and director of the Statistics Bureau of Keqiao District (Shaoxing County), secretary of the CPC Committee and director of the Statistics Bureau of Keqiao District, Shaoxing City, general manager of Shaoxing Natural Gas Investment Co., Ltd., secretary of the CPC Committee, chairman and general manager of Transport Investment and Construction Group Co., Ltd. in Keqiao District, Shaoxing City. Currently, he works as chairman of Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd. as well as secretary of the CPC committee and chairman of Zhejiang China Light & Textile Industrial City Group Co., Ltd..

Wang Chengliang (王成良)

Wang Chengliang (王成良) is currently an employee representative Supervisor of the Company. He holds a postgraduate degree and is a senior economist. Mr Wang worked at Wenzhou Branch of the People's Bank of China, and successively held the positions of Vice Chief of Planning Subsection of Wenzhou Branch, Vice President of Ouhai County Sub-Branch and Wenzhou Chengnan Sub-Branch, Chief of Planning Division and the first Business Division of Wenzhou Branch, and President of Wenzhou Wuma Sub-Branch of the ICBC; Vice President and President of Wenzhou Branch of the China Guangfa Bank; General Manager of Wenzhou Business Department and President of Wenzhou branch of CZBank. He currently serves as General Manager of the HR Department of the Company and member of the discipline inspection commission.

Chen Zhongwei (陳忠偉)

Mr. Chen Zhongwei is currently an employee representative Supervisor of the Company. He holds an undergraduate degree and is an economist. Mr. Chen used to work as chief of the business and system sections at the credit division at Zhejiang Branch of Industrial and Commercial Bank of China; general manager of the risk management department and the corporate department at Hangzhou Branch of China Everbright Bank; risk director (assistant to president) and member of the CPC committee at Shanghai Branch of China Everbright Bank; risk director (vice president) and member of the CPC committee at Suzhou Branch of China Everbright Bank; as well as deputy general manager of the credit review department of the Bank (in charge of relevant work). Mr. Chen currently works as general manager of the internal control, compliance and legal affairs department at the Bank and member of the discipline inspection commission.

Jiang Rong (姜戎)

Mr. Jiang Rong is currently an employee representative Supervisor of the Company. He holds an undergraduate degree and is an accountant. Mr. Jiang used to work as an assistant to division chief and deputy division chief at the finance division in Shanghai Electric Tool Research Institute of the Ministry of Machine-Building and Electronics Industry, assistant to division chief, deputy division chief, division chief (back-up cadre for director generals at bureau level) at the CNAO's Shanghai Resident Office, audit head and general manager of the audit department at Dazhong Insurance Co., Ltd.. Mr. Jiang currently works as general manager of the audit department, director of the discipline inspection office, member of the discipline inspection commission and member of the working committee at the head office of the Bank.

Yuan Xiaoqiang (袁小強)

Mr. Yuan Xiaoqiang (袁小強) is currently an external Supervisor of the Company. He holds a postgraduate degree and is a registered tax agent, senior accountant and certified public accountant. Mr. Yuan served as the vice director of Hangzhou Tax Agency of Zhejiang. He is currently a senior partner of Zhonghui Tax Agency and Zhonghui Accounting Firm. Mr. Yuan is also a member of Standing Committee of the People's Congress of Zhejiang Province, executive director of the Chinese Certified Tax Agents Association, vice chairman and director of the Standards Committee of Certified Tax Agents Association of Zhejiang and vice chairman of Zhejiang Province Intellectuals Fellowship, and the director of Zhejiang Kaibei Investment and Consultation Co., Ltd. (浙江凱貝投資諮詢有限公司) and Hangzhou Sidu Investment and Consultation Co., Ltd. (杭州思渡投資諮詢有限公司).

Wang Jun (王軍)

Mr. Wang Jun (王軍) is currently an external Supervisor of the Company. He is a postdoctorate and a researcher. Mr. Wang worked at Central Policy Research Office of the CPC and served as vice division chief and division chief; director of macroeconomic research division, vice director (in charge) of consultation research department, vice director (in charge) and director of information department of China Center for International Economic Exchanges. He is currently a chief economist of Zhongyuan Bank Co., Ltd. and independent director of China Kings Resources Group Co., Ltd. (金石資源集團股份有限公司).

Huang Zuhui (黃祖輝)

Mr. Huang Zuhui (黃祖輝) is currently an external Supervisor of the Company. He holds a postgraduate degree and is a professor. Mr. Huang is currently the professor and doctoral supervisor of Agricultural Economical Management Department, Management School, Zhejiang University. Mr. Huang is also vice chairman of Chinese Rural Cooperative Economic Management Institute, an independent director of Zhejiang Tea Group Co., Ltd. (浙江省茶葉集團股份有限公司) and Zhejiang Agricultural Materials Group Co., Ltd. (浙農集團股份有限公司).

Cheng Huifang (程惠芳)

Ms. Cheng Huifang (程惠芳) is currently an external Supervisor of the Company. She holds a doctoral degree and is a professor and doctoral supervisor. Ms. Cheng was a lecturer and the vice professor of Zhejiang Chemical College and Zhejiang Institute of Technology (now known as Zhejiang University of Technology). She also worked as the assistant to the president, the executive vice president and the president of College of Economics and Management, Zhejiang University of Technology. She is now the president of Global Institute for Zhejiang Merchants Development, Zhejiang University of Technology. She also serves as the general director of Zhejiang Institute of Financial Engineering and an independent director of Zhejiang Furun Co., Ltd (浙江富潤股份有限公司), Hangzhou Hangyang Co., Ltd. (杭州杭氧股份有限公司) and Zhejiang Huace Film & TV Co., Ltd. (浙江華策影視股份有限公司) and the chairman of the board of supervisors of Hangzhou Hikvision Digital Technology Co., Ltd.(杭州海康威視數字技術股份有限公司).

Senior Management

Xu Renyan (徐仁艷)

As for Mr. Xu Renyan, please refer to Mr. Xu Renyan's profile in the "Directors" section above.

Xu Manxuan (徐蔓萱)

Mr. Xu Manxuan (徐蔓萱) is currently the CPC committee member and vice president of the Company. He holds an undergraduate degree and is a senior accountant. Mr. Xu successively served as vice section chief and section chief of finance infrastructure office, accountant and cashier division of Zhejiang provincial branch, Agricultural Bank of China; vice division chief of accountant and finance division; vice director of inspection office; and vice director of inspection division (division-level), Zhejiang provincial branch, Agricultural Bank of China, general manager of planning and finance department, president assistant and general manager of planning and finance department, president assistant and general manager of finance & accounting department as well as president assistant of CZBank.

Wu Jianwei (吳建偉)

Mr. Wu Jianwei (吳建偉) is currently a member of the CPC committee and the vice president of the Company, and the secretary of the CPC committee and the president of Shanghai Branch. He holds a postgraduate degree and is a senior engineer. Mr. Wu worked at Zhejiang provincial branch, Agricultural Bank of China where he successively held the positions of vice section chief of application development section of information and technology department I, section chief of sales development department, assistant to director; he served as vice director of data operation center; he held the position of vice division chief (in charge) of e-bank division and division chief of E-bank division; general manager of E-bank department; secretary of CPC Committee and president of Wenzhou branch, Agricultural Bank of China; CPC committee member and president assistant of Inner Mongolia Autonomous Region branch of Agricultural Bank of China; president assistant of CZBank.

Liu Long (劉龍)

Mr. Liu Long (劉龍) is currently a CPC committee member, vice president, secretary to the Board, joint company secretary and head of Board of Directors Office of the Company. He holds an undergraduate degree and is a senior accountant. Mr. Liu worked at finance and tax bureau of Changshan County, Zhejiang, during which period he served as vice director and CPC party member; secretary of CPC committee of Tianma Town, Changshan County, Zhejiang; director and secretary of CPC committee of planning and economy committee of Changshan County, Zhejiang; vice director and CPC committee member of auditing bureau of Quzhou City, Zhejiang; county CPC standing committee member of Changshan County, Zhejiang, as well as vice county chief of Changshan County People's Government; vice secretary of CPC county committee, vice county chief and vice secretary of CPC county committee, vice secretary of CPC committee of Changshan County, Zhejiang and chairman of People's Political Consultative Conference of Changshan County, Zhejiang; director and secretary of CPC committee of the economic and information committee of Quzhou City, Zhejiang; vice secretary general and executive office director of Quzhou Municipal Government, Zhejiang.

Zhang Rongsen (張榮森)

Zhang Rongsen (張榮森) is currently a member of the CPC committee and the vice president of the Company, and the secretary of the CPC committee and the president of Beijing Branch , China Zheshang Bank. He holds a doctoral degree and is senior economist. Mr. Zhang served as president of Hangtianqiao Sub-branch, Beijing Branch, China Guangfa Bank, assistant to president and member of the CPC committee of Beijing Branch, China Guangfa Bank; secretary of the CPC committee and president of Beijing Branch, Bank of Jiangsu, and member of the party committee, vice president and executive director of Bank of Jiangsu.

Liu Guishan (劉貴山)

Mr. Liu Guishan is currently the assistant to president, chief risk officer and general manager of credit review department of the Company. He is a senior accountant, with an undergraduate degree. Mr. Liu worked as the deputy head of deposit department (section chief level) and principal staff member of planning department at Xining Branch, Bank of China, deputy head of financial and accounting department at Xijing Branch, Bank of China, deputy director of Beida Avenue Office at Xijing Branch, Bank of China, vice president at Beida Avenue Sub-branch, Xi'an Branch, Bank of China, director of credit card department and business department at Xi'an Branch, Bank of China, and vice president (in charge of relevant work in the absence of the president) and president at Jiefang Road Sub-branch, Bank of China; the assistant to president, member of the CPC committee, vice president, secretary of the commission for discipline inspection at Xi'an Branch, China CITIC Bank, and leader of preparation team of Hohhot Branch, China CITIC Bank; the deputy general manager of Xi'an business department of China Zheshang Bank, member of the CPC committee, risk monitoring officer and vice president, secretary of the commission for discipline inspection, deputy secretary of the CPC committee, vice president (in charge of relevant work in the absence of the president), secretary of the CPC committee and president at Xi'an Branch, China Zheshang Bank.

Chen Haiqiang (陳海強)

Mr. Chen Haiqiang is currently the assistant to president of the Company and secretary of the CPC committee and president of Hangzhou Branch of the Company. He is a senior economist, with a postgraduate degree. Mr. Chen worked as deputy principal staff member at Zhejiang Branch, China Development Bank, deputy director (in charge of relevant work in the absence of the director) of Ningbo Beilun Banking Office of China Merchants Bank, president of Ningbo Beilun Branch, China Merchants Bank, member of the CPC committee, assistant to president, and vice president of Ningbo Branch, China Merchants Bank, secretary of the CPC committee and president of Ningbo Branch, China Zheshang Bank.

Luo Feng (駱峰)

Mr. Luo Feng is proposed to serve as the assistant to president of the Company and general manager of financial market department of the Company. He holds a doctoral degree. Mr. Luo worked as manager assistant of financial market research center of treasury department, manager assistant of business management center, deputy manager and manager of business management center (research center) of treasury department, risk monitoring officer and general manager assistant of treasury department, manager of risk management center, deputy general manager and deputy general manager (in charge of relevant work in the absence of general manager) of treasury department, and general manager of financial market department of the head office of China Zheshang Bank.

Sheng Hongqing (盛宏清)

Mr. Sheng Hongqing is proposed to serve as the assistant to president of the Company. He holds a doctoral degree. Mr. Sheng worked as the deputy head and head of financial engineering division of treasury department of the head office of China Everbright Bank, and the assistant to president and chief investment officer of Huishang Bank.

Song Shizheng (宋士正)

Mr. Song Shizheng is currently the chief information officer of the Company and the general manager of financial technology department of the Company. He is a senior engineer, with an undergraduate degree. Mr. Song acted as the deputy section head, section head of technology department, deputy general manager of computer center, deputy general manager (in charge of relevant work in the absence of the general manager) of customer service center of Zhejiang Branch, Industrial and Commercial Bank of China, and deputy general manager of accounting technology department and general manager of information technology department of the head office of China Zheshang Bank.

Jing Feng (景峰)

Mr. Jing Feng is currently the chief financial officer of the Company and the general manager of planning and finance department (asset and liability management department) of the Company. He is a certified public accountant in the US, with a postgraduate degree. Mr. Jing worked as the deputy general manager and general manager of planning and finance department of Suzhou Branch, China Minsheng Bank, finance specialist of corporate financial business department of China Minsheng Bank, deputy general manager of Jiangsu business department of China Zheshang Bank, vice president and member of the CPC committee of Nanjing Branch, China Zheshang Bank, deputy general manager (in charge of relevant work in the absence of the general manager) and general manager of finance and accounting department, and also general manager of finance and accounting department and general manager of asset and liability management department of the head office of China Zheshang Bank.

5. Remuneration Policies for Directors, Supervisors and Senior Management

The remuneration of the Directors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination and Remuneration Committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Company is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the Nomination Committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the general meeting for approval after being approved by the Board of Supervisors.

The Company's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Company and the Shareholders, and it is implemented by the Board of Directors.

The incentive and restraint mechanism of the Company is mainly embodied in the distribution mechanism for the senior management. The remuneration of the senior management is linked with the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Company, and better encourage the senior management to contribute to the steady and sustainable development of the Company. The evaluation and remuneration payment plan for the senior management shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, and then approved and implemented by the Board of Directors annually, and disclosed according to the relevant requirements.

(II) EMPLOYEES AND REMUNERATION POLICIES

As of the end of the reporting period, the Group had 13,708 on-service employees, representing an increase of 416 as compared to that at the end of last year, of which 13,620 were employees of the Company (including non-permanent personnel of the Bank) and 88 were employees of the subsidiary of the Company, Zheyin Financial Leasing. Divided by the position types, 5,988 employees were categorised as marketing personnel, 1,571 employees as counter personnel, and 6,061 employees as mid-office and back-office personnel; divided by the educational levels, 2,764 obtained post-graduate degree or above (including 63 with doctorate degree), 9,468 obtained bachelor degree, and 1,388 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 49 employees had retired from the Company.

Following the remuneration policies that are in line with our development strategies, guided by the concept of people first, oriented to market, and equipped with comprehensive standardized management, the Company improved its remuneration management mechanism that determines the remuneration according to the salary levels based on position types, and optimized the remuneration determination mechanism that is based on individual performance and organizational performance. Focused mainly on capability and performance, we tried to establish and improve a market-oriented remuneration system that embodies internal fairness and external competitiveness, spurs development of both the employees and the Company, and emphasizes both welfare and incentives, and is based on the value of positions.

(III) EMPLOYEES TRAINING

Trainings offered by the Bank is centered on our operation and development strategy with the aims of improving professional capabilities and performance. In addition to the all-staff training, we also attach high importance to the training of core, key and special talents by offering a variety of trainings, which aims to comprehensively improve management abilities and professional capabilities of our employees. During the reporting period, the Bank held 2,377 training courses in total with 297,351 attendances.

(IV) INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Yangtze River Delta region	Headquarters	No. 288, Qingchun Road, Hangzhou	95527	310006	1	1,899
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	48
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	11	573
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	21	910
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	10	401
	Hefei Branch	Block A16, Financial Harbour Centre at the junction of Huizhou Avenue and Yangtze River Road, Baohe District, Hefei	0551-65722016	230611	1	124
	Hangzhou Branch	Block D, Zhujin Building, No.1 Minxin Road, Jianggan District, Hangzhou, Zhejiang	0571-87330733	310016	48	2,202
	Ningbo Branch	No. 739, Zhongxing Road, Yinzhou District, Ningbo	0574-81855678	315040	15	606
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	11	466
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166006	312030	9	421
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	6	258
	Zhoushan Branch	No. 111, Haiyu Road, Lincheng Streets, Dinghai District, Zhoushan	0580-2260302	316021	2	101
Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	13	751
	Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271379	300204	11	521
	Shenyang Branch	No. 56, Qingnian Main Street, Shenhe District, Shenyang	024-31259003	110014	6	301
	Jinan Branch	No. 185, Heihuquan West Road, Lixia District, Jinan, Shandong	0531-80961706	250011	13	704
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	6	440
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, High-tech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	0755-82760666	518057	11	455

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Midwestern China region	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277306	450018	1	167
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	0731-82987566	410005	1	102
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jianghan District, Wuhan, Hubei	027-85331510	430000	2	239
	Chongqing Branch	Block A, No. 1, Xingguang Avenue, New North Zone, Chongqing	023-88280888	401121	9	446
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85579955	610023	14	470
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	029-61833333	710075	11	528
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	0931-8172110	730030	8	437
Overseas Institution	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	0852-28018282	999077	1	50
Total	–	–	–	–	243	13,620

DIRECTORS' REPORT

(I) OUR PRINCIPAL BUSINESS

The Company's principal business is to provide banking and related financial services.

(II) BUSINESS REVIEW

For the business review of our Company, please refer to the relevant sections, among others, "Description of Major Risks and Uncertainties", "Future Development" are set out in section headed "Management Discussion and Analysis"; "Major Events Occurred after the Reporting Period" is set out in"Significant Events"; "Key Financial Performance Indicators" is set out in the section headed "Financial Summary" and financial statements; "Compliance with Relevant Laws and Regulations Which Could Materially Affect the Company" is set out in "Compliance with the Laws and Regulations" in this section; and "Explanation on Important Relationship between Employees, Customers and Suppliers" is set out in "Major Customers" in this section and the section headed "Directors, Supervisors, senior management, Employees and Institutions". Please refer to "Performance of Social Responsibilities" in this section for the information on "Environmental Policy and Performance".

(III) PROFIT AND DIVIDEND DISTRIBUTION

1. The Company's Profit Distribution Policy

According to the Articles of Association, our profit distribution policy is:

(1) The Company shall distribute profits after income tax in the following order:

To make up for the losses of previous years;

To set aside 10% as statutory reserve fund;

To make provision for loss of asset impairment;

To set aside discretionary reserve fund;

To pay dividends to shareholders.

(2) The Company may distribute profits in the form of cash, shares or other forms approved by competent regulatory authorities.

(3) After the profit distribution plan is adopted at the general meeting of the Company, the Board shall finish distributing profits within two months after the general meeting.

(4) Cash dividends and other payments made by the Company to the holders of domestic Shares shall be denominated, declared and paid in RMB. Cash dividends and other payments made by the Company to the holders of H Shares shall be denominated and declared in RMB and paid in Hong Kong dollars.

The formulation and implementation of policy on cash dividend are in compliance with the requirements of the Articles and Association and the resolutions passed at the general meeting. The standards and proportion of dividends declaration are clear and explicit and the procedures and mechanism of decision making are well-organised, and have been considered and approved by the independent non-executive Directors. Minority Shareholders may fully express their opinions and requirements, and their legitimate interests have been fully protected.

2. Profit Distribution Proposal for the Year

The results of the Company for the year ended December 31, 2018 are set out in the section of "Notes to Consolidated Financial Statement" in this report.

According to Article 18 of the Measures for the Administration of the Offering and Underwriting of Securities (《證券發行與承銷管理辦法》) and requirements set out in relevant regulatory Q&As issued by the CSRC, companies which plan to issue securities onshore but have not submitted profit distribution plans and plans for converting reserve into share capital to the general meeting for voting, or have obtained approval from the general meeting but have not implemented such plans, shall not issue securities until such plans are executed. Considering the progress of A-share IPO, future development and interests of all shareholders of the Company, distribution of a dividend on ordinary shares was not recommended for 2018. Such recommendation will be proposed to the 2018 Annual General Meeting of the Company for consideration and approval.

3. Cash Dividends in the Past Three Years

Item	**2018**	2017	2016
Cash dividend for every 10 shares (tax inclusive, in RMB)	–	1.70	1.70
Cash dividend (tax inclusive, in thousands of RMB)	–	3,182,178	3,053,148
Percentage of cash dividend (%)	–	29.06	30.07

4. Dividend Tax

According to the Bank's profit distribution proposal for 2018 which is still subject to the 2018 annual general meeting for consideration and approval, the Bank does not intend to distribute dividend for 2018 on ordinary shares. Therefore, the content associated with tax relief in this section is only for general reference of Shareholders of the Bank.

According to the Enterprise Income Tax Law of the PRC and its implementation rules, both effective on January 1, 2008, the Company shall withhold and pay enterprise income tax at the rate of 10% before distributing dividends to non-resident enterprise Shareholders whose names appear on the Bank's register of members for H Shares.

According to the Notice on Collection of Individual Income Tax after the Repeal of Guo Shui Fa No. [1993] 045 (Guo Shui Han No. [2011] 348)(《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》(國税函[2011]348號)), the Company shall withhold and pay individual income tax for individual holders of the H Shares.

If the individual holders of the H Shares are Hong Kong or Macau residents or residents of other countries or regions that have a tax rate of 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders. If such Shareholders wish to claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of the Shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment, provided that the relevant Shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement 2015, No. 60)(《非居民納稅人享受稅收協定待遇管理辦法》(國家稅務總局公告2015年第60號))and the provisions of the relevant tax treaties. The Bank will assist with the tax refund subject to the approval of the competent tax authority.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the applicable tax rates stated in such taxation treaties on behalf of such Shareholders.

If the individual holders of the H Shares are residents of countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any taxation treaties with the PRC, or otherwise, the Company will withhold and pay individual income tax at the rate of 20% on behalf of such Shareholders.

(IV) DONATIONS

During the reporting period, the Group's external donations amounted to RMB13.28 million.

(V) MAJOR CUSTOMERS

During the reporting period, the Group's interest income and other total operating income attributable to our five largest customers did not exceed 30% of the annual interest income and other total operating income of the Group.

(VI) PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company and its subsidiary did not purchase, sell or redeem any of the Company's listing securities.

(VII) PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the PRC laws.

(VIII) PUBLIC FLOAT

Based on the public information available to the Company and to the knowledge of the Directors, as of the Latest Practicable Date prior to the issue of this report, the Company had met the public float requirement of the Hong Kong Listing Rules.

(IX) EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year ended December 31, 2018.

(X) CONNECTED TRANSACTIONS

During the reporting period, we provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which include our connected persons (including certain shareholders, Directors, Supervisors, Senior Management and/or their respective associates). These transactions were entered into on normal commercial terms (or on better terms to the Company) in the ordinary and usual course of our business, and thus are fully exempt from the disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company also enter into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or on better terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company during the year ended December 31, 2018 are set out in "Notes to Consolidated Financial Statements — 42 Related Party Transactions".

Saved as disclosed above, no related party transactions set out in "Note to Consolidated Financial Statements — 42 Related Party Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(XI) TRANSACTIONS, ARRANGEMENTS OR CONTRACTUAL INTEREST AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the reporting period, the Directors or Supervisors or any entities connected with the Directors or Supervisors had no material interest, directly or indirectly, in any significant transactions, arrangements or contracts entered into by the Company with respect to the Company's business. None of the Directors and Supervisors has entered into any service contract with the Company that is not terminable by the Company within one year without payment of compensation (excluding statutory compensation).

(XII) INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN THE COMPANY

As of the end of the reporting period, none of the Company's Directors, the President, the Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(XIII) INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the Directors, Supervisors and senior management of the Company are set out in the section headed "Directors, Supervisors, senior management, Employees and Institutions" in this annual report.

(XIV) DIRECTORS' INTERESTS IN BUSINESSES COMPETING WITH THE COMPANY

Since April 2017, Mr. Xia Yongchao has been serving as a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd. ("Zhejiang Shaoxing Ruifeng Rural Commercial Bank"). Zhejiang Shaoxing Ruifeng Rural Commercial Bank, a financial institution mainly engaged in commercial banking businesses in Zhejiang, has banking businesses in Zhejiang, which compete with certain businesses of the Company. Considering that (i) Mr. Xia serves as a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank but does not participate in daily operation or management of Zhejiang Shaoxing Ruifeng Rural Commercial Bank, (ii) Zhejiang Shaoxing Ruifeng Rural Commercial Bank has an independent management team, and (iii) during the reporting period, Mr. Xia acted as a non-executive Director of the Company but did not participate in daily management of the Company, the Company and its Directors are of the opinion that, during the reporting period, Mr. Xia, who concurrently served as the director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank and the non-executive Director of the Company, had no impact on business operation of the Company.

Since June 2018, Mr. Zhu Weiming has been serving as a director of Ningbo Commerce Bank Co. Ltd. ("Ningbo Commerce Bank"). Ningbo Commerce Bank, a financial institution mainly engaged in commercial banking businesses in Ningbo, has banking businesses in Ningbo, which compete with certain businesses of the Company. Considering that (i) Mr. Zhu serves as a director of Ningbo Commerce Bank but does not participate in daily operation or management of Ningbo Commerce Bank, (ii) Ningbo Commerce Bank has an independent management team, and (iii) during the reporting period, Mr. Zhu acted as a non-executive Director of the Company but did not participate in daily management of the Company, the Company and its Directors are of the opinion that, during the reporting period, Mr. Zhu, who concurrently served as the director of Ningbo Commerce Bank and the non-executive Director of the Company, had no impact on business operation of the Company.

Save as disclosed above, none of the Directors of the Company is interested in any business which, directly or indirectly, competes or may compete with businesses of the Company.

(XV) DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As of the end of the reporting period, none of the Directors and Supervisors had the rights to acquire shares or debentures of the Company and its associated corporations (within the meaning of the SFO).

(XVI) PERMITTED INDEMNITY PROVISIONS

The Company has purchased appropriate liability insurance to indemnify its Directors, Supervisors and senior management in respect of the liabilities arising from engaging in the activities of the Company. Such arrangements remained effective as at the end of the reporting period.

(XVII) MANAGEMENT CONTRACTS

Save as the service contracts entered into with the Directors and employees, the Company has not entered into any contract with any person, company or corporation in order to manage or deal with the whole or any material portion of any business of the Company.

(XVIII) RESERVES AND DISTRIBUTABLE RESERVES

For details of the changes in the Group's reserves and distributable reserves, please see "Consolidated Financial Statements – Consolidated Statements of Changes in Equity".

(XIX) FIXED ASSETS (PROPERTIES AND EQUIPMENTS)

For details of the changes in the Group's fixed assets (properties and equipments), please see "Notes to Consolidated Financial Statements – 22 Fixed Assets".

(XX) EXTERNAL AUDITORS AND THEIR REMUNERATION

The Company engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors to audit the annual financial statements of the Company for 2018 prepared in accordance with the Chinese Accounting Standards and International Financial Reporting Standards, respectively.

The remuneration paid to the above external auditors of the Company in respect of audit services and non-audit service as of the end of the reporting period amounted to RMB5.98 million and RMB2.86 million, respectively.

The Company has not changed the external auditor for the past three years.

(XXI) USAGE OF PROCEEDS RAISED

On March 29, 2018, the Company additionally issued 759,000,000 ordinary H shares as fully paid in Hong Kong dollars, at a price of HK$4.80 per share. The total amount of proceeds raised was HK$3,643,200,000, and the net proceeds, after deducting the issuance expenses, were RMB2,914,544,841. As of December 31, 2018, such proceeds were all used to replenish the core tier 1 capital of the Company.

Before the reporting period, the Company completed its initial public offering of H Shares in March 2016 and issued Offshore Preference Shares in March 2017. All proceeds raised were used as disclosed. As of December 31, 2018, such proceeds were all used to replenish the Company's capital to meet the needs for sustained growth of our business.

(XXII) DEBENTURES ISSUED

Please refer to "Changes in Shares and Information on Shareholders — Issue of Bonds" of this Report for details about the debentures issued by the Company.

(XXIII) COMPLIANCE WITH THE LAWS AND REGULATIONS

As of the end of the reporting period, to the best knowledge of the Company, we have complied with all relevant laws and regulations which could materially affect the Company in all major aspects.

(XXIV) PERFORMANCE OF SOCIAL RESPONSIBILITIES

In 2018, CZBank insisted on the organic integration of the performance of the social responsibility with the achievement of commercially sustainable development, and endeavored to create comprehensive economic, environmental and social values. As the Company made remarkable achievements in the performance of the social responsibility during the year, it received considerable recognition from both the regulatory authorities and the general public and won various honors, including the "Best Livelihood Finance Award" by China Banking Association and the "Transaction Bank with the Highest Growth Potential in China" by The Asian Banker.

I. Providing financial momentum to support the real economy

CZBank focused on diversified financial demands of the real economy, proactively served major strategies and key projects of the state, actively fulfilled the requirements of the CPC Central Committee on supporting the private economy, and provided financial momentum to promote the high-quality economic development.

(I) Making great efforts to support national major development strategies and promote industrial transformation and upgrade

In exploring high-quality services to be provided for relevant projects under the "Belt and Road Initiative", the Bank established correspondent banking relationship with 830 domestic and foreign banks in 84 countries (regions) including Wells Fargo Bank and Citibank, resulting in diversifying and unblocking the settlement channel and creating an "expressway" for international businesses, and also providing enterprises with high-quality and efficient cross-border financial services and assisting them to "go global". The Bank created the whole-process "funds, assets and services financing" systematic financial solution for intelligent manufacturing, which was the first of a kind in the industry, and created the first "intelligent manufacturing service bank" in the industry. It innovatively launched special financial service modes including the witnesses for contractual performance, the "Installment Link (分期通)", "Order Link (訂單通)", addressing financial demands in intelligent transformation in the manufacturing industry. As at the end of 2018, it provided a total of over 1,200 intelligent manufacturing enterprises in China with financial support in an amount of approximately RMB200.0 billion, of which approximately 80% were private enterprises. By gaining a toehold in Zhejiang, the Bank provided services nationwide, and enhanced its support for local urban rail transit, shantytowns transformation, etc.

(II) Capitalising on the advantages of private business and benchmark for small and micro enterprise finance, and continuously enhancing inclusive finance service

It has established a leading group for supporting private economy development. It launched the "40 measures for supporting the private economy", vigorously promoted the innovation of financial technology and business models, and gave full play to special service advantages of the "three major platforms", and supported enterprises in reducing costs and improving efficiency. It also continuously enhanced its support for small and micro enterprises, innovatively applied special products including "Easy Loan (點易貸)", "Intelligent Manufacturing Loan (智造貸)" and "Repayment Link (還貸通)", in order to assist small and micro enterprises in obtaining multiple loans easily and rapidly. It constructed the small and micro enterprise service process 2.0, through which by leveraging on the financial technology, it promoted the fully online process services, that enabled customers to handle businesses online through "Rongchatong". By taking the lead in exploring a model of integrating talent elements and financial elements to create a "talent service bank", it provided comprehensive services, including startup credit loan and trade settlement, based on investment and financing requirements among different talents. Further, it lowered interest rates of certain small and micro enterprise loans through proactively reducing fees and giving up a share of the profits, so as to reduce financing costs of small and micro enterprises. As at the end of 2018, the national-standard small and micro enterprise loan balance of the Bank reached RMB204.546 billion, representing an increase of 12.26% compared with that at the beginning of the year; the small and micro enterprise loans accounted for 23.9% of all loans, with 87,106 borrowers; the total number of small and micro enterprises served by the Bank through granting credit during the past decade exceeded 220,000.

(III) Steadily carrying out financial poverty alleviation, and concurrently conducting "bailout" and "development of the production ability" for promoting the overcoming of difficulties in poverty alleviation

It proactively extended service outlets to poverty-stricken areas, with 47 branch outlets in provinces and regions in Western and Central China, including Hunan, Sichuan, Shaanxi and Gansu, effectively filling the void in providing financial services of the Bank. It innovated products, and continuously promoted agriculture, country and farmer-related loans including "farmhouse mortgage loan" and "photovoltaic loan", with a focus on demands of customers in poverty-stricken areas, and unblocked the "last-mile" of rural financial services by making use of the financial technology. It proactively supported farmers in starting a business; earnestly implemented the Implement Scheme for Special Rectification of Work Style Problems in Poverty Alleviation in the Banking Industry, carried out special initiatives to rectify work style issues relating to poverty alleviation, practically ascertained the weaknesses in work style development, and promoted the implementation of poverty alleviation measures by using the results of work style development. It enhanced the targetedness of poverty alleviation through establishing a poverty alleviation leading group, the "one policy for one household" customized service scheme and other measures, and successively provided partner assistance for over ten poor villages (counties), including Taihu

County in Anhui Province, Jinkouhe Village in Leshan City, Sichuan Province, Guangshan County in Henan Province, and Pingyang County in Zhejiang Province, and promoted industrial poverty alleviation by taking into account of the local conditions of the local special industries. As at the end of 2018, the targeted poverty alleviation loan balance of the Bank was RMB0.456 billion, of which the balance of industrial targeted poverty alleviation loans was RMB0.377 billion.

II. Practicing the green finance philosophy and jointly promoting ecological progress

CZBank actively participated in promoting the national ecological progress, practiced the green finance philosophy, made efforts to simultaneously achieve business development and environmental protection, insisted on promoting green operation of the Bank, and encouraged stakeholders to conduct operation in a duly thrifty, green and low-carbon manner.

(I) Constructing a green finance development system and actively dealing with climate change risks

It has formulated the CZBank Implementation Outline for Green Finance Construction to intensively incorporate green finance construction into corporate development strategies and to define the overall guideline and organization system of green finance work. It initially divided the process into three implementation stages in order to explore and promote a long-term mechanism of access management, monitoring and evaluation, assessment and accountability mechanism and to gradually carry out key works, including serving green innovation areas, supporting traditional green fields, enriching green financial products, enhancing green management and restriction, and realizing green and low-carbon operation. The opportunity of developing pilot areas for green financial reform and innovation also served to swiftly build up its experience of development, which can be replicated and promoted. Accordingly, it established a green finance business department in Huzhou, Quzhou and other regions, formulated work plans and carried out special operation of green services.

The Bank has become one of the first green loan management banks approved by the Central Bank. It also won the "Professional Contribution Award for Green Bank Evaluation Work" awarded by China Banking Association.

(II) Innovating the green finance service model and enriching financial service channels for green enterprises

It has established a professional team to serve green enterprises, innovatively designed liquidity services including the "three major platforms", namely pooled financing, Yiqiyin (易企銀) and chain of accounts receivable, in order to reduce financing costs and energy consumption costs of green enterprises. It has also enriched the financing channels of the green industry through the capital market, and provided green enterprises with diversified comprehensive financial services through "Investment Advisory Loan" and other business models, and provided financing support of approximately RMB6.7 billion mainly to green industries including new energy, eco-environment protection and waste disposal through the capital market. The Bank also strictly controlled projects with relatively high environmental and social risks, incorporated green finance into investigation and approval, provided oriented support to green enterprises and projects, opened the "green channel", carried out name-list based management in respect of enterprises with environmental and social risks, and avoided highly risky projects. As at the end of 2018, the balance of green loan of the Bank was RMB22.558 billion.

Meanwhile, the Bank has promoted electronic and digital management, perfected online service platforms and enlarged online processing business types, by using financial technology, and gradually replaced traditional ways of work including counter service with electronic processing, thus effectively reducing the paper consumption in providing services. In 2018, the e-channel services of the Bank accounted for 98.35%, and the electronic reconciliation rate reached 100%, which resulted in a saving of 14,049.3 thousand pieces of paper in the credit card business, equivalent to a reduction of approximately 67 tons of carbon emission.

(III) Making efforts to meet the green operation target and conveying the environmental protection philosophy to stakeholders

The Bank continuously promoted paperless office practice, reduced the use of paper materials and disposable items, increased the use of recycled paper products, and continuously optimized the office management system and process. Our online processes covered 212 items including official document processing and training. In 2018, 784.9 thousand items were processed online in the Bank, resulting in a saving of 6,636.9 thousand pieces of office paper. The Bank also advocated electric power conservation, water conservation and green travel, and reasonably formulated a timetable for operation of equipment including lighting and water equipment, to reduce public energy consumption. For the outlook of our outlets, the Bank explored environmentally friendly decoration and promoted the installation of new energy-saving equipment and the use of microlite and other green and environmental protection materials, and made full use of used furniture in revamping to reduce resource consumption. The Bank encouraged employees, customers, suppliers and the public to develop the green and environmental protection awareness. It organized employees and other persons to participate in 130 public benefit activities for environmental protection including afforestation, water resource protection, reuse of waste and old materials. It made specific requirements of performance of social responsibility for suppliers, gave preference to green suppliers and spared no efforts in building up a green bank.

III. Innovating financial service and sharing a good life

CZBank adhered to the principle of "customer orientation". Supported by financial technology, it continuously improved the financial service quality and created an integrated, process-based and intelligent bank, and cleared customer service channel. It paid great attention to demands of stakeholders including employees and communities and shared development achievements with them.

(I) Continuously promoting customer service upgrade, and innovating and sharing high-quality financial service

The Bank effectively constructed a bank-wide operation network. As at the end of 2018, the Bank had 242 branch outlets in 16 provinces (cities) in China, of which 5 outlets won the "Top 1,000 Model Units for Civilized and Standardized

Service in China's Banking Sector" by China Banking Association. It made efforts to promote the application of intelligent machines and tools in outlets, and approximately 98% outlets were equipped with intelligent machines and tools. The Bank also actively guided customers to handle businesses through intelligent equipment, and optimized business processes. It continuously improved the construction of e-banking channels, adding functions including "face recognition transfer" and "QR code withdrawal", thus improving the customer service efficiency and experience. It provided special customer groups with more convenient and considerate financial services through measures including sidewalk for the blind, priority seats and green channel. In 2018, the Bank was not subject to major customer complaints or public sentiment events in its operation and services, with the customer satisfaction rate reaching 99.88% for 95527 hotline service .

Meanwhile, it actively promoted measures to prevent measures to prevent telecommunication fraud and made a connection to the platform for management of events with risks of illegal and criminal transactions conducted over the telecommunications network. It paid great attention to safeguard property safety and information security for customers. In 2018, it prevented 17 suspected cyber and telecommunication fraud incidents, reducing the financial losses of customers by over RMB2 million. It also enhanced the education of the public on financial affairs, carrying out over 1,300 financial knowledge awareness activities including "keep your money safe" and "publicity activities in industrial parks, suburbs and communities", distributing over 500 thousand copies of publicity materials and attracting over 700 thousand audiences.

(II) Actively exploring an employee development path and supporting all-round development of employees

The Bank persisted in the corporate culture philosophy of "humanity care", established a fair and efficient talent management mechanism, created an employee career growth platform, optimized undergraduate training modes, innovatively launched the "CZ star plan" cooperative training scheme, perfected the youth talent selection system and established a talent pool. It continuously promoted the "Good Teacher Good Lecture" contest, "Swift Horse" plan and other training projects, and set up an intelligent training system. In 2018, it developed a total of 117 online courses, with a total number of visits reaching over 140 thousand for online learning. It gave 2,377 training sessions, with the number of employees trained reaching about 290 thousand. The Bank paid attention to the health and life style of employees, organizing calligraphy, Tai Chi, yoga and other hobby groups, and carrying out "talk about family tradition", "table tennis, badminton and tennis" and other colorful recreational and sport activities, so as to creating a positive and harmonious home culture atmosphere.

(III) Insisting on devotion to the public welfare and contributing to the society with love and care

The Bank actively promoted themed public benefit programs including donations to assist underprivileged students, environmental protection, disaster relief, poverty alleviation, caring for the disadvantaged, and continuously built the "CZBank Rainbow Plan", "Salute to City Guardians" and other special public benefit brands. The Rainbow Plan has been implemented for 12 years up to 2018, raising a total donation of approximately RMB22.51 million and ensuring the growth of over 20 thousand underprivileged students. It established a special zone for free drink events in outlets of the Bank and mobilized volunteers to distribute drinks to sanitation workers, traffic wardens and other groups working outdoors, offering over 900 thousand bottles of customized drinks. Branches including Shenyang Huanggu Branch and Nanjing Taixing Branch invested the opening ceremony fee saved in public benefit and charitable undertakings, and made donations of over RMB0.9 million in total.

Meanwhile, the Bank insisted on providing long-term and fixed-point assistance to schools in poverty-stricken areas by offering all-round support in terms of infrastructure, school work, life and quality education. It has successively established long-term assistance partnerships with 19 schools in Chengdu, Hefei, Wuhan and other provinces and cities, including Maidi Primary School in Liangshan, Sichuan, Huajia Village Primary School in Tongcheng, Hubei, and Wangdawan Hope Primary School in Zhengzhou. The Bank has provided assistance to Central Primary School in Jieguanting Town, Shaanxi and Kaihua Yucun Primary School in Zhejiang for over a decade successively. In 2018, the Bank made donations of RMB13.2826 million, and the duration of volunteer activities reached more than 13,000 hours.

(XXV) MISCELLANEOUS

(1) As of the date of this report, the Company was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.

(2) As of the date of this report, none of the Directors waived or agreed to waive the related remuneration arrangements.

(3) During the reporting period, there are no collateral and pledges of significant assets of the Company.

REPORT OF THE BOARD OF SUPERVISORS

(I) LEGAL OPERATION

Our Company operated in accordance with law, and our decision-making procedure was compliant with the relevant provisions in the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Commercial Banking Law of the People's Republic of China (《中華人民共和國商業銀行法》) and the Articles of Association of the Company. The directors, president and other Senior Management did not violate any laws and regulations or behave against the interests of our Company when they performed duties.

(II) TRUTHFULNESS OF FINANCIAL STATEMENTS

The 2018 annual financial report of our Company truthfully reflected the financial position and the operating results of the Company during the reporting period, and had been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, who had issued standard auditing reports without qualified opinion.

(III) ACQUISITION AND SALE OF ASSETS

No insider trading or behavior harming the interests of some Shareholders was found in the major acquisitions of the Company.

(IV) CONNECTED TRANSACTIONS

The connected transactions of our Company were conducted in a fair and reasonable way and were in compliance with national laws and regulations and the Articles of Association of the Company, and no behavior was found that had harmed the interests of the Company.

(V) INTERNAL CONTROL SYSTEM

During the reporting period, the Company established and implemented relatively complete, reasonable and effective internal control system, and no significant deficiency was found in the internal control or its implementation.

(VI) IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' GENERAL MEETINGS

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the Shareholders' general meeting. It supervised the implementation of resolutions passed at the Shareholders' general meetings and was of the opinion that the Board of Directors was able to implement the relevant resolutions earnestly.

SIGNIFICANT EVENTS

(I) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal proceedings or arbitrations in the ordinary course of business. Most of these litigations or arbitrations are filed by the Company in order to recover non-performing loans and include litigations or arbitrations arising from other disputes. As of the end of the reporting period, there were fourteen pending litigations or arbitrations (excluding actions of opposition to execution) to which the Company was a defendant involving an amount of RMB118,157.1 thousand. The Company expects that such pending litigations or arbitrations will not materially and adversely affect the Company's business, financial position or operating results.

(II) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Significant Events Relating to Custody, Contracting and Leasing

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

2. Significant Guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBIRC, there were no other significant guarantees required to be disclosed.

(III) MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

(IV) STOCK INCENTIVE PLAN

The Company did not implement a stock incentive plan during the reporting period.

(V) EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

(VI) DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, Board of Supervisors, the Supervisors and senior management of the Company and Shareholders holding 5% or more shares during the reporting period.

(VII) REVIEW OF ANNUAL RESULTS

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with the Chinese Accounting Standards and the International Financial Reporting Standards respectively, and issued standard unqualified auditing reports. The Board of Directors and the Audit Committee have reviewed the results and financial report of the Company for the year ended December 31, 2018.

(VIII) ANNUAL GENERAL MEETING

For the convening of its 2018 annual general meeting of the Company, the Company will make further announcement.

(IX) PUBLISHING THE ANNUAL REPORT

The English and Chinese version of the annual report prepared by the Company in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

What we have audit

The consolidated financial statements of China Zheshang Bank Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 161 to 286, which comprise:

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

Our opinion

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

BASIS FOR OPINION

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

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarized as follows:

- Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees

- Consolidation assessment and disclosure of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees Refer to Note 3.1, Note 12, Note 19, Note 20, Note 28, Note 38 and Note 44.1. As at December 31, 2018, the loans and advances to customers of the Group amounted to RMB865.2 billion, and a loss allowance of RMB28.2 billion was recognized in the consolidated statement of financial position; the financial assets measured at amortized cost amounted to RMB345.3 billion and a loss allowance of RMB7.5 billion was recognized; the exposure of loan commitments and financial guarantees was RMB391.4 billion, for which a provision of RMB3.1 billion was recognized. The expected credit losses on loans and advances to customers, financial assets measured at amortized cost, loan commitments and financial guarantees recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2018 amounted to RMB12.2 billion.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of Expected Credit Losses ("ECL") for loans and advances to customers, financial assets measured at amortized cost, loan commitments and financial guarantees, primarily including: (1) Selection, approval and application of modelling methodology of ECL and the internal controls relating to the on going monitoring and optimization of the models; (2) Internal controls relating to significant management judgments and assumptions, including the parameters estimation, significant increase in credit risk, judgement of defaults or credit-impaired and review and approval of forward-looking and management overlay adjustments; (3) Internal controls over the accuracy and completeness of key inputs used by the models;

Key Audit Matter	**How our audit addressed the Key Audit Matter**
(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees (continued)	
The Group assesses whether the credit risk of loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For such assets, commitments and financial guarantees classified into stages 1 and 2, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For such assets, commitments and financial guarantees in stage 3, management assesses loss allowance by estimating the forward-looking cash flows from such assets commitment and financial guarantees. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Selection of appropriate models and determination of relevant key measurement parameters;	(4) Internal controls relating to estimation of future cash flows through forward-looking and calculations of present values of such cash flows for such assets, commitments and financial guarantees in stage 3; (5) Internal controls over the information systems for model-based measurement. The substantive procedures we preformed to assess the ECL measurement by management, primarily including: (1) We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the calculation for model measurement on a sample basis, to test whether or not the measurement models properly reflect the modelling methodologies documented by the management. (2) We selected samples to assess the appropriateness of the management's identification of such assets, commitments and financial guarantees in these stages.

Key Audit Matter	How our audit addressed the Key Audit Matter
(i) Measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees (continued)	
(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; (5) The forward-looking estimation of future cash flows and discount rate for such assets, commitments and financial guarantees in stage 3. The Group established controls for the measurement of expected credit losses. The ECL allowance of such assets, commitments and financial guarantees were all significant, and its estimation is a highly complex process involving a lot of management judgment and interpretation. Therefore, it was identified as our audit focus.	(3) For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. (4) We assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations. (5) We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also performed walk-through testing and reconciliation of the transmission of key data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness. (6) For such assets, commitments and financial guarantees in stage 3, we examined, on a sample basis, forward-looking forecasted future cash flows and discount rate prepared by management based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, the measurement of expected credit losses for loans and advances to customers, financial assets measured at amortized cost and loan commitments and financial guarantees by management could be supported by the audit evidence we acquired.

Key Audit Matter

(ii) Consolidation assessment and disclosure of structured entities

Please refer to Note 3.3 and Note 37 to the financial statements.

Primary structured entities the Group managed were wealth management products issued. Primary structured entities the Group invested in were trust and asset management plans. The Group assesses its control over these structured entities when determining whether to consolidate them.

How our audit addressed the Key Audit Matter

We understood, assessed and tested the Group's internal control procedures over structured entities. We also performed the following substantive procedures:

(1) To assess whether the Group should consolidate the structured entities, we understood the objective and the design of transaction structure. We examined the source data used by the Group in the control analysis, reviewed related contracts through sampling basis and assessed whether the Group had power over the structured entities and had exposure to variable returns from structured entities (such as management fees and direct investments), and also recalculated variable returns according to contract terms. We also understood and sampled to verify whether the Group provided financial and other support to structured entities.

Key Audit Matter

(ii) Consolidation assessment and disclosure of structured entities (continued)

Our focuses were on the following key aspects of management's assessment:

(1) The reasonableness of the Group's consolidation assessment according to its analysis of the Group's power over the structured entities, its variable returns from the structured entities, and whether the Group uses its power over the structured entities to affect the returns.

(2) Whether the Group disclosed sufficiently and adequately in the financial statements.

Considering the significant balance of the structured entities and significant judgments the Group made to assess whether the Group has control of the structured entities, it was identified to be a key area of audit focus.

How our audit addressed the Key Audit Matter

(2) Regarding to the structured entities issued and managed by the Group, primary were wealth management products issued, we assessed factors management considered when assessing whether the Group was the principal or agency role through sampling tests, including, among other things, the scope of the Group's decision-making authority, the substantive rights held by other parties, the remuneration to which the Group was entitled to as the asset manager for providing management services, and the risk exposure to variable returns from any other arrangements and whether the Group provided financial support to structured entities.

(3) We examined whether the disclosures related to structured entities was sufficient and adequate.

By performing the above procedures, management's consolidation judgment and disclosure of structured entities were supportable.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

- 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 Mr. Cheng Sin Bun, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 18, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

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

	Note	**Year ended December 31, 2018**	2017
Interest income	*4*	**72,251,597**	62,582,288
Interest expense	*4*	**(45,866,049)**	(38,191,182)
Net interest income		**26,385,548**	24,391,106
Fee and commission income	*5*	**4,829,898**	8,416,320
Fee and commission expense	*5*	**(577,975)**	(402,915)
Net fee and commission income		**4,251,923**	8,013,405
Net trading gains	*6*	**7,254,140**	456,020
Net gains on financial investments	*7*	**608,813**	905,390
Other operating income	*8*	**522,052**	498,228
Operating income		**39,022,476**	34,264,149
Operating expenses	*9*	**(12,142,420)**	(11,183,160)
Impairment losses on assets	*11*	**–**	(9,374,231)
Expected credit losses	*12*	**(13,029,555)**	N/A
Operating profit		**13,850,501**	13,706,758
Profit before income tax		**13,850,501**	13,706,758
Income tax expense	*13*	**(2,290,164)**	(2,733,891)
Net profit		**11,560,337**	10,972,867
Net profit attributable to:			
Shareholders of the Bank		**11,490,416**	10,949,749
Non-controlling interests		**69,921**	23,118
		11,560,337	10,972,867
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	*14*	**0.61**	0.57

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE YEAR ENDED DECEMBER 31, 2018

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

	Year ended December 31,	
	2018	2017
Net profit	**11,560,337**	10,972,867
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	**N/A**	(1,671,119)
Fair value changes on financial assets at fair value through other comprehensive income	**546,392**	N/A
Expected credit losses of financial assets at fair value through other comprehensive income	**521,187**	N/A
Exchange difference on translation of foreign financial statements	**886,023**	–
Related income tax impact	**(266,895)**	417,780
Total other comprehensive income, net of tax	**1,686,707**	(1,253,339)
Total comprehensive income for the year	**13,247,044**	9,719,528
Total comprehensive income attributable to:		
Shareholders of the Bank	**13,177,123**	9,696,410
Non-controlling interests	**69,921**	23,118
	13,247,044	9,719,528

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

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

	Note	**December 31, 2018**	December 31, 2017
ASSETS			
Cash and balances with central bank	*15*	**126,370,232**	154,091,440
Precious metal		**8,103,317**	12,382,513
Due from banks and other financial institutions	*16*	**55,383,174**	71,432,438
Derivative financial assets	*18*	**10,123,361**	4,554,086
Loans and advances to customers	*19*	**837,075,890**	649,816,717
Financial investments			
– Financial assets at fair value through profit or loss	*17*	**135,210,776**	46,344,516
– Financial assets at fair value through other comprehensive income	*20*	**91,885,792**	N/A
– Financial assets measured at amortized cost	*20*	**337,836,410**	N/A
– Available-for-sale	*20*	**N/A**	127,898,959
– Held-to-maturity	*20*	**N/A**	91,562,790
– Debt instruments classified as receivables	*20*	**N/A**	343,222,781
Property, plant and equipment	*22*	**10,357,153**	6,602,703
Deferred income tax assets	*23*	**8,319,665**	7,366,808
Other assets	*24*	**26,028,974**	21,476,351
Total assets		**1,646,694,744**	1,536,752,102
LIABILITIES			
Due to banks and other financial institutions	*25*	**279,999,081**	356,805,618
Financial liabilities at fair value through profit or loss	*26*	**12,483,213**	5,615,590
Derivative financial liabilities	*18*	**10,648,171**	5,297,863
Customer deposits	*27*	**974,770,403**	860,619,457
Income tax payable		**1,902,618**	2,891,891
Provisions	*28*	**3,118,177**	–
Debt securities issued	*29*	**245,996,763**	190,551,983
Other liabilities	*30*	**15,327,781**	25,281,946
Total liabilities		**1,544,246,207**	1,447,064,348

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
AS AT DECEMBER 31, 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	**December 31, 2018**	December 31, 2017
EQUITY			
Share capital	*31*	**18,718,697**	17,959,697
Other equity Instruments	*32*	**14,957,664**	14,957,664
Capital reserve	*31*	**22,130,353**	19,974,808
Surplus reserve	*33*	**6,024,739**	4,882,975
Statutory general reserve	*33*	**18,461,991**	17,243,730
Investment revaluation reserve	*34*	**1,389,355**	(1,553,817)
Retained earnings		**19,202,699**	14,729,579
Equity attributable to shareholders of the Bank		**100,885,498**	88,194,636
Non-controlling interests	*36*	**1,563,039**	1,493,118
Total equity		**102,448,537**	89,687,754
Total liabilities and equity		**1,646,694,744**	1,536,752,102

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

The consolidated financial statements were approved by the Board of Directors on March 18, 2019 and were signed on its behalf by:

Shen Renkang	Xu Renyan
Legal Representative, Chairman of Board	Vice Chairman of Board, President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

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

	Equity attributable to shareholders of the Bank								
	Share capital *(Note 31)*	Other equity instrument *(Note 32)*	Capital reserve *(Note 31)*	Surplus reserve *(Note 33)*	Statutory general reserve *(Note 33)*	Investment revaluation reserve *(Note 34)*	Retained earnings	Non-Controlling interests	Total
Balance at December 31, 2017	**17,959,697**	**14,957,664**	**19,974,808**	**4,882,975**	**17,243,730**	**(1,553,817)**	**14,729,579**	**1,493,118**	**89,687,754**
Impact on accounting policy changes	**–**	**–**	**–**	**–**	**–**	**1,256,465**	**(1,475,093)**	**–**	**(218,628)**
Balance at January 1, 2018	**17,959,697**	**14,957,664**	**19,974,808**	**4,882,975**	**17,243,730**	**(297,352)**	**13,254,486**	**1,493,118**	**89,469,126**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**11,490,416**	**69,921**	**11,560,337**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,686,707**	**–**	**–**	**1,686,707**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,686,707**	**11,490,416**	**69,921**	**13,247,044**
Contribution of shareholders	**759,000**	**–**	**2,155,545**	**–**	**–**	**–**	**–**	**–**	**2,914,545**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**1,141,764**	**–**	**–**	**(1,141,764)**	**–**	**–**
Appropriation to statutory general reserve	**–**	**–**	**–**	**–**	**1,218,261**	**–**	**(1,218,261)**	**–**	**–**
Cash dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(3,182,178)**	**–**	**(3,182,178)**
Balance at December 31, 2018	**18,718,697**	**14,957,664**	**22,130,353**	**6,024,739**	**18,461,991**	**1,389,355**	**19,202,699**	**1,563,039**	**102,448,537**
Balance at January 1, 2017	17,959,697	–	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	–	67,475,378
Net profit for the year	–	–	–	–	–	–	10,949,749	23,118	10,972,867
Other comprehensive income for the year	–	–	–	–	–	(1,253,339)	–	–	(1,253,339)
Total comprehensive income	–	–	–	–	–	(1,253,339)	10,949,749	23,118	9,719,528
Contribution of non-controlling shareholders	–	–	–	–	–	–	–	1,470,000	1,470,000
Other equity instruments issued	–	14,957,664	(15,212)	–	–	–	–	–	14,942,452
Appropriation to statutory surplus reserve	–	–	–	1,092,569	–	–	(1,092,569)	–	–
Appropriation to statutory general reserve	–	–	–	–	4,001,274	–	(4,001,274)	–	–
Cash dividend	–	–	–	–	–	–	(3,919,604)	–	(3,919,604)
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,729,579	1,493,118	89,687,754

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

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

	Note	**Year ended December 31, 2018**	2017
Cash flows from operating activities:			
Profit before income tax		**13,850,501**	13,706,758
Adjustments:			
Depreciation and amortization	*9*	**658,661**	363,669
Expected credit losses on loans	*12*	**13,029,555**	N/A
Impairment losses on loans		**N/A**	8,717,555
Impairment losses on other assets		**–**	656,676
Net gains/(losses) on de-recognition of fixed assets		**1,333**	(49,688)
Net gains on de-recognition of financial investments		**(608,813)**	(905,390)
Fair value changes in financial assets at fair value through profit or loss and derivatives		**(3,145,197)**	1,851,747
Interest income from financial investments		**(23,770,825)**	(29,530,229)
Interest expense from debt securities issued	*4*	**9,641,058**	6,414,554
Net change in operating assets and operating liabilities:			
Net decrease/(increase) in restricted deposit balances with central bank		**13,922,851**	(12,880,433)
Net (increase)/decrease in due from banks and other financial institutions		**9,063,533**	18,480,206
Net increase in financial assets at fair value through profit or loss		**(1,871,389)**	(23,795,723)
Net increase in loans and advances to customers		**(194,099,574)**	(129,796,740)
Net decrease/(increase) in other operating assets		**(3,827,735)**	(16,045,633)
Net decrease in due to banks and other financial institutions		**(79,121,498)**	(37,303,203)
Net increase in customer deposits		**103,808,073**	124,375,759
Net increase/(decrease) in other operating liabilities		**6,580,236**	(11,316,542)
Cash used in operating activities before tax		**(135,889,230)**	(87,056,657)
Income tax paid		**(4,426,313)**	(5,372,092)
Net cash used in from operating activities		**(140,315,543)**	(92,428,749)

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31, 2018	2017
Cash flows from investing activities:			
Dividends received		**1,100**	800
Cash generated from disposal of property and equipment, intangible assets and other long-term assets		**66,611**	–
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		**(4,969,026)**	(4,117,494)
Interest received from financial investments		**28,743,794**	32,869,989
Proceeds from disposal and redemption of financial investments		**1,853,742,367**	1,567,827,383
Purchase of financial investments		**(1,802,283,878)**	(1,577,946,451)
Net cash generated from investing activities		**75,300,968**	18,634,227
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		**2,914,545**	–
Proceeds from issuance of preferred shares		**–**	14,942,452
Capital contribution by non-controlling interests of a subsidiary		**–**	1,470,000
Proceeds from issuance of debt securities		**314,226,594**	204,746,733
Cash paid for repayment of debt securities		**(260,010,000)**	(128,790,000)
Interest paid on debt securities issued		**(9,339,243)**	(6,414,554)
Dividends paid on ordinary shares		**(4,041,754)**	(3,065,339)
Net cash generated from financing activities:		**43,750,142**	82,889,292
Effect of exchange rate changes on cash and cash equivalents		**313,504**	(682,354)
Net (decrease)/increase in cash and cash equivalents		**(20,950,929)**	8,412,416
Cash and cash equivalents at beginning of the year		**58,589,742**	50,177,326
Cash and cash equivalents at end of the year	*41*	**37,638,813**	58,589,742
Net cash flows from operating activities including:			
Interest received		**49,871,172**	32,998,471
Interest paid		**(36,468,796)**	(30,209,054)

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

1 GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the "Bank") is a national joint-stock commercial bank established on the basis of the original Zhejiang commercial bank with the approval from the China Banking Regulatory Commission ("CBRC" which was renamed to China Banking and Insurance Regulatory Commission in 2018, hereinafter "CBIRC") (Yin Jian Fu [2004] No. 91 Document) and Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48 Document). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the "CBIRC". On July 26, 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License of Legal Entity (No. 330000000013295) in Zhejiang Province, the People's Republic of China (the "PRC"). On November 7, 2016, the bank obtained the Uniform Social Credit Code (No.91330000761336668H).

As at December 31, 2018, the registered capital of the Bank is Renminbi ("RMB") 18,718,697 thousand.

As at December 31, 2018, the Bank has established 242 branch outlets in 16 provinces (municipalities) and Hong Kong in China, including 56 branches (24 of them are tier-one branches), one branch-level specialized institution and 185 sub-branches. The principal activities of the Bank include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business, and other banking service as approved by the CBIRC.

Zhejiang Zheyin Financial Leasing Co., Ltd. ("Zheyin Leasing") was established on January 18, 2017 with a registered capital of RMB3,000,000 thousand. Since the Bank has control over Zheyin Leasing, the Bank has included it in the consolidated scope of the report. The Bank and its subsidiary, Zheyin Leasing (Note 21), are collectively referred to as the "Group".

The consolidated financial statements were approved by the Bank's Board of Directors on March 18, 2019.

2 PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), listing rules of Hong Kong Exchange Stock and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, precious metal and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.1.1 Consistency

These financial statements have been prepared on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures

New and revised IFRSs effective by January 1, 2018 applied by the Group

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

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

<u>IFRS 9 Financial instruments</u>

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (“IASB”) in July 2014 with a date of transition of January 1, 2018, which resulted in adjustments to the amounts previously recognized in the financial statements.

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(1) Financial instruments

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss ("ECL") allowance.

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

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

Interest income

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

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(1) Financial instruments (Continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date.

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

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred profit or loss in day one is determined individually. It is either amortized over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

If the main contract of a combined contract applied to IFRS 9, the combined contract should be considered as a whole under classification of IFRS 9. The embedded derivatives should not be separated from the contract and accounted for as stand-alone derivatives.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

(1) Financial instruments (Continued)

Financial assets

(i) Classification and subsequent measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

(1) Financial instruments (Continued)

Debt instruments *(Continued)*

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated, how risks are assessed and managed and how managers are compensated.

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

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

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

Equity instruments

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

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

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

Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes an ECL allowance for such losses at each reporting date. The measurement of ECL 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.

Modification of loans contract

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

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

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

(iii) Significant extension of the loan term when the borrower is not in financial difficulty;

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(1) Financial instruments (Continued)

Modification of loans contract *(Continued)*

(iv) Significant change in the interest rate;

(v) Change in the currency the loan is denominated in;

(vi) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

Derecognition other than on a modification of contract

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

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(1) Financial instruments (Continued)

Derecognition other than on a modification of contract *(Continued)*

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

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

Financial liabilities

(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expense incurred on the financial liability; when continuing involvement approach applies and please refer to Note 2.1.2(1).

- Financial guarantee contracts and loan commitments, please refer to Note 2.1.2(2).

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(1) Financial instruments (Continued)

Financial liabilities *(Continued)*

(ii) Derecognition

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

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

(2) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract. Such financial guarantees include the loans provided by banks, financial institutions, overdrafts and other banking facilities guarantee.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the ECL allowance (calculated as described in note 2.1.2.(1)); and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance (calculated as described in note 2.1.2.(1)). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the ECL allowance is recognized as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment is recognized together with the ECL allowance for the loan. Provided that the combined ECL exceeds the gross carrying amount of the loan, the ECL is recognized as provisions.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

(3) Classification and measurement of financial instruments

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

	December 31, 2017	Reclassifications	Remeasurements (i)	**January 1, 2018**
Assets				
Cash and balances with central bank	154,091,440	–	–	**154,091,440**
Due from banks and other financial institutions	71,432,438	–	(6,552)	**71,425,886**
Financial assets – fair value through profit or loss	46,344,516	66,979,530	–	**113,324,046**
Loans and Advances to customers	649,816,717	–	2,044,397	**651,861,114**
Financial assets – fair value through other comprehensive income	–	35,476,815	–	**35,476,815**
Financial assets – available-for-sale	127,898,959	(127,898,959)	–	**–**
Financial assets measured at amortized cost	–	460,228,185	774,441	**461,002,626**
Financial assets – Held-to-maturity	91,562,790	(91,562,790)	–	**–**
Financial assets – Debt instruments classified as receivables	343,222,781	(343,222,781)	–	**–**
Deferred tax assets	7,366,808	–	72,876	**7,439,684**
Liabilities				
Provisions	–	–	3,103,790	**3,103,790**
Shareholder's equity				
Other comprehensive income	(1,553,817)	–	1,256,465	**(297,352)**
Retained earnings	14,729,579	–	(1,475,093)	**13,254,486**

(i) Remeasurement includes ECL allowance, the change in the amount and the impact on income tax arising from the reclassification of the amortized cost measurement to the fair value measurement or the reclassification of the fair value measurement to the amortized cost measurement.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

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

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

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

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	**IFRS 9 carrying amount January 1, 2018**
Amortized Cost					
Cash and balances with central bank					
The amount of cash and balances with central bank		154,091,440			**154,091,440**
Due from banks and other financial institutions					
The amount of due from banks and other financial institutions		71,432,438			
Subtraction: ECL allowance				(6,552)	
The amount of due from banks and other financial institutions					**71,425,886**
Loans and advances to customers					
The amount of loans and advances to customers		649,816,717			
Subtraction: Transfer to Loans and advances to customers – fair value through other comprehensive income	*(a)*		(22,637,478)		
Subtraction: ECL allowance for loans and advances to customers				2,068,625	
The amount of loans and advances to customers					**629,247,864**
Financial assets – Debt instruments classified as receivables					
The amount of financial assets – Debt instruments classified as receivables		343,222,781			
Subtraction: Transfer to amortized cost (IFRS 9)	*(e)*		(343,222,781)		

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	**IFRS 9 carrying amount January 1, 2018**
Amortized Cost *(Continued)*					
The amount of financial assets – Debt instruments classified as receivables					**–**
Financial assets – Held-to-Maturity					
The amount of financial assets – Held-to-Maturity		91,562,790			
Subtraction: Transfer to amortized cost (IFRS 9)	*(e)*		(91,562,790)		
The amount of financial assets – Held-to-Maturity					**–**
Financial assets – amortized cost					
The amount of financial assets – amortized cost		N/A			
Addition: From financial assets – Debt instruments classified as receivables (IAS 39)	*(e)*		343,222,781		
Addition: Financial assets – Held-to-Maturity (IAS 39)	*(e)*		91,562,790		
Addition: From financial assets – Available-for-sale (IAS 39)	*(c)*		25,442,614		
Subtraction: ECL allowance				(821,999)	
Remeasurements:				1,596,440	
The amount of financial assets – amortized cost					**461,002,626**
Total financial assets measured at amortized cost		1,310,126,166	2,805,136	2,836,514	**1,315,767,816**
Fair value through profit or loss (“FVPL”)					
Financial assets at fair value through profit or loss					
The amount of financial assets at fair value through profit or loss		46,344,516			
Addition: From financial assets – Available-for-sale (IAS 39)	*(b)*		66,979,530	–	
The amount of financial assets at fair value through profit or loss					**113,324,046**
Total financial assets at fair value through profit or loss		46,344,516	66,979,530	–	**113,324,046**

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	**IFRS 9 carrying amount January 1, 2018**
Fair value through other comprehensive income ("FVOCI")					
Financial assets – available-for-sale					
Opening balance under IAS 39		127,898,959			
Subtraction: Transfer to financial assets at fair value through profit or loss (IFRS 9)	*(b)*		(66,979,530)		
Subtraction: Transfer to financial assets at Fair value through other comprehensive income – equity instruments (IFRS 9)	*(d)*		(25,000)		
Subtraction: Transfer to financial assets at Fair value through other comprehensive income – debt instruments (IFRS 9)	*(e)*		(35,451,815)		
Subtraction: Transfer to measurements under amortized cost (IFRS 9)	*(c)*		(25,442,614)		
Closing balance under IFRS 9					**–**
Financial assets at Fair value through other comprehensive income – equity instruments					
Opening balance under IAS 39		N/A			
Addition: From financial asset – available-for-sale (IAS 39)	*(d)*		25,000		
Closing balance under IFRS 9					**25,000**
Financial assets at Fair value through other comprehensive income – debt instruments					
Opening balance under IAS 39		N/A			
Addition: From available-for-sale (IAS 39)	*(e)*		35,451,815		

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	**IFRS 9 carrying amount January 1, 2018**
Fair value through other comprehensive income ("FVOCI") *(Continued)*					
Less: ECL allowance				(61,027)	
Remeasurements				61,027	
Closing balance under IFRS 9					**35,451,815**
Loans and advances to customers					
Opening balance under IAS 39		–			
Addition: From loans and advances to customers under amortized cost (IAS 39)	*(a)*		22,637,478		
Subtraction: ECL allowance				(45,883)	
Remeasurements				21,655	
Closing balance under IFRS 9					**22,613,250**
Total financial assets measured at fair value through other comprehensive income		127,898,959	(69,784,666)	(24,228)	**58,090,065**
Total financial assets		1,484,369,641	–	2,812,286	**1,487,181,927**

The following explains how the Group applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(a) Discounted bills and Domestic Letters of Credit Negotiation

Because the business model of discounted bills and domestic letters of credit negotiation were assessed as held to collect the contractual cash flows and sell, the Group changed measurement from amortized cost method to FVOCI method. The amount before reclassification is RMB22,637,478 thousand, after the reclassification, the remeasured amount is RMB22,613,250 thousand.

(b) Fund investments and trust plans and asset management plans that do not pass the "solely payments of principal and interest" ("SPPI") test

The Group holds fund investments amounting to RMB57,018,238 thousand and the trust plans and asset management plans amounting to RMB9,961,292 thousand. The cash flow characteristics of these financial contracts do not pass the SPPI test. Consequently, these financial assets are reclassified from financial assets available for sale to financial assets at fair value through profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

(c) Bond investments

The Group assessed its bond investments' business model. The Group concluded that a part of its bond investments' business model is to hold to collect the contractual cash flows. These bond investments, which amounted to RMB25,442,614 thousand, were previously classified as available-for-sale, and were reclassified as financial assets measured at amortized cost from the date of initial application.

For financial assets which have been reclassified to the amortized cost category, the following table shows their fair value at December 31, 2018 and the fair value gain or loss that would have been recognized if these financial assets had not been reclassified as part of the transition to IFRS 9:

Reclassifications to amortized cost	**December 31, 2018**
From available-for-sale (IAS 39 classification) to item above	
Fair value as at December 31, 2018	**26,750,541**
Fair value gain/(loss) that would have been recognized during the period if the financial assets had not been reclassified	**1,307,929**

(d) Designation of equity instruments at FVOCI

As permitted under IFRS 9, the Group has elected to irrevocably designate a small portfolio of non-trading equity securities (RMB25,000 thousand in total) at FVOCI, which were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

(e) Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were "retired", with no changes to their measurement basis:

(i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and

(ii) Those previously debt instruments classified as receivables and held-to-maturity and now classified as measured at amortized cost.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures *(Continued)*

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

The following table reconciles the allowance for impairment loss at December 31, 2017 in accordance with the IAS 39 incurred credit impairment model to the new expected credit loss allowance with the IFRS 9 ECL model at January 1, 2018:

Measurement category	Allowance for impairment loss under IAS 39	Reclassification	ECL allowance	ECL allowance/ Provisions under IFRS 9
Amortized cost				
Loans and advances to customers	23,062,217	–	(2,068,625)	20,993,592
Due from banks and other financial institutions	–	–	6,552	6,552
Financial assets – Debt instruments classified as receivables	3,968,473	(3,968,473)	–	–
Financial assets measured at amortized cost	–	3,968,473	821,999	4,790,472
Subtotal	27,030,690	–	(1,240,074)	25,790,616
At fair value through other comprehensive income				
Loans and advances to customers	–	–	45,883	45,883
Financial assets at fair value through other comprehensive income	–	–	61,027	61,027
Subtotal	–	–	106,910	106,910
Off Balance Sheet Items	–	–	3,103,790	3,103,790
Total	27,030,690	–	1,970,626	29,001,316

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015-2017 cycle	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	January 1, 2019

Amendments to IFRS 10 and IAS 28

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

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

IFRIC 23

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

IFRS 16

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group (Continued)

IFRS 16 *(Continued)*

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB5,501 million, see note 38. Some of the commitments may not need recognize relevant assets or liabilities because of short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The Group expects that the adoption of IFRS 16 will not have a material impact on the Group's consolidated financial statements.

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

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.2 Amendments to accounting policies and disclosures (Continued)

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group (Continued)

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IFRS 9

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

IFRIC 23

IFRIC 23 explains how uncertainty in tax treatment will affect the recognition and measurement of income taxes. The interpretation takes effect on January 1, 2019.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Financial year

The financial year starts on January 1 and ends on December, 31.

2.3 Functional currency

The functional currency of the Group is RMB.

2.4 Consolidated Financial Statement

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and total comprehensive income for the period not attributable to the Bank are recognized as non-controlling interest and total comprehensive income attributed to non-controlling interest and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively.

Unrealised profits or losses resulting from the Bank selling assets to its subsidiaries are offset against the parent company's net profits. Unrealised profits or losses resulting from the subsidiaries selling assets to the Bank are offset against net profits attributable to shareholders of the parent company and non-controlling interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and non-controlling interest based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Bank or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective. The loss distributed to non-controlling shareholders of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the non-controlling shareholders' equity.

2.5 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

2.6 Fee and commission income

For the fee and commission income that the performance obligation performs at a certain point in time, the Group recognises income when the customer obtains and consumes the economic benefits of the performance of the Group. For the fee and commission income that the performance obligation performs during a certain period of time, the Group recognizes the income according to the progress of the performance during the period.

2.7 Dividend income

Dividends are recognized when the right to receive payment is established.

2.8 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

(b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions.

2.9 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Current income tax and movements in deferred tax balances are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realization and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2.10 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognized in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, deposits or placements with banks and other financial institutions with original tenors less than 3 months.

2.12 Precious metals

Precious metals comprise gold and silver. All precious metals are related to the Group's trading activities, which are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the statement of profit or loss in the period in which they arise.

2.13 Financial instruments accounting policies adopted in 2017

Financial assets and liabilities are recognized in the statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss.

2.13.1 Financial assets

The Group's financial assets are classified into four categories – financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories – financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

There are no financial assets designated at fair value through profit or loss at inception for the Group.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the profit or loss in the period in which they arise.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.13 Financial instruments accounting policies adopted in 2017 *(Continued)*

2.13.1 Financial assets *(Continued)*

(b) *Held-to-maturity financial investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Financial assets classified as loans and receivables primarily include balances with central bank, due from banks and other financial institutions, loans and advances to customers, and debt instruments classified as receivables.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the profit or loss.

2.13 Financial instruments accounting policies adopted in 2017 *(Continued)*

2.13.1 Financial assets (Continued)

(e) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognized in profit or loss.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

2.13 Financial instruments accounting policies adopted in 2017 *(Continued)*

2.13.1 Financial assets (Continued)

(f) Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(g) Impairment of financial assets classified as available-for-sale

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the profit or loss in the period in which the impairment takes place.

2.13.2 Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities carried at amortized cost.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in profit or loss in the period in which they arise.

2.13 Financial instruments accounting policies adopted in 2017 *(Continued)*

2.13.2 Financial liabilities (Continued)

(b) Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

2.13.3 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

2.13.4 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.13.5 De-recognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.13 Financial instruments accounting policies adopted in 2017 *(Continued)*

2.13.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13.7 Resale and repurchase agreements

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices are not derecognized. They continue to be recorded as "investments classified as held-to-maturity investments", "available-for-sale financial assets", "debt instruments classified as receivables" or "loans and advances to customers" as appropriate. The corresponding liability is included in "due to banks and other financial institutions".

Consideration paid for financial assets held under agreements to resell are recorded in "due from banks and other financial institutions".

Interest expense or income in profit or loss over the term of the agreements uses the effective interest method.

2.14 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognized at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. Expenditures relating to ordinary maintenance of property, plant and equipment are recognized in profit or loss.

2.14 Property, plant and equipment *(Continued)*

(b) Depreciation and impairment

Depreciation is calculated based on the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives, and then charged to the profit or loss. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, estimated residual values rates and depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	30 years	5%	3.17%
Self-owned buildings improvements	10 years	5%	9.50%
Equipment	3-5 years	5%	19.00-31.67%
Motor vehicles	5 years	5%	19.00%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.17.

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognized in profit or loss on the date of retirement or disposal.

2.15 Land use rights

Land use rights are initially recognized at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortized net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.17.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.16 Intangible assets

The intangible assets are initially recognized at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.17.

2.17 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's present value of future cash flows.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

2.18 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.19 Leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

As a lessee under operating leases, lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term.

As a lessor under finance leases, at the lease commencement date, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "other assets" on consolidated financial statements. The ECL allowance of finance lease receivables measured by the manner described in Note 44.1.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.20 Dividend distribution

Ordinary share dividends are recognized as liabilities in the period in which they are approved by the Shareholders' Annual General Meeting. Preference share dividend is recognized as a liability in the period in which they are approved by the Board of Directors.

2.21 Wealth management

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, insurance companies, trust companies, and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's statement of financial position.

2.22 Entrusted loans

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers. The Group is responsible for the arrangement and collection of the entrusted loans and receives commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans, they are not recognized as assets and liabilities of the Group.

2.23 Financial guarantee contracts

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantees. Any increase in the liability relating to guarantees is taken to the profit or loss.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.25 Segment reporting

The Group determines the operating segments on the basis of the internal organizational structure, requirements of management and internal reporting system, and establishes the reporting segments on the basis of the operating segments and discloses the segment information.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and key assumptions applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

3.1 The measurement of ECL

For loans and advances to customers, financial assets measured at amortized cost, loan commitments and financial guarantees, a complex model and a large number of assumptions are used in the measurement of ECL. These models and assumptions relate to future macroeconomic conditions and the borrower's credit behaviour (e.g. the likelihood of customer default and corresponding losses).

The Group's measurement of ECL involves many significant judgments, such as:

- Selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models;
- The estimated future cash flows for loans and advances, financial assets measured at amortized cost and loan commitments and financial guarantees in stage 3.

Note 44.1.4 specifies the parameters, assumptions and valuation techniques used in the measurement of ECL.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

3.2 Control over structured entity

Where the Group acts as an asset manager or investor of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (e.g. direct investment) that it holds in the structured entities. The Group performs reassessment periodically.

3.3 Fair value measurement of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair value measurement of financial instruments.

4 NET INTEREST INCOME

	Year ended December 31, 2018	2017
Interest income		
Balances with central bank	**1,778,755**	1,844,069
Due from banks and other financial institutions	**2,675,600**	2,404,936
Loans and advances to customers	**44,026,417**	27,430,722
Financial assets at fair value through profit or loss	**N/A**	1,112,510
Investments	**23,770,825**	29,790,051
Subtotal	**72,251,597**	62,582,288
Including: Interest income from impaired financial assets	**73,734**	53,588
Interest expense		
Due to banks and other financial institutions	**(16,240,522)**	(16,298,040)
Customer deposits	**(19,984,469)**	(15,478,588)
Debt securities issued	**(9,641,058)**	(6,414,554)
Subtotal	**(45,866,049)**	(38,191,182)
Net interest income	**26,385,548**	24,391,106

5 NET FEE AND COMMISSION INCOME

	Year ended December 31, 2018	2017
Fee and commission income		
Asset management business	**1,389,652**	5,513,087
Underwriting service	**756,073**	634,281
Credit commitment	**449,926**	406,989
Agency service	**357,807**	388,125
Custodian and other fiduciary service	**525,285**	498,962
Settlement business	**993,718**	451,867
Others	**357,437**	523,009
Total	**4,829,898**	8,416,320
Fee and commission expense	**(577,975)**	(402,915)
Net fee and commission income	**4,251,923**	8,013,405

6 NET TRADING GAINS

	Year ended December 31, 2018	2017
Funds investment	**4,027,085**	1,529,505
Financial instruments at fair value through profit or loss	**2,752,626**	(1,150,233)
Derivative financial instruments	**1,023,683**	(101,965)
Exchange differences	**(567,273)**	178,713
Other investment gains	**18,019**	–
Total	**7,254,140**	456,020

7 NET GAINS ON FINANCIAL INVESTMENTS

	Year ended December 31, 2018	2017
Net gains arising from financial assets – fair value through other comprehensive income	**243,394**	201,291
Net gains arising from de-recognition of available-for-sale	**N/A**	704,099
Net gains arising from financial assets measured at amortized cost	**251,827**	N/A
Other investment gains	**113,592**	–
Total	**608,813**	905,390

8 OTHER OPERATING INCOME

	Year ended December 31, 2018	2017
Government grants	**175,937**	75,266
Gains on disposal of fixed assets	**(1,333)**	49,688
Operating lease income	**54,955**	1,039
Dividend income	**1,100**	800
Other miscellaneous income	**291,393**	371,435
Total	**522,052**	498,228

9 OPERATING EXPENSES

	Year ended December 31, **2018**	2017
Staff costs (i)	**7,152,858**	6,644,637
General and administrative expenses	**3,036,909**	3,289,582
Tax and surcharges	**437,828**	232,461
Rental expenses	**710,664**	593,188
Depreciation of property, plant and equipment *(Note 22)*	**480,743**	223,244
Amortization of long-term prepaid expenses	**120,662**	91,367
Amortization of intangible assets *(Note 24(i))*	**40,987**	33,007
Amortization of land use rights *(Note 24(i))*	**16,269**	16,051
Auditors' remuneration	**6,258**	5,160
Donations	**13,283**	4,861
Others	**125,959**	49,602
Total	**12,142,420**	11,183,160

(i) Staff costs

	Year ended December 31, **2018**	2017
Salaries and bonuses	**5,467,041**	5,175,518
Pension costs – Defined contribution plans	**749,736**	593,384
Housing funds	**267,840**	225,592
Labor union fee and staff education expenses	**141,546**	146,119
Other social security and benefit costs	**526,695**	504,024
Total	**7,152,858**	6,644,637

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Year ended December 31, 2018

Name	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Directors						
Shen Renkang (ii)	**–**	**300**	**51**	**581**	**220**	**1,152**
Liu Xiaochun (i)	**–**	**960**	**21**	**3,956**	**154**	**5,091**
Zhang Luyun (ii)	**–**	**270**	**50**	**526**	**236**	**1,082**
Xu Renyan (ii)	**–**	**2,016**	**63**	**3,273**	**199**	**5,551**

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Details of the directors' and supervisors' emoluments are as follows *(Continued)*:

	Year ended December 31, 2018					
Name	**Fees**	**Salaries**	**Allowances and benefits**	**Discretionary bonuses**	**Contribution to pension schemes**	**Total**
Non-Executive Directors						
Wang Yibin (ii)	–	–	–	–	–	–
Wang Mingde (ii)	–	–	–	–	–	–
Shen Xiaojun (ii)	–	–	–	–	–	–
Huang Zhiming (ii)	–	–	–	–	–	–
Wei Dongliang (ii)	–	–	–	–	–	–
Huang Xufeng (ii)	–	–	–	–	–	–
Gao Qinhong (ii)	–	–	–	–	–	–
Hu Tiangao (ii)	–	–	–	–	–	–
Zhu Weiming (ii)	–	–	–	–	–	–
Lou Ting (ii)	–	–	–	–	–	–
Xia Yongchao (ii)	–	–	–	–	–	–
Independent Non-Executive Directors						
Jin Xuejun (ii)	**250**	–	–	–	–	**250**
Tong Benli (ii)	**300**	–	–	–	–	**300**
Yuan Fang (ii)	**300**	–	–	–	–	**300**
Dai Deming (ii)	**300**	–	–	–	–	**300**
Liu Pak Wai (ii)	**300**	–	–	–	–	**300**
Zheng Jindu (ii)	**300**	–	–	–	–	**300**
Zhou Zhifang (ii)	**75**	–	–	–	–	**75**
Wang Guocai (ii)	**75**	–	–	–	–	**75**
Supervisors						
Yu Jianqiang (iv)	–	**1,906**	**1**	**2,850**	**206**	**4,963**
Ge Meirong (iv)	–	–	–	–	–	–
Huang Haibo (iv)	–	–	–	–	–	–
Zheng Jianming (iii)(vi)	–	–	–	–	–	–
Wang Chengliang (iii)(vi)	–	–	–	–	–	–
Chen Zhongwei (iii)(vi)	–	–	–	–	–	–
Jiang Rong (iii)(vi)	–	–	–	–	–	–
Yuan Xiaoqiang (iv)	**300**	–	–	–	–	**300**
Wang Jun (iv)	**300**	–	–	–	–	**300**
Huang Zuhui (iv)	**300**	–	–	–	–	**300**
Cheng Huifang (iv)	**300**	–	–	–	–	**300**
Tao Xuegen (v)	–	–	–	–	–	–
Zhou Yang (v)	–	–	–	–	–	–
Ge Lixin (v)(vi)	–	–	–	–	–	–
Zhang Rulong (v)(vi)	–	–	–	–	–	–
Jiang Zhihua (v)	**150**	–	–	–	–	**150**
Total	**3,250**	**5,452**	**186**	**11,186**	**1,015**	**21,089**

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Details of the directors' and supervisors' emoluments are as follows *(Continued)*:

	Year ended December 31, 2017					
Name	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Directors						
Shen Renkang	–	300	50	400	200	950
Liu Xiaochun	–	1,500	69	4,042	299	5,910
Zhang Luyun	–	270	50	360	216	896
Xu Renyan	–	1,200	68	3,522	179	4,969
Non-Executive Directors						
Wang Yibing	–	–	–	–	–	–
Wang Mingde	–	–	–	–	–	–
Shen Xiaojun	–	–	–	–	–	–
Gao Qinhong	–	–	–	–	–	–
Hu Tiangao	–	–	–	–	–	–
Lou Ting	–	–	–	–	–	–
Zhu Weiming	–	–	–	–	–	–
Independent Non-Executive Directors						
Jin Xuejun	300	–	–	–	–	300
Tong Benli	300	–	–	–	–	300
Yuan Fang	300	–	–	–	–	300
Dai Deming	300	–	–	–	–	300
Liu Pak Wai	300	–	–	–	–	300
Zheng Jindu	300	–	–	–	–	300
Supervisors						
Yu Jianqiang	–	1,200	63	2,707	211	4,181
Tao Xuegen	–	–	–	–	–	–
Zhou Yang	–	–	–	–	–	–
He Xudong	–	–	–	–	–	–
Zheng Jianming (vi)	–	–	–	–	–	–
Wang Chengliang (vi)	–	–	–	–	–	–
Dong Zhoufeng (vi)	–	–	–	–	–	–
Ge Lixin (vi)	–	–	–	–	–	–
Zhang Rulong (vi)	–	–	–	–	–	–
Jiang Zhihua	300	–	–	–	–	300
Yuan Xiaoqiang	300	–	–	–	–	300
Huang Zuhui	300	–	–	–	–	300
Wang Jun	300	–	–	–	–	300
Cheng Huifang	300	–	–	–	–	300
Total	3,300	4,470	300	11,031	1,105	20,206

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Details of the directors' and supervisors' emoluments are as follows *(Continued)*:

(i) Mr. Liu Xiaochun resigned as an executive director, vice chairman, board strategy committee and member of the Inclusive Financial Development Committee due to changes in his work. The resignation took effect on April 18, 2018.

(ii) On June 27, 2018, the Bank held the 2017 Annual General Meeting of Shareholders to elect Mr. Shen Renkang, Mr. Xu Renyan, Ms. Zhang Luzhen, Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Yuming, Ms. Lou Ting, Mr. Xia Yongchao, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liao Baiwei, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai to be the members of the fifth board of directors of the Bank; Mr. Wang Mingde, Ms. Wang Yibing and Ms. Shen Xiaojun no longer served as the principal non-executive director of the Bank; Mr. Jin Xuejun no longer serves as an independent non-executive director of the Bank. Among the new directors, the qualifications of the directors of Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Xia Yongchao, Mr. Zhou Zhifang and Mr. Wang Guocai have been approved by the regulatory authorities. The qualification of Mr. Huang Xufeng has yet to be approved by the regulatory authorities.

(iii) On May 10, 2018, the Employee Representatives' Meeting of the Bank elected Mr. Zheng Jianming, Mr. Wang Chenliang, Mr. Chen Zhongwei and Mr. Jiang Rong as employees supervisors of the Bank. It took into effect since the 2017 Shareholders' Annual General Meeting on June 27, 2018.

(iv) On June 27, 2018, the Shareholders' Annual General Meeting of the Bank elected Mr. Yu Jianqiang, Mr. Huang Haibo and Mr. Ge Meirong as shareholder supervisors of the Bank. It elected Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Mrs. Cheng Huifang as external supervisors of the Bank.

(v) On June 27, 2018, shareholder supervisors Mr. Tao Xuegen and Mr. Zhou Yang, employee supervisors of the Bank, Mr. Ge Lixin and Mr. Zhang Rulong, retired as supervisors. An external supervisor of the Bank, Mr. Jiang Zhihua retired as supervisors after six-year tenure.

(vi) Employee supervisors of the Bank receive remuneration as staff, and receive no remuneration as supervisors.

(vii) Directors and supervisors of the Bank receive only remuneration in respect of their services as directors and supervisors. No emoluments was paid to or receivable by directors and supervisors in respect of their other services in connection with the management of the affairs of the Bank or its subsidiary undertaking in any form.

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals

For the year ended December 31, 2018, the five highest paid individuals in the Bank including no director or supervisor (2017: no director or supervisor).

The rest of the five highest paid individuals for the year are as follows:

	Year ended December 31,	
	2018	2017
Salaries and allowances and benefits	**4,812**	13,266
Discretionary bonuses	**48,449**	42,786
Contribution to pension schemes	**508**	707
Total	**53,769**	56,759

The emoluments fell within the following bands:

	Number of Individuals Year ended December 31,	
	2018	2017
RMB7,500,001 – RMB8,000,000	**–**	–
RMB8,000,001 – RMB8,500,000	**1**	–
RMB8,500,001 – RMB12,000,000	**3**	4
RMB12,000,001 – RMB17,000,000	**1**	1

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended December 31, 2018, no non-cash benefits (share options, car, insurance premium, club membership, etc.) was paid to the directors or supervisors (2017: nil).

During the year ended December 31, 2018, no retirement benefit was paid to the directors or supervisors by a defined benefit pension plan operated by the Group (2017: nil).

During the year ended December 31, 2018, no termination benefits was paid to the directors or supervisors operated by the Group (2017: nil).

During the year ended December 31, 2018, no consideration was provided to former employers for making available directors' and supervisors' services by the Group (2017: nil).

During the year ended December 31, 2018, no loan, quasi-loan or other dealings was provided in favor of directors or connected entities related to directors (2017: nil).

During the year ended December 31, 2018, no significant transactions, arrangements and contracts was in relation to the corporate in which a director of the Group had a material interest, whether directly or indirectly subsisted (2017: nil).

11 IMPAIRMENT LOSSES ON ASSETS

	Year ended December 31,	
	2018	2017
Loans and advances to customers		
– Collectively assessed	**N/A**	6,648,789
– Individually assessed	**N/A**	2,068,766
Debt instruments classified as receivables	**N/A**	500,743
Others	**–**	155,933
Total	**–**	9,374,231

12 EXPECTED CREDIT LOSSES

	Year ended December 31,	
	2018	2017
Loans and advances to customers	**9,539,474**	N/A
Financial assets at fair value through other comprehensive income	**440,662**	N/A
Financial assets measured at amortized cost *(Note 44.1.4)*	**2,700,846**	N/A
Loan commitments and financial guarantee contracts	**(1,559)**	N/A
Finance lease receivables	**300,133**	N/A
Others	**49,999**	N/A
Total	**13,029,555**	N/A

13 INCOME TAX EXPENSE

	Year ended December 31,	
	2018	2017
Current income tax	**3,437,040**	5,081,893
Deferred income tax *(Note 23)*	**(1,146,876)**	(2,348,002)
Total	**2,290,164**	2,733,891

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

13 INCOME TAX EXPENSE *(Continued)*

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31, 2018	2017
Profit before income tax	**13,850,501**	13,706,758
Tax calculated at a tax rate of 25%	**3,462,625**	3,426,690
Tax effect arising from income not subject to tax (i)	**(1,180,256)**	(804,816)
Tax effect of expenses that are not deductible for tax purposes (ii)	**7,795**	112,017
Income tax expense	**2,290,164**	2,733,891

(i) The income not subject to tax mainly represents interest income arising from treasury bonds and dividend income arising from fund investments, which is income tax free in accordance with the PRC tax regulations.

(ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the years.

	Year ended December 31, 2018	2017
Net profit attributable to ordinary shareholders of the Bank (in RMB thousands)	**11,273,802**	10,299,907
Weighted average number of ordinary shares in issue (in thousands)	**18,528,947**	17,959,697
Basic earnings per share (in RMB yuan)	**0.61**	0.57

For the year ended December 31, 2018, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on March 29, 2017 and the terms and conditions as detailed in Note 31. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the year ended December 31, 2018, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

15 CASH AND BALANCES WITH CENTRAL BANK

	December 31, 2018	December 31, 2017
Cash	**519,035**	462,404
Mandatory reserve deposits with central bank (a)	**104,802,428**	119,178,519
Surplus reserve deposits with central bank (b)	**20,479,963**	34,390,270
Fiscal deposits	**513,487**	60,247
Accrued interest	**55,319**	N/A
Total	**126,370,232**	154,091,440

(a) The Group is required to place mandatory reserve deposits and mandatory reserve for foreign forward exchange with the People's Bank of China ("PBOC"). These mandatory reserves are not available for use in the daily business of the Group.

As at December 31, 2018, the mandatory reserve deposit rates of the Bank were as follows:

	December 31, 2018	December 31, 2017
Mandatory reserve rate for deposits denominated in RMB (i)	**11%**	14.5%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	**5%**	5%
Mandatory reserve rate for foreign forward exchange (ii)	**20%**	–

(i) Based on deposit balance on the end of reporting period.

(ii) Based on contractual amount of foreign forward exchange during the period.

(b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2018	December 31, 2017
Deposits with banks and other financial institutions	**20,056,535**	24,807,068
Notes purchased under resale agreements	**10,761,162**	13,086,753
Securities purchased under resale agreements	**7,657,495**	28,986,147
Placements with banks and other financial institutions	**16,796,380**	4,152,470
Others purchased under resale agreements	**–**	400,000
Accrued interest	**11,297**	N/A
ECL allowance	**(5,695)**	N/A
Total	**55,383,174**	71,432,438

17 FINANCIAL INVESTMENTS: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018	December 31, 2017
Government bonds		
– Listed outside Hong Kong	**6,762,199**	5,124,435
Other debt securities		
– Listed outside Hong Kong	**41,152,944**	41,220,081
Fund investments	**82,342,692**	–
Trust plans and asset management plans issued by financial institution other than bank	**2,078,695**	–
Wealth management products issued by other banks	**2,010,739**	–
Other investment on stocks	**261,994**	–
Accrued interest	**601,513**	N/A
Total	**135,210,776**	46,344,516

As at December 31, 2018 and December 31, 2017, all financial assets at fair value through profit or loss of the Group were held for trading.

As at December 31, 2018 and December 31, 2017, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic interbank bond market are included under the category of "Listed outside Hong Kong".

Financial assets at fair value through profit or loss analyzed by categories of the issuer were as follows:

	December 31, 2018	December 31, 2017
Issuers in the PRC		
– Government	**6,762,199**	5,124,435
– Banks and other financial institutions	**107,108,985**	26,203,160
– Corporates	**20,738,079**	15,016,921
Accrued interest	**601,513**	N/A
Total	**135,210,776**	46,344,516

18 DERIVATIVE FINANCIAL INSTRUMENTS

Below listed the nominal value and fair value of unmatured derivative financial instruments held for trading:

	Nominal value	**Fair value**	
		Asset	**Liability**
December 31, 2018			
Swap contracts	**1,785,860,447**	**9,235,537**	**(10,095,239)**
Option contracts	**57,220,209**	**809,859**	**(425,225)**
Forward contracts	**6,216,931**	**77,965**	**(127,707)**
Total	**1,849,297,587**	**10,123,361**	**(10,648,171)**
December 31, 2017			
Swap contracts	852,580,297	3,535,377	(4,993,096)
Option contracts	67,058,306	864,398	(288,790)
Forward contracts	8,877,327	154,311	(15,977)
Total	928,515,930	4,554,086	(5,297,863)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	December 31, 2018	December 31, 2017
Loans and advances at amortized cost		
Corporate loans and advances		
– Corporate loans	**575,687,278**	487,541,032
– Trade finance	**22,066,506**	31,055,661
Subtotal	**597,753,784**	518,596,693
Personal loans and advances		
– Personal business	**106,843,459**	88,211,424
– Residential mortgage loans	**44,449,992**	28,340,877
– Others	**50,114,178**	17,380,356
Subtotal	**201,407,629**	133,932,657
Discounted bills	**–**	20,349,584
Gross amount of loans and advances at amortized cost	**799,161,413**	672,878,934
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
– Trade finance	**5,504,677**	N/A
Discounted bills	**57,707,010**	N/A
Subtotal of loans and advances at fair value through other comprehensive income	**63,211,687**	N/A
Subtotal of loans and advances	**862,373,100**	672,878,934
Fair value changes on financial assets at fair value through other comprehensive income	**146,906**	N/A
Accrued interest	**2,712,663**	N/A
Gross amount of loans and advances	**865,232,669**	672,878,934
Less: ECL allowance of Loans and advances at amortized cost	**(28,029,034)**	N/A
Including：Stage 1	**(17,149,126)**	N/A
Stage 2	**(3,381,859)**	N/A
Stage 3	**(7,498,049)**	N/A
Less: Allowance for impairment losses	**N/A**	(23,062,217)
– Collectively assessed	**N/A**	(19,168,076)
– Individually assessed	**N/A**	(3,894,141)
Less: ECL allowance of Loans and advances at fair value through other comprehensive income	**(127,745)**	N/A
Gross amount of ECL	**(28,156,779)**	N/A
Net amount of loans and advances	**837,075,890**	649,816,717

(b) Movements in ECL allowance for loans and advances to customers listed by assessment method:

	December 31, 2018		December 31, 2017	
	Collective impairment	**Individual impairment**	Collective impairment	Individual impairment
Balance at beginning of the year	**N/A**	**N/A**	13,038,063	2,786,333
Net impairment allowances charged to profit or loss *(Note 11)*	**N/A**	**N/A**	6,648,789	2,068,766
Unwinding of discount on allowance	**N/A**	**N/A**	(26,255)	(27,333)
Write-offs	**N/A**	**N/A**	(467,314)	(851,218)
Transfer out	**N/A**	**N/A**	(225,613)	(164,572)
Recoveries	**N/A**	**N/A**	221,674	82,165
Exchange differences	**N/A**	**N/A**	(21,268)	–
Balance at end of the year	**N/A**	**N/A**	19,168,076	3,894,141

(c) Loans listed by staging for allowance:

	ECL allowance			
December 31, 2018	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans and advances to customers	**837,722,068**	**13,959,589**	**10,691,443**	**862,373,100**
– Corporate loans and advances	**638,666,596**	**12,936,807**	**9,362,068**	**660,965,471**
– Personal loans and advances	**199,055,472**	**1,022,782**	**1,329,375**	**201,407,629**
Allowance for impairment losses	**(17,240,873)**	**(3,381,859)**	**(7,534,047)**	**(28,156,779)**
Change in fair value	**146,823**	**–**	**83**	**146,906**
Accrued interest	**2,668,146**	**44,517**	**–**	**2,712,663**
Loans and advances to customers	**823,296,164**	**10,622,247**	**3,157,479**	**837,075,890**

December 31, 2017		Identified impaired loans and advances (ii)			
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Corporate loans and advances	531,985,076	1,016,925	5,944,276	6,961,201	538,946,277
Personal loans and advances	133,127,294	805,363	–	805,363	133,932,657
Allowance for impairment losses	(17,793,757)	(1,374,319)	(3,894,141)	(5,268,460)	(23,062,217)
Loans and advances to customers, net	647,318,613	447,969	2,050,135	2,498,104	649,816,717

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been identified as impaired.

(ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and have been identified as bearing impairment losses, which are measured either individually or collectively.

20 FINANCIAL INVESTMENTS

(a) Financial assets at fair value through other comprehensive income

	December 31, 2018	December 31, 2017
Financial assets at fair value through other comprehensive income		
Listed outside Hong Kong		
– Debt securities	**40,301,644**	N/A
– Interbank certificates of deposit	**6,463,327**	N/A
– Other debt instrument	**44,207,936**	N/A
Unlisted		
– Equity securities	**275,000**	N/A
Accrued interest	**637,885**	N/A
Total	**91,885,792**	N/A

Financial assets at fair value through other comprehensive income analyzed by issuer are as follows:

	December 31, 2018	December 31, 2017
Financial assets at fair value through other comprehensive income		
By issuer:		
– Government	**18,468,635**	N/A
– Banks and other financial institutions	**23,079,325**	N/A
– Corporates	**49,424,947**	N/A
Subtotal	**90,972,907**	N/A
Equity securities	**275,000**	N/A
Accrued interest	**637,885**	N/A
Total	**91,885,792**	N/A

20 FINANCIAL INVESTMENTS *(Continued)*

(b) Financial assets measured at amortized cost

	December 31, 2018	December 31, 2017
Financial assets measured at amortized cost		
Listed outside Hong Kong		
– Debt securities	**134,131,745**	N/A
Unlisted		
– Trust plans and asset management plans	**206,198,925**	N/A
– Wealth management products	**1,041,819**	N/A
Accrued interest	**3,955,239**	
Total	**345,327,728**	N/A
Less：ECL allowance	**(7,491,318)**	N/A
Financial assets measured at amortized cost – Net	**337,836,410**	N/A

Financial assets measured at amortized cost analyzed by issuer are as follows:

	December 31, 2018
Financial assets measured at amortized cost	
By issuer:	
– Government	**94,674,004**
– Banks and other financial institutions	**35,275,604**
– Trust plans and asset management plans issued by financial institution other than bank (i)	**206,198,925**
– Wealth management products issued by other banks	**1,041,819**
– Others	**4,182,137**
Accrued interest	**3,955,239**
Total	**345,327,728**
Less：ECL allowance	**(7,491,318)**
Financial assets measured at amortized cost – Net	**337,836,410**

20 FINANCIAL INVESTMENTS *(Continued)*

(b) Financial assets measured at amortized cost *(Continued)*

(i) Trust plans and asset management plans can be analyzed by secured and unsecured as follows：

	December 31, 2018
Secured:	
Guaranteed by third-party companies	**16,412,385**
Pledged by certificates of deposit	**2,818,743**
Collateralised by properties	**18,701,957**
Subtotal	**37,933,085**
Unsecured:	
Financial institutions	**40,834,106**
Corporates	**127,431,734**
Subtotal	**168,265,840**
Total	**206,198,925**

(c) Available-for-sale financial assets

	December 31, 2018	December 31, 2017
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	**N/A**	61,105,819
– Interbank certificates of deposit	**N/A**	4,954
Unlisted		
– Equity securities	**N/A**	25,000
– Fund investments	**N/A**	57,018,238
– Trust plans and asset management plans(i)	**N/A**	9,744,948
Total	**N/A**	127,898,959

20 FINANCIAL INVESTMENTS *(Continued)*

(c) Available-for-sale financial assets *(Continued)*

(i) Trust plans and asset management plans sponsored by other financial institutions can be analyzed by secured and unsecured as follows:

Available-for-sale financial assets	December 31, **2018**	2017
Secured:		
Guaranteed by third-party companies	**N/A**	459,118
Subtotal	**N/A**	459,118
Unsecured:		
Financial institutions	**N/A**	6,973,420
Corporates	**N/A**	2,312,410
Subtotal	**N/A**	9,285,830
Total	**N/A**	9,744,948

Available-for-sale financial assets analyzed by issuer or sponsor are as follows:

	December 31, 2018	December 31, 2017
Available-for-sale financial assets		
By issuer:		
– Government	**N/A**	20,122,725
– Banks and other financial institutions	**N/A**	42,901,855
– Corporates	**N/A**	7,831,141
Subtotal	**N/A**	70,855,721
Fund investment	**N/A**	57,018,238
Equity securities	**N/A**	25,000
Total	**N/A**	127,898,959

20 FINANCIAL INVESTMENTS *(Continued)*

(d) Held-to-maturity investments

	December 31, 2018	December 31, 2017
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	**N/A**	91,262,790
– Interbank certificates of deposit	**N/A**	300,000
Total	**N/A**	91,562,790

Held-to-maturity investments analyzed by issuer or sponsor are as follows:

	December 31, 2018	December 31, 2017
Held-to-maturity investments		
By issuer:		
– Government	**N/A**	74,800,038
– Banks and other financial institutions	**N/A**	16,434,852
– Others	**N/A**	327,900
Total	**N/A**	91,562,790

(e) Debt instruments classified as receivables

	December 31, 2018	December 31, 2017
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans (i)	**N/A**	343,917,605
– Wealth management products	**N/A**	2,873,649
– Debt securities	**N/A**	400,000
Subtotal	**N/A**	347,191,254
Less: Allowance for impairment losses		
– Collectively assessed	**N/A**	(3,650,517)
– Individually assessed	**N/A**	(317,956)
Subtotal	**N/A**	(3,968,473)
Debt instruments classified as receivables – Net	**N/A**	343,222,781

20 FINANCIAL INVESTMENTS *(Continued)*

(e) Debt instruments classified as receivables *(Continued)*

(i) Trust plans and asset management plans sponsored by other financial institutions can be analyzed by secured and unsecured as follows:

	December 31, 2018	December 31, 2017
Debt instruments classified as receivables		
Secured:		
Guaranteed by third-party companies	**N/A**	14,062,453
Pledged by certificates of deposit	**N/A**	11,442,679
Collateralized by properties	**N/A**	12,285,590
Subtotal	**N/A**	37,790,722
Unsecured:		
Financial institutions	**N/A**	89,280,848
Corporates	**N/A**	216,846,035
Subtotal	**N/A**	306,126,883
Total	**N/A**	343,917,605

Debt instruments classified as receivables analyzed by issuer or sponsor are as follows:

	December 31, 2018	December 31, 2017
Debt instruments classified as receivables		
By sponsor		
– Banks and other financial institutions	**N/A**	346,791,254
– Others	**N/A**	400,000
Total	**N/A**	347,191,254
Less: Allowance for impairment losses	**N/A**	(3,968,473)
Debt instruments classified as receivables – Net	**N/A**	343,222,781

21 INVESTMENT IN SUBSIDIARIES

The Bank invested RMB1.53 billion in cash to establish Zheyin Financial Leasing Co., Ltd. ("Zheyin Financial Leasing") with an entity interest of 51% in 2017. Zheyin Financial Leasing was co-funded by the Bank, Zhejiang Provincial Financial Holdings and Zhoushan Marine Comprehensive Development And Investment Co., Ltd. with a registered capital of RMB3 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank included it in the scope of consolidated financial statements. The detailed information of Zheyin Financial Leasing is as follows：

	Place of incorporation	**Registered address**	**Principal activities**	**Registered capital (thousand)**	**Proportion of equity interest (direct)**
Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Finance industry	3,000,000	51%

22 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Leased fixed assets in the operating leases	Construction in progress	Total
Cost						
At January 1, 2018	**4,145,786**	**1,106,166**	**174,972**	**347,120**	**1,855,733**	**7,629,777**
Additions	**1,372,244**	**518,700**	**12,725**	**259,415**	**2,355,930**	**4,519,014**
Transfer from Construction in progress	**1,360,968**	**–**	**–**	**–**	**–**	**1,360,968**
Transfer to Property, plant and equipment	**–**	**–**	**–**	**–**	**(1,360,968)**	**(1,360,968)**
Transfer to long-term prepaid expenses	**–**	**–**	**–**	**–**	**(216,031)**	**(216,031)**
Disposals	**(47,632)**	**(43,867)**	**(21,682)**	**–**	**–**	**(113,181)**
At December 31, 2018	**6,831,366**	**1,580,999**	**166,015**	**606,535**	**2,634,664**	**11,819,579**
Accumulated depreciation						
At January 1, 2018	**(480,636)**	**(441,573)**	**(99,625)**	**(5,240)**	**–**	**(1,027,074)**
Charge for the year	**(175,796)**	**(267,938)**	**(20,597)**	**(16,412)**	**–**	**(480,743)**
Disposals	**5,174**	**20,342**	**19,875**	**–**	**–**	**45,391**
At December 31, 2018	**(651,258)**	**(689,169)**	**(100,347)**	**(21,652)**	**–**	**(1,462,426)**
Net book value						
At December 31, 2018	**6,180,108**	**891,830**	**65,668**	**584,883**	**2,634,664**	**10,357,153**
Cost						
At January 1, 2017	1,618,498	793,570	153,643	–	1,324,523	3,890,234
Additions	1,625,057	331,241	33,607	347,120	1,513,421	3,850,446
Transfer from Construction in progress	941,598	–	–	–	(941,598)	–
Disposals	(39,367)	(18,645)	(12,278)	–	(40,613)	(110,903)
At December 31, 2017	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Accumulated depreciation						
At January 1, 2017	(390,505)	(360,983)	(93,045)	–	–	(844,533)
Charge for the year	(101,969)	(97,829)	(18,206)	(5,240)	–	(223,244)
Disposals	11,838	17,239	11,626	–	–	40,703
At December 31, 2017	(480,636)	(441,573)	(99,625)	(5,240)	–	(1,027,074)
Net book value						
At December 31, 2017	3,665,150	664,593	75,347	341,880	1,855,733	6,602,703

23 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognized are as follows:

	December 31, 2018		December 31, 2017	
	Deferred tax assets/ (liabilities)	**Deductible/ (taxable) temporary difference**	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
ECL allowance and provisions	**7,913,615**	**31,654,460**	N/A	N/A
Impairment allowances for assets	**–**	**–**	5,462,778	21,851,113
Staff salary and welfare payable	**820,399**	**3,281,595**	867,767	3,471,069
Fair value changes of financial instruments at fair value through profit or loss	**–**	**–**	275,262	1,101,046
Fair value changes of financial assets available for sale	**N/A**	**N/A**	517,939	2,071,755
Unrealised losses of derivative instruments	**59,876**	**239,505**	185,944	743,777
Others	**98,121**	**392,482**	57,118	228,472
Subtotal	**8,892,011**	**35,568,042**	7,366,808	29,467,232
Deferred income tax liabilities:				
Unrealised gains of financial instruments at fair value through profit or loss	**(404,569)**	**(1,618,275)**	–	–
Unrealised gains of financial assets at fair value through other comprehensive income	**(167,777)**	**(671,109)**	N/A	N/A
Subtotal	**(572,346)**	**(2,289,384)**	–	–
Net deferred income tax	**8,319,665**	**33,278,658**	7,366,808	29,467,232

The movements for deferred tax assets and liabilities recognized are as follows:

	December 31, 2018	December 31, 2017
Balance at the end of the last year	**7,366,808**	4,601,026
Impact on accounting policy changes	**72,876**	–
Balance at beginning of the year	**7,439,684**	4,601,026
Charged to profit or loss *(Note 13)*	**1,146,876**	2,348,002
Charged to other comprehensive income		
– Fair value changes of financial assets available for sale *(Note 34)*	**N/A**	417,780
– Fair value changes of financial assets at fair value through other comprehensive income *(Note 34)*	**(266,895)**	N/A
At end of the year	**8,319,665**	7,366,808

24 OTHER ASSETS

	December 31, 2018	December 31, 2017
Interest receivable	**225,481**	6,774,673
Intangible assets (i)	**756,527**	753,561
Other receivables	**3,459,190**	2,602,825
Prepayment of land and building and deposit	**1,903,780**	805,882
Prepayment of improvements and equipment	**728,185**	240,538
Long-term prepaid expenses	**870,749**	385,744
Guaranteed deposits	**787,066**	541,125
Funds to be settled	**589,643**	159,267
Finance lease receivables	**16,209,801**	8,415,635
Others	**498,552**	797,101
Total	**26,028,974**	21,476,351

(i) Intangible assets

	Land use rights	**Computer software**	**Total**
Cost			
At January 1, 2018	**633,294**	**372,857**	**1,006,151**
Additions	**–**	**60,376**	**60,376**
Reduction	**–**	**(214)**	**(214)**
At December 31, 2018	**633,294**	**433,019**	**1,066,313**
Accumulated amortization			
At January 1, 2018	**(82,833)**	**(169,757)**	**(252,590)**
Amortization for the year	**(16,269)**	**(40,987)**	**(57,256)**
Reduction	**–**	**60**	**60**
At December 31, 2018	**(99,102)**	**(210,684)**	**(309,786)**
Net book value			
At December 31, 2018	**534,192**	**222,335**	**756,527**

24 OTHER ASSETS *(Continued)*

(i) Intangible assets *(Continued)*

	Land use rights	Computer software	Total
Cost			
At January 1, 2017	528,783	314,597	843,380
Additions	104,511	58,260	162,771
At December 31, 2017	633,294	372,857	1,006,151
Accumulated amortization			
At January 1, 2017	(66,782)	(136,750)	(203,532)
Amortization for the year	(16,051)	(33,007)	(49,058)
At December 31, 2017	(82,833)	(169,757)	(252,590)
Net book value			
At December 31, 2017	550,461	203,100	753,561

The net book value of land use rights is analyzed based on the remaining terms of the leases as follows:

	December 31, 2018	December 31, 2017
Held outside Hong Kong		
– on medium-term lease (10-50 years)	**534,192**	550,461

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2018	December 31, 2017
Deposits from banks and other financial institutions	**169,314,859**	297,421,983
Securities sold under repurchase agreements	**62,178,272**	28,857,000
Placements from banks and other financial institutions	**37,932,384**	29,249,712
Notes sold under repurchase agreements	**8,258,605**	1,276,923
Accrued interest	**2,314,961**	N/A
Total	**279,999,081**	356,805,618

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018	December 31, 2017
Financial liabilities related to precious metal contracts	**9,906,816**	5,466,318
Short sell of borrowed securities	**2,522,202**	149,272
Accrued interest	**54,195**	N/A
Total	**12,483,213**	5,615,590

27 CUSTOMER DEPOSITS

	December 31, 2018	December 31, 2017
Corporate demand deposits	**308,220,456**	290,752,765
Corporate time deposits	**555,965,785**	511,302,211
Individual demand deposits	**40,502,374**	21,166,325
Individual time deposits	**57,161,099**	34,521,564
Other deposits	**2,577,816**	2,876,592
Accrued interest	**10,342,873**	N/A
Total	**974,770,403**	860,619,457
Including: Pledged deposits held as collateral	**135,020,123**	107,738,211

28 PROVISIONS

	January 1, 2018	Provision for this year	Others	December 31, 2018
ECL of credit commitments and financial guarantee	**3,103,790**	(1,559)	15,946	3,118,177

On December 31, 2018, credit commitments and financial guarantees of the Group are mainly in stage 1.

29 DEBT SECURITIES ISSUED

	December 31, 2018	December 31, 2017
Fixed rate financial bonds – 2018 (i)	**–**	1,500,000
Fixed rate financial bonds – 2019 (ii)	**4,500,000**	4,500,000
Fixed rate financial bonds – 2020 (iii)	**5,000,000**	5,000,000
Fixed rate financial bonds – 2021 (iv)	**10,000,000**	10,000,000
Fixed-rate offering-tier 2 capital bond – 2026 (v)	**10,000,000**	10,000,000
Fixed-rate offering-tier 2 capital bond – 2028 (vi)	**15,000,000**	–
Fixed rate financial bonds – 2021 (vii)	**20,000,000**	–
Interbank certificates of deposit	**180,268,577**	159,551,983
Accrued interest	**1,228,186**	NA
Total	**245,996,763**	190,551,983

(i) Fixed-rate financial bond of RMB1.5 billion was issued on September 11, 2013, with a maturity of 5 years and a fixed coupon rate of 5.00% per annum payable annually. The Bank has no option to redeem the bond before maturity.

(ii) Fixed-rate financial bond of RMB4.5 billion was issued on March 10, 2014, with a maturity of 5 years and a fixed coupon rate of 5.70% per annum payable annually. The Bank has no option to redeem the bond before maturity.

(iii) Fixed-rate financial bond of RMB5 billion was issued on December 24, 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.

(iv) Fixed-rate financial bond of RMB10 billion was issued on February 24, 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.

(v) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued on September 14, 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2021.

(vi) Fixed-rate offering-tier 2 capital bond of RMB15 billion was issued on June 13, 2018, with a maturity of 10 years and a fixed coupon rate of 4.80% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2023.

(vii) Fixed-rate financial bond of RMB20 billion was issued on August 27, 2018, with a maturity of 3 years and a fixed coupon rate of 4.39% per annum payable annually. The Bank has no option to redeem the bond before maturity.

As at December 31, 2018, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or interbank certificates of deposit for the Group.

30 OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Interest payable (i)	**N/A**	13,828,010
Salary and welfare payable (ii)	**4,005,720**	4,888,622
Tax payable (iii)	**710,366**	657,755
Dividends payable	**10,000**	869,576
Notes payable	**1,210,427**	1,441,291
Settlement fund	**5,468,191**	1,809,198
Promissory notes and certified cheques issued	**100,147**	350,547
Deferred income	**34,200**	16,903
Others	**3,788,730**	1,420,044
Total	**15,327,781**	25,281,946

(i) Interest payable

	December 31, 2018	December 31, 2017
Customer deposits	**N/A**	11,005,207
Due to banks and other financial institutions	**N/A**	1,896,432
Debt securities issued	**N/A**	926,371
Total	**N/A**	13,828,010

(ii) Salary and welfare payable

	December 31, 2018	December 31, 2017
Salary, bonus, allowance and subsidies	**3,933,705**	4,806,160
Labor union fee and staff education expenses	**72,015**	82,462
Total	**4,005,720**	4,888,622

(iii) Tax payable

	December 31, 2018	December 31, 2017
Value-added tax payable	**577,182**	564,841
Others	**133,184**	92,914
Total	**710,366**	657,755

31 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	December 31, 2018	December 31, 2017
Number of shares authorised, issued and fully paid at par value (in thousands) (i)	**18,718,697**	17,959,697

(i) According to the Bank's proposal of the board of directors on March 10, 2017 and the approval of the general meeting of shareholders on May 31, 2017, the Bank applied for the issuance of no more than 759,000,000 H shares to investors overseas. The application for the Bank's capital increase plan was approved by the China Banking Regulatory Commission (Yin Jian Fu [2018] No. 16 Document). With regard to this capital increase, as at March 29, 2018, the Bank received a total of RMB2,914,545 thousand from the shareholders, including an increase of RMB759,000 thousand in share capital and a capital reserve of RMB2,155,545 thousand.

As at December 31, 2018, the Group's capital reserve is shown as follows:

	December 31, 2018	December 31, 2017
Share premium (ii)	**22,130,353**	19,974,808

(ii) The Bank recognized the share premium after deducting direct issuing costs (including underwriting fees and some other professional agency fees) as capital reserve.

32 OTHER EQUITY INSTRUMENTS

(a) List of preference shares issued

Equity instruments in issue	Issue date	Dividend rate	Original issuance price per share (USD)	Number	Total (USD in thousands)	Total (RMB in thousands)	Maturity date	Conversion condition
Offshore preference shares	March 29, 2017	The initial annual dividend rate is 5.45% and is subsequently subject to reset per agreement	20	108,750,000	2,175,000	14,989,013	No maturity date	No conversion during the period
					Minus: Issuance fee	(31,349)		
					Book value	14,957,664		

(b) Movement of preference shares issued

	December 31, 2017	Addition	Reduction	**December 31, 2018**
Number (share)	108,750,000	–	–	**108,750,000**
Total (USD in thousands)	2,175,000	–	–	**2,175,000**
Total (RMB in thousands)	14,957,664	–	–	**14,957,664**

(c) Main terms of preference shares

(i) Dividend

The offshore preference shares dividend will be calculated on following dividend yields:

1) from and including the issue date to but excluding the first reset date, at the rate of 5.45% per annum; and

2) thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate.

The dividend for offshore preference shares is non-cumulative.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and making statutory general provisions, and the Bank's capital adequacy ratio meets regulatory requirements.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due.

Under the circumstances where the Bank cancels a dividend in whole or in part, in accordance with such shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

(iii) Conversion

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

1) cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and

2) irrevocably and compulsorily convert with effect from the conversion date all or some of the offshore preference shares into such number of H shares as is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD$1.00 to HK$7.7544) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares, and any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

32 OTHER EQUITY INSTRUMENTS *(Continued)*

(c) Main terms of preference shares *(Continued)*

(iii) Conversion (Continued)

The "trigger event" refers to an additional tier one capital instrument trigger event or a non-viability trigger event, as the case may be. The "additional tier one capital instrument trigger event" refers to the occasion where the Bank's core tier one capital adequacy ratio of the Bank has fallen to 5.125% or below. The "non-viability trigger event" is defined as the earlier of: the CBIRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

(iv) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (a) junior to holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (b) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (c) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be pari passu with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

(v) Redemption

The Bank may, subject to obtaining the CBIRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

(d) Information related to the holders of the equity instrument

	December 31, 2018	December 31, 2017
Attributable to shareholders of the Bank	**100,885,498**	88,194,636
Equity attribute to ordinary shareholders of the Bank	**85,927,834**	73,236,972
Equity attribute to other equity holders of the Bank	**14,957,664**	14,957,664
Attributable to non-controlling interest	**1,563,039**	1,493,118

33 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2018	**4,882,975**	**17,243,730**
Appropriation to the statutory surplus reserve	**1,141,764**	**–**
Appropriation to the statutory general reserve	**–**	**1,218,261**
Balance at December 31, 2018	**6,024,739**	**18,461,991**
Balance at January 1, 2017	3,790,406	13,242,456
Appropriation to the statutory surplus reserve	1,092,569	–
Appropriation to the statutory general reserve	–	4,001,274
Balance at December 31, 2017	4,882,975	17,243,730

(i) Surplus reserve

Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.

(ii) Statutory general reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions"(the "Requirement"), effective on July 1, 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve is treated as profit distribution and is an integral part of shareholders' equity, which should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

34 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at December 31, 2017	**(2,071,756)**	**517,939**	**(1,553,817)**
Impact on accounting policy changes	**1,675,287**	**(418,822)**	**1,256,465**
Balance at January 1, 2018	**(396,469)**	**99,117**	**(297,352)**
Fair value changes in financial assets at fair value through other comprehensive income *(Note 23)*	**776,381**	**(194,095)**	**582,286**
Amounts previously recognized in other comprehensive income reclassified to profit or loss *(Note 23)*	**(229,989)**	**57,498**	**(172,491)**
ECL of financial assets at fair value through other comprehensive income *(Note 23)*	**521,187**	**(130,298)**	**390,889**
Exchange difference on translation of foreign financial statements	**886,023**	**–**	**886,023**
Balance at December 31, 2018	**1,557,133**	**(167,778)**	**1,389,355**

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2017	(400,637)	100,159	(300,478)
Fair value changes in available-for-sale *(Note 23)*	(1,520,518)	380,130	(1,140,388)
Amounts previously recognized in other comprehensive income reclassified to profit or loss *(Note 23)*	(150,601)	37,650	(112,951)
Balance at December 31, 2017	(2,071,756)	517,939	(1,553,817)

35 DIVIDENDS

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

(a) As approved by shareholders in the Annual General Meeting on June 27, 2018, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,182,178 thousand.

As approved by shareholders in the Annual General Meeting on May 31, 2017, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,053,148 thousand.

(b) On December 20, 2017, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends paid was USD132 million (including tax), and the dividend payment date would be March 29, 2018.

On March 18, 2019, the Board of Directors of the Bank proposed to appropriate RMB992,253 thousand to the statutory general reserve for 2018. The Board of Directors of the Bank also proposed not to appropriate dividend for 2018. The proposal will be subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Bank.

On March 18, 2019, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends will be paid is USD132 million (including tax).

36 NON-CONTROLLING INTEREST

The Group's non-controlling interest is listed as follows：

	December 31, 2018	December 31, 2017
Zheyin Financial Leasing Co., Ltd.	**1,563,039**	1,493,118

As at December 31, 2018, the non-controlling interest of the Group is not material.

37 THE EQUITY IN OTHER ENTITIES

37.1 Unconsolidated structured entities

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities issued and managed by the Group are wealth management products issued and managed by the Group as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Group receives commission income as the manager of these wealth management products.

The wealth management products sponsored and managed by the Group were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Group set admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc.

As of December 31, 2018, the balance of unconsolidated wealth management products sponsored and managed by the Group is RMB340,317 million (December 31, 2017: RMB348,919 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which is insignificant. As of December 31, 2018 the Group's intermediate business income from providing management services for the non-principal guaranteed wealth management products was RMB1,390 million (December 31, 2017: RMB4,570 million).

During the years ended December 31, 2018 and 2017, the Group did not provide financial or other support to these structured entities. The Group did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entity in obtaining financial support.

37 THE EQUITY IN OTHER ENTITIES *(Continued)*

37.1 Unconsolidated structured entities *(Continued)*

(b) Unconsolidated structured entities invested by the Group

As at December 31, 2018 the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

During the year ended December 31, 2018, the Group did not provide financial or other support to these structured entities.

The table below sets out the carrying value and the Group's maximum exposure (including accrued interest) to these unconsolidated structured entities.

	Carrying value	**Maximum exposure to loss**
At December 31, 2018		
Financial assets at fair value through profit or loss		
– Fund investments	**82,342,692**	**82,342,692**
– Asset backed securitization	**1,070,977**	**1,070,977**
– Trust plans and asset management plans	**2,078,695**	**2,078,695**
– Wealth management products sponsored by other banks	**2,010,739**	**2,069,689**
Financial assets at fair value through other comprehensive income		
– Asset backed securitization	**102,880**	**102,880**
Financial assets at amortized cost		
– Asset backed securitization	**31,429**	**31,429**
– Wealth management products sponsored by other banks	**1,041,819**	**1,079,080**
– Trust plans and asset management plans	**206,198,925**	**207,361,833**
At December 31, 2017		
Financial assets at fair value through profit or loss		
– Asset backed securitization	1,903,556	1,903,556
Available for sale financial assets		
– Asset backed securitization	85,941	85,941
– Fund investments	57,018,238	57,018,238
– Trust and asset management plans	9,744,948	9,744,948
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	2,873,649	2,873,649
– Trust plans and asset management plans sponsored by other financial institutions	343,917,605	345,580,932

38 CREDIT COMMITMENTS AND FINANCIAL GUARANTEE, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments and financial guarantee

	December 31, 2018	December 31, 2017
Acceptances	**235,898,843**	214,386,017
Letters of credit issued	**108,843,659**	108,503,258
Letters of guarantee issued	**28,335,149**	40,837,128
– Letters of financial guarantee	**18,950,459**	31,003,722
– Letters of non-financial guarantee	**9,381,471**	8,915,617
– Letters of guarantee	**3,219**	917,789
Corporate loan commitments	**690,932**	717,025
Unused credit card limit	**17,648,356**	22,822,115
Total	**391,416,939**	387,265,543

(b) Capital commitments

	December 31, 2018	December 31, 2017
Authorised but not contracted	**5,673,455**	3,901,619
Contracted but not yet incurred	**1,996,036**	857,708
Total	**7,669,491**	4,759,327

(c) Operating leasing commitments

The future minimum lease payments under irrevocable rental contract are listed as follows:

	December 31, 2018	December 31, 2017
Within one year	**700,568**	632,555
Between one year and five years	**3,284,908**	1,986,283
More than five years	**1,515,887**	1,350,040
Total	**5,501,363**	3,968,878

(d) Legal proceedings

As at December 31, 2018 and December 31, 2017, the management of the Group believes the legal proceedings initiated against the Group does not have material impact on the Group's financial position or operations.

39 ASSETS PLEDGED

	December 31, 2018	December 31, 2017
Bonds	**70,481,872**	69,650,442
Bills	**8,305,166**	1,284,291
Corporate loans	**66,370,000**	–
Total	**145,157,038**	70,934,733

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, securities lending and medium-term lending facility.

40 CREDIT RISK-WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	December 31, 2018	December 31, 2017
Financial guarantees and credit related commitments	**99,307,827**	101,312,102

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100% for contingent liabilities and credit related commitments.

41 CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	December 31, 2018	December 31, 2017
Cash	**519,035**	462,404
Surplus deposit reserve with central bank	**20,480,043**	34,390,270
Due from banks and other financial institutions	**16,639,735**	23,737,068
Total	**37,638,813**	58,589,742

42 RELATED PARTY TRANSACTIONS

Related party transactions are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties. Transactions with related party are as follows:

(a) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group

	Shareholding Ratio (%)	
Name of Shareholders	**December 31, 2018**	December 31, 2017
Zhejiang Provincial Financial Holdings Co., Ltd.	**14.19**	14.79

(1) Balance and relevant interest rate spectrum of transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group are as follows:

	December 31, 2018	December 31, 2017
Customer deposits	**6,567,161**	4,433,738
Provide guarantees or pledges for loans of giving-credit customers	**5,489,062**	4,834,832
Financial assets measured at amortized cost	**4,246,750**	N/A
Financial assets at fair value through profit or loss	**1,868,938**	N/A
Debt instruments classified as receivables	**N/A**	3,500,000
Rate of customer deposits	**0.35%-4.12%**	0%-0.35%

(2) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group during the year are as follows:

	Year ended December 31,	
	2018	2017
Interest expense	**(249,368)**	(106,260)
Net fee and commission income	**9,768**	–

42 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other main shareholders and their related parties

Other major shareholders refer to those shareholders who hold or control more than 5% of the Group's shares or voting rights and corporations that has sent directors, supervisors or senior management to the Group (excluding Zhejiang Provincial Financial Holdings).

(i) Balance and relevant interest rate spectrum of transactions with other main shareholders and their related parties are as follows:

	December 31, 2018	December 31, 2017
Customer deposits	**730,186**	1,681,810
Loans and advances to customers	**811,650**	1,825,220
Acceptances	**2,114**	116,107
Domestic letter of credit	**1,521,000**	188,000
Letters of guarantee	**–**	301
Provide guarantees or pledges for loans of giving-credit customers	**4,110,947**	4,572,840
Financial assets at fair value through profit or loss	**3,588,728**	N/A
Debt instruments classified as receivables	**N/A**	7,216,603
Rate of loans and advances to customers	**3.00%-7.50%**	4.25%-6.60%
Rate of customer deposits	**0.35%-5.10%**	0%-1.95%

(ii) Transactions with other main shareholders and their related parties during the year are as follows:

	Year ended December 31,	
	2018	2017
Interest income	**88,051**	92,702
Interest expense	**(32,638)**	(120,204)
Net fee and commission income	**5,806**	19,002

42 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with other corporations as related parties

Other corporations as related parties refer to those shareholders who hold or control less than 5% of the Group's shares or voting rights.

(i) Balance and relevant interest rate spectrum of transactions with other artificial persons as related parties are as follows:

	December 31, 2018	December 31, 2017
Customer deposits	**3,098,625**	571,627
Loans and advances to customers	**458,100**	290,000
Acceptances	**13,930**	421,839
Domestic letter of credit	**231,700**	45,500
Letters of guarantee	**33**	–
Provide guarantees or pledges for loans of giving-credit customers	**4,716,359**	1,164,900
Financial assets measured at amortized cost	**3,954,522**	N/A
Financial assets at fair value through profit or loss	**347,654**	N/A
Financial assets at fair value through other comprehensive income	**1,098,663**	N/A
Available-for-sale financial assets	**N/A**	955,244
Debt instruments classified as receivables	**N/A**	4,870,000
Rate of loans and advances to customers	**3.00%-6.50%**	4.07%-6.53%
Rate of customer deposits	**0.35%-2.35%**	0%-1.95%

(ii) Transactions with other artificial persons as related parties during the year are as follows:

	Year ended December 31,	
	2018	2017
Interest income	**34,531**	10,987
Interest expense	**(42,224)**	(9,030)
Net fee and commission income	**1,458**	316

(d) The amounts and relevant interest rate spectrum of transactions with the Group's directors, supervisors and senior management and their family members are as follows:

	December 31, 2018	December 31, 2017
Customer deposits	**4,650**	7,647
Loans and advances to customers	**6,199**	900
Provide guarantees or pledges for loans of giving-credit customers	**4,163**	1,047,000
Rate of loans and advances to customers	**3.43%-8.96%**	4.95%-6.81%
Rate of customer deposits	**0.05%-3.25%**	0.05%-5.00%

	Year ended December 31,	
	2018	2017
Interest income	**245**	–
Interest expense	**(29)**	(74)
Net fee and commission income	**1**	1

In addition, Yongli Properties Group Limited, which is under control of the Group's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for Shaoxing Branch of the Group: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rent is RMB3,000 thousand for the first two years; for the third to the fifth year, the rent rises by 5% on the basis of the second year rental. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rent of RMB650 thousand.

(e) Government related entities

The transactions between the Group and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

(f) Transactions between the Bank and the subsidiary

Transactions between the Bank and the subsidiary are based on market prices with the normal business procedure or are performed according to the Bank's contractual obligations, and are reviewed by the corresponding decision-making body depending on the types of transactions and the contents of transactions. During the reporting period, transactions between the Bank and the subsidiary were not significant.

(g) Key management personnel remuneration

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business. For the year ended December 31, 2018 and the year ended December 31, 2017, the Group had no material banking transactions with key management personnel.

42 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Key management personnel remuneration *(Continued)*

The remuneration of directors and other members of key management during the period were as follows:

	Year ended December 31, 2018	2017
Fees	**1,900**	1,800
Salaries and allowances and benefits	**19,358**	11,579
Discretionary bonuses	**28,069**	28,899
Contribution to pension	**3,103**	2,125
Total	**52,430**	44,403

43 SEGMENT REPORTING

(a) Business segments

The Group manages its operations from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc.

- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.

- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.

- Others – Others comprise components of the Group that are not attributable to any of the above segments and the relevant business of subsidiaries.

(a) Business segments *(Continued)*

	Year ended December 31, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	36,236,227	9,883,588	25,174,799	956,983	72,251,597
External interest expense	(22,425,122)	(3,226,230)	(19,745,217)	(469,480)	(45,866,049)
Inter-segment net interest income/(expenses)	8,399,724	(2,209,004)	(6,190,720)	–	–
Net interest income	22,210,829	4,448,354	(761,138)	487,503	26,385,548
Net fee and commission income	2,131,907	599,962	1,443,486	76,568	4,251,923
Net trading gains	–	–	7,250,414	3,726	7,254,140
Net gains on financial investments	65,095	–	543,718	–	608,813
Other operating income	10,444	29,202	197,533	284,873	522,052
Operating income	24,418,275	5,077,518	8,674,013	852,670	39,022,476
Operating expenses	(6,922,843)	(2,173,487)	(2,855,917)	(190,173)	(12,142,420)
– Depreciation and amortization	(348,038)	(74,894)	(215,573)	(20,156)	(658,661)
Impairment losses on assets	(7,364,986)	(2,137,237)	(3,192,900)	(334,432)	(13,029,555)
Profit before income tax	10,130,446	766,794	2,625,196	328,065	13,850,501
Capital expenditure	2,954,253	636,488	1,291,312	86,973	4,969,026

	December 31, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	974,069,145	209,861,417	425,768,389	28,676,128	1,638,375,079
Unallocated assets					8,319,665
Total assets					1,646,694,744
Segment liabilities	(884,840,540)	(99,390,810)	(550,604,487)	(9,410,370)	(1,544,246,207)

43 SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

	Year ended December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	28,325,868	6,653,390	27,342,373	260,657	62,582,288
External interest expense	(17,669,143)	(1,595,037)	(18,862,936)	(64,066)	(38,191,182)
Inter-segment net interest income/ (expenses)	6,767,620	(1,595,211)	(5,172,409)	–	–
Net interest income	17,424,345	3,463,142	3,307,028	196,591	24,391,106
Net fee and commission income	1,706,189	282,735	5,951,857	72,624	8,013,405
Net trading gains	–	–	456,020	–	456,020
Net gains on financial investments	704,099	–	201,291	–	905,390
Other operating income	5,514	31,469	291,821	169,424	498,228
Operating income	19,840,147	3,777,346	10,208,017	438,639	34,264,149
Operating expenses	(6,526,867)	(1,512,978)	(2,973,179)	(170,136)	(11,183,160)
– Depreciation and amortization	(193,427)	(30,273)	(130,947)	(9,022)	(363,669)
Impairment losses on assets	(4,161,815)	(1,276,247)	(3,825,325)	(110,844)	(9,374,231)
Profit before income tax	9,151,465	988,121	3,409,513	157,659	13,706,758
Capital expenditure	1,811,510	380,869	1,888,236	36,879	4,117,494

	December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	672,859,892	141,468,403	701,358,729	13,698,270	1,529,385,294
Unallocated assets					7,366,808
Total assets					1,536,752,102
Segment liabilities	(822,175,754)	(57,219,921)	(563,465,589)	(4,203,084)	(1,447,064,348)

43 SEGMENT REPORTING *(Continued)*

(b) Geographical segments

Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

- "Yangtze River Delta Region" refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan, Hefei;

- "Bohai Rim Region" refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;

- "Pearl River Delta Region" refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hongkong; and

- "Midwestern China" refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Xi'an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha.

	Year ended December 31, 2018					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	Total
External interest income	43,644,492	11,415,724	5,429,661	11,761,720	–	72,251,597
External interest expense	(32,126,106)	(5,638,917)	(3,038,344)	(5,062,682)	–	(45,866,049)
Inter-segment net interest income/ (expenses)	1,564,530	(309,528)	(220,642)	(1,034,360)	–	–
Net interest income	13,082,916	5,467,279	2,170,675	5,664,678	–	26,385,548
Net fee and commission income	2,151,446	866,059	487,910	746,508	–	4,251,923
Net trading gains	5,432,424	489,774	985,525	346,417	–	7,254,140
Net gains on financial investments	314,391	174,110	48,589	71,723	–	608,813
Other operating income	320,104	34,522	13,809	153,617	–	522,052
Operating income	21,301,281	7,031,744	3,706,508	6,982,943	–	39,022,476
Operating expenses	(7,350,336)	(1,680,660)	(1,089,358)	(2,022,066)	–	(12,142,420)
– Depreciation and amortization	(501,438)	(50,574)	(16,706)	(89,943)	–	(658,661)
Expected credit loss	(6,685,502)	(3,109,925)	(1,468,653)	(1,765,475)	–	(13,029,555)
Profit before income tax	7,265,443	2,241,159	1,148,497	3,195,402	–	13,850,501
Capital expenditure	1,753,223	2,295,890	100,169	819,744	–	4,969,026
Segment assets	1,718,680,404	286,637,355	142,358,064	282,867,848	(792,168,592)	1,638,375,079
Unallocated assets						8,319,665
Total assets						1,646,694,744
Segment liabilities	(1,624,144,713)	(287,877,156)	(142,659,582)	(281,733,348)	792,168,592	(1,544,246,207)

43 SEGMENT REPORTING *(Continued)*

(b) Geographical segments *(Continued)*

	Year ended December 31, 2017					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	Total
External interest income	39,099,647	10,015,977	4,000,843	9,465,821	–	62,582,288
External interest expense	(25,682,320)	(5,093,321)	(2,613,543)	(4,801,998)	–	(38,191,182)
Inter-segment net interest income/ (expenses)	1,178,750	(786,704)	(125,636)	(266,410)	–	–
Net interest income	14,596,077	4,135,952	1,261,664	4,397,413	–	24,391,106
Net fee and commission income	5,640,471	851,221	671,695	850,018	–	8,013,405
Net trading (losses)/gains	(260,830)	145,328	441,420	130,102	–	456,020
Net gains on financial investments	553,525	(52,131)	3,480	400,516	–	905,390
Other operating income	180,226	46,720	11,951	259,331	–	498,228
Operating income	20,709,469	5,127,090	2,390,210	6,037,380	–	34,264,149
Operating expenses	(7,121,969)	(1,702,583)	(712,894)	(1,645,714)	–	(11,183,160)
– Depreciation and amortization	(273,020)	(33,686)	(6,653)	(50,310)	–	(363,669)
Impairment losses on assets	(6,166,293)	(1,580,381)	(550,384)	(1,077,173)	–	(9,374,231)
Profit before income tax	7,421,207	1,844,126	1,126,932	3,314,493	–	13,706,758
Capital expenditure	3,497,231	197,235	45,421	377,607	–	4,117,494
Segment assets	1,813,573,789	245,003,378	100,166,682	257,500,169	(886,858,724)	1,529,385,294
Unallocated assets						7,366,808
Total assets						1,536,752,102
Segment liabilities	(1,735,321,133)	(243,909,753)	(99,556,294)	(255,135,892)	886,858,724	(1,447,064,348)

44 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is responsible for establishing the overall risk appetite of the Group, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Group is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

44.1 Credit risk

44.1.1 Credit risk measurement

The Group is exposed to credit risk, which is the risk that counterparty will be unable to or unwilling to meet its obligations under a contract. Credit risk increases when the counterparties are within similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt instruments, and due from banks and other financial institutions. There is also credit risk arising from off-balance sheet credit exposure such as loan commitments. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department of head office and reported to management regularly.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit review and approval, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures from loan assets, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate credit limits and by timely reviewing and adjusting those limit in credit system. In addition, the Group also provides off-balance sheet commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures as those of loans and advances.

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.1 Credit risk *(Continued)*

44.1.2 Impairment assessment

(a) Loans and advances to customers, loan commitments and financial guarantees

Based on changes in external business environment, internal business conditions and risks, the Group formulated basic policies for credit business, and defined the policy orientation of the customer structure, industry structure, regional structure and key business areas of the Group's credit business. In addition, the Group regularly adjusted the credit policy on the basis of continuous tracking of macro and industry economic development trends.

The Group continued to strengthen the credit system, revised the unified credit management system for corporate customers, strengthened the overall management and unified control of the total credits of corporate customers, and improved the standard and standardized credit approval process, authorization system and risk responsibility mechanism, and timely adjust the credit policy and take effective measures to prevent credit risks.

The Group has established a credit risk limit framework system, formulated credit risk limit management plans and methods, and defined management mechanisms such as setting, adjusting, monitoring and processing quota indicators to effectively transmit risk preferences.

When the Group has performed all necessary procedures and still believes that it is not expected to recover the whole or part of the financial assets, it will be written off. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the recovery method of the Group is to confiscate and dispose of the collateral, but it is still expected that the value of the collateral cannot cover the entire principal and interest.

(b) Bonds

The Group managed investment in bonds and other instruments based on the internal credit rating and credit rating of external rating agencies. Except financial instruments that have direct credit rating such as government debt, central bank bills, policy bank financial bonds and those have interbank credit rating such as commercial bank financial bonds, the acquisition requirements of other bond are: domestic credit rating mainly AA grade and above, and overseas credit rating reaches BB- (S&P and Fitch) or Ba3 (Moody); if the above acquisition requirements are not met, it was required to utilize group credit line to invest in. At the same time, the Group continued to pay attention to the credit rating, business development and changes in the industry of the issuers, and also continuously evaluated and managed the credit risk.

(c) Financial assets measured at amortized cost (except bonds)

Financial assets measured at amortized cost include interbank wealth management products and trust plans. The Group implemented a rating system for cooperating with trust companies and securities companies, and set credit lines for the trust underlying parties, inter-bank wealth management product issuers, and the ultimate financing party of the targeted asset management plans, and conducted risk management review on a regular basis.

(d) Due from banks and other financial institutions

The Group conducted regular review and management of the credit risk of individual financial institutions. The Group also set credit lines for individual banks or other financial institutions that have financial transactions with the Group.

44.1 Credit risk *(Continued)*

44.1.3 Risk limit control and mitigation policies

The Group carefully managed and controlled credit risk, including single borrowers, groups, industries and regions. The Group has established mechanisms to develop credit risk limit that a single borrower can bear. These risks are continuously monitored and conducted at least once a year or more frequently for credit risk audits when it was necessary.

(a) Collateral and pledge

The Group has formulated a series of policies and adopted various measures to mitigate credit risks. The acquisition of collateral and pledge deposits and obtaining company or individual guarantees is one of the important means for the Group to control credit risk.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties
- Business assets such as premises, inventory and accounts receivable
- Financial instruments such as debt securities and stocks

The fair value of collaterals and pledges should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral and pledge	**Maximum loan-to-value ratio**
Time deposits	90%
PRC treasury bonds	90%
Financial institution bonds	80%
Residential property, commercial property, industrial plants and land use rights	70%
Vehicles	60%
General equipment	50%
Special equipment	30%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations by the guarantor.

(b) Derivative financial assets

The Group imposed strict restrictions on the trading of derivative financial instruments. The Group controlled the credit risks associated with derivative financial instruments by collecting margins or credits from counterparties.

44.1 Credit risk *(Continued)*

44.1.3 Risk limit control and mitigation policies (Continued)

(c) Credit commitments

The main purpose of the credit commitment is to ensure that customers can receive the funds they need. The letter of guarantee and the letter of credit is an irrevocable undertaking of the Group, that is, the Group will perform its payment obligations on behalf of its customers when they are unable to perform their payment obligations to third parties, and the Group bears the same credit risk as the loan. In the event that the credit commitments amount requested by the customer exceeds its original credit limit, the Group will collect deposit to reduce the credit risk of providing the service.

44.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Group divided the financial instruments into three stages. Stage 1 includes performing financial instruments that are "not credit-impaired on initial recognition". 12-month expected credit losses ("ECL") are recognized and calculated for those financial instruments in stage 1. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition and stage 3 includes credit-impaired financial assets. ECL for the entire life cycle are recognized for those financial instruments in stage 2 and stage 3. The Group developed the impairment model according to the new standard to calculate ECL. The top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as GDP. The working mechanism of VAR model and expert adjustment is used to forecast three economic scenario, optimistic, neutral and pessimistic, and the impairment model is used to calculate credit losses under multiple scenarios.

3 stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, those are "not credit-impaired on initial recognition" will be classified in stage 1 and calculate the 12-month ECL. If "a significant increase in credit risk" is identified, the financial instrument will be moved to stage 2 and calculate ECL for the entire life cycle. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increase, they will be transferred to stage 2, and ECL for the entire life cycle are recognized. The credit-impaired financial instrument will be moved to stage 3. The detailed classification criteria has been set up, and take into consideration probability of default, overdue days, credit rating, etc.

The specific criteria for the stage classification are as follows:

44.1.4 Measurement of expected credit losses *(Continued)*

Financial assets with significant increase in credit risk:

The Group assesses at each financial reporting date whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. The Group fully considers all reasonable and evidenced information, including forward-looking information, that reflects significant changes in its credit risk. The main considerations are regulatory and operating environment, internal and external credit rating, solvency, operating capacity, loan contract terms, and repayment behavior. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Group determines the risk of default of financial instruments on the financial reporting date and the risk of default on the initial recognition date to determine changes in the risk of default in the expected duration of financial instruments.

The Group determines whether the credit risk of financial instruments has changed significantly since the initial confirmation by setting quantitative and qualitative criteria. The judgment criteria mainly include overdue days exceeding 30 days, changes in default probability, changes in credit risk classification and others indicate a significant change in credit risk.

Definition of credit impairment incurred:

In determining whether credit losses have occurred, the defined criteria adopted by the Group are consistent with the internal credit risk management goal for relevant financial instruments, taking into account both quantitative and qualitative indicators. When the Group assesses whether credit loss occurred on a debtor, the following factors are mainly considered:

- The principal or interest of the contract is overdue for more than 90 days.
- For economic or contractual reasons related to the financial difficulties of the borrower, the borrower's lender gives the borrower a reluctance to make concessions.
- Borrower has significant financial difficulties.
- The borrower is likely to go bankrupt or other financial restructuring.
- The active market for financial assets disappears.

The ECL of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

The above standards apply to all financial instruments of the Group; the definition of credit impairment incurred is consistently applied to the calculation of expected credit losses of the Group, including default probability (PD), exposure at default (EAD) and loss given default (LGD) modeling.

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.1 Credit risk *(Continued)*

44.1.4 Measurement of expected credit losses *(Continued)*

Measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques:

Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the loss provision for different assets by expected credit losses for 12 months or entire life of the asset. Expected credit loss allowance is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after discount. Related definitions are as follows:

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Group builds the migration matrix to calculate the 12-month probability of default, and derives the default probability of the entire duration from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty, the way of recourse and priority and the availability of collateral or other credit support. The LGD of different product types is also different.

Exposure at default (EAD) refers to the amount that the Group should pay when the default occurs in the next 12 months or throughout the remaining life. The Group's exposure at default is determined by the expected repayment arrangements, and different types of products will vary. For installments and one-time repayments, the Group determines the exposure at default according to the repayment plan stipulated in the contract.

The Group determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Group multiplies the three items which can effectively calculate the expected credit losses for future periods, and then discount the results of each period to the report date and add up. The discount rate used in the calculation of expected credit loss is the real interest rate or its approximate value.

Forward-looking information and management overlay included in the credit impairment model

The Group has established macro-economic forecast model, along with adjustments from external economy experts. The Group conduct forecasts regularly to establish three economic scenario, optimistic, neutral and pessimistic to ensure coverage of non-linear features for the main expected credit loss model Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than neutral scenario respectively. It can also be used as one of the sources of sensitivity testing.

The impairment model is established through a top down approach. The Group has developed several entity and retail impairment models, including regression models for different macro-economic indicators such as GDP, PPI, fixed asset investment, etc. The Group uses forecasting results of macro-indicators to achieve "forward-looking" calculation of provision.

The management of the Group has considered external economic situation that have not been reflected by the model and increased the provision to enhance the risk compensation capability.

44.1 Credit risk *(Continued)*

44.1.4 Measurement of expected credit losses *(Continued)*

Sensitivity testing

The comparison of the impairment provision of financial assets in the neutral scenario and provision of the weighted average of the three scenarios on December 31, 2018 is listed follows:

	December 31, 2018
Provision considering the three scenarios weighted average	**39,801,495**
Provision using the neutral scenario	**35,625,354**
Difference amount	**4,176,141**
Difference ratio	**10.49%**

On December 31, 2018, the impact of changes in macroeconomic indicators on impairment provision are as follows:

		December 31, 2018
GDP	Increased by 1%	**(160,118)**
	Unchanged	**–**
	Decrease by 1%	**161,250**

The following table shows assumed significant changes in the credit risk, resulting in all of the financial assets in stage 2 move into stage 1, the change of ECL allowance recognized in the balance sheet that will become:

	December 31, 2018
Assume that all of the financial assets in stage 2 enter stage 1, ECL allowance amount	**36,492,196**
Total amount of ECL allowance recognized in the balance sheet	**39,801,495**
Difference amount	**(3,309,299)**
Difference ratio	**-8.31%**

44.1 Credit risk *(Continued)*

44.1.4 Measurement of expected credit losses *(Continued)*

The movements in book value of loans and advances to customers

	Book value			
Corporate loans and advances	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Book value as at January 1, 2018	**522,103,765**	**9,238,918**	**7,603,594**	**538,946,277**
Transfers				
Transfer from Stage 1 to Stage 2	**(5,107,206)**	**5,107,206**	**–**	**–**
Transfer from Stage 2 to Stage 1	**122,646**	**(122,646)**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(1,936,938)**	**–**	**1,936,938**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(3,113,978)**	**3,113,978**	**–**
Financial assets terminated this year (except write-offs)	**(22,033,824)**	**(1,106,447)**	**(1,630,320)**	**(24,770,591)**
New financial assets	**144,049,530**	**2,932,838**	**8,800**	**146,991,168**
Write-offs	**–**	**–**	**(1,681,840)**	**(1,681,840)**
Change in fair value	**146,823**	**–**	**83**	**146,906**
Others changes	**1,468,623**	**916**	**10,918**	**1,480,457**
Subtotal	**638,813,419**	**12,936,807**	**9,362,151**	**661,112,377**
Change of accrued interest	**2,037,841**	**41,278**	**–**	**2,079,119**
Book value as at December 31, 2018	**640,851,260**	**12,978,085**	**9,362,151**	**663,191,496**

	Book value			
Personal loans and advances	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL allowance as at January 1, 2018	**132,339,669**	**713,891**	**879,097**	**133,932,657**
Transfers				
Transfer from Stage 1 to Stage 2	**(446,533)**	**446,533**	**–**	**–**
Transfer from Stage 2 to Stage 1	**19,499**	**(19,499)**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(725,171)**	**–**	**725,171**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(159,616)**	**159,616**	**–**
Financial assets terminated this year (except write-offs)	**(50,896,604)**	**(374,307)**	**(368,688)**	**(51,639,599)**
New financial assets	**118,764,612**	**415,780**	**189,097**	**119,369,489**
Write-offs	**–**	**–**	**(254,918)**	**(254,918)**
Subtotal	**199,055,472**	**1,022,782**	**1,329,375**	**201,407,629**
Change of accrued interest	**630,305**	**3,239**	**–**	**633,544**
ECL allowances at December 31, 2018	**199,685,777**	**1,026,021**	**1,329,375**	**202,041,173**

44.1 Credit risk *(Continued)*

44.1.4 Measurement of expected credit losses (Continued)

Movements in ECL allowance on loans and advances to customers

	Expected credit loss allowance			
Corporate loans and advances	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL allowance as at January 1, 2018	**11,434,519**	**1,934,148**	**5,382,531**	**18,751,198**
New financial assets	**3,481,544**	**938,892**	**7,221**	**4,427,657**
Change in parameters	**(555,283)**	**(65,961)**	**855,937**	**234,693**
Termination (except write-offs and transfer out)	**(306,452)**	**(268,211)**	**(803,317)**	**(1,377,980)**
Transfers				
Transfer from Stage 1 to Stage 2	**(95,219)**	**1,533,163**	**–**	**1,437,944**
Transfer from Stage 2 to Stage 1	**4,811**	**(41,132)**	**–**	**(36,321)**
Transfer from Stage 1 to Stage 3	**(41,486)**	**–**	**1,242,332**	**1,200,846**
Transfer from Stage 2 to Stage 3	**–**	**(820,085)**	**2,335,483**	**1,515,398**
Subtotal	**2,487,915**	**1,276,666**	**3,637,656**	**7,402,237**
Write-offs *(Note)*	**–**	**–**	**(1,681,840)**	**(1,681,840)**
Transfer out	**–**	**–**	**(679,207)**	**(679,207)**
Other changes	**12,191**	**207**	**113,028**	**125,426**
ECL allowance as at December 31, 2018	**13,934,625**	**3,211,021**	**6,772,168**	**23,917,814**

	Expected credit loss allowance			
Personal loans and advances	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL allowance as at January 1, 2018	**1,638,110**	**82,464**	**567,702**	**2,288,276**
New financial assets	**1,698,137**	**71,023**	**104,354**	**1,873,514**
Change in parameters	**534,056**	**5,345**	**49,340**	**588,741**
Termination (except write-offs)	**(541,620)**	**(38,527)**	**(254,492)**	**(834,639)**
Transfers				
Transfer from Stage 1 to Stage 2	**(7,565)**	**90,260**	**–**	**82,695**
Transfer from Stage 2 to Stage 1	**238**	**(3,587)**	**–**	**(3,349)**
Transfer from Stage 1 to Stage 3	**(15,108)**	**–**	**384,310**	**369,202**
Transfer from Stage 2 to Stage 3	**–**	**(36,140)**	**97,213**	**61,073**
Subtotal	**1,668,138**	**88,374**	**380,725**	**2,137,237**
Write-offs *(Note)*	**–**	**–**	**(254,918)**	**(254,918)**
Other changes	**–**	**–**	**68,370**	**68,370**
ECL allowance as at December 31, 2018	**3,306,248**	**170,838**	**761,879**	**4,238,965**

Note: On December 31, 2018, the outstanding contractual amount corresponding to assets written off by the Group was RMB1,936,758 thousand and the Group still tried to recover the legally entitled claims in full.

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.1 Credit risk *(Continued)*

44.1.4 Measurement of expected credit losses (Continued)

The movements of financial assets measured at amortized cost in book value are summarized as follows:

	Expected credit loss allowance Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Book value as at January 1, 2018	458,709,142	1,316,588	798,592	460,824,322
Transfers				
Transfer from Stage 1 to Stage 2	(2,231,270)	2,231,270	–	–
Transfer from Stage 1 to Stage 3	(909,750)	–	909,750	–
Transfer from Stage 2 to Stage 3	–	(840,485)	840,485	–
Financial assets terminated this year	(218,440,927)	–	–	(218,440,927)
New financial assets	94,393,958	2,594,434	2,000,703	98,989,095
Subtotal	331,521,153	5,301,807	4,549,530	341,372,490
Change of accrued interest	3,881,899	73,339	–	3,955,238
Book value as at December 31, 2018	335,403,052	5,375,146	4,549,530	345,327,728

Movements in ECL allowance of financial assets measured at amortized cost are summarized as follows:

	Expected credit loss allowance Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance as at January 1, 2018	4,285,706	155,474	349,292	4,790,472
Provision for impairment	564,876	846,869	1,338,182	2,749,927
Update on the model parameters	(529,551)	30,467	445,598	(53,486)
Termination (except write-offs)	(1,872,003)	–	–	(1,872,003)
Transfers				
Transfer from Stage 1 to Stage 2	(30,563)	632,304	–	601,741
Transfer from Stage 1 to Stage 3	(18,645)	–	696,401	677,756
Transfer from Stage 2 to Stage 3	–	(154,574)	751,485	596,911
Subtotal *(Note 12)*	(1,885,886)	1,355,066	3,231,666	2,700,846
ECL allowance as at December 31, 2018	2,399,820	1,510,540	3,580,958	7,491,318

44.1 Credit risk *(Continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements

According to the characteristics of risk level, the Group classifies the risk level of financial assets included in the measurement of expected credit losses into "Risk level 1", "Risk level 2", "Risk level 3" and "default". "Risk level 1" means that the asset credit quality is good, there is sufficient evidence to show that the asset is not expected to default; "Risk level 2" means that the asset quality is relatively good, there is no reason or there is no sufficient reason to suspect that the asset is expected to default; "Risk level 3" refers to the unfavorable factors that may cause or have caused an asset default, but no default event has occurred or no significant default has occurred; The criteria for "default" are consistent with the definition of credit-impaired assets.

The following table provides an analysis of the credit risk exposure of financial instruments applicable to the expected credit loss measurement. The book value of the following financial assets is the Group's maximum exposure to credit risk for these assets.

	December 31, 2018 Stages of expected credit loss allowance			
Corporate loans and advances	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Risk level 1	**591,673,603**	**3,699**	**–**	**591,677,302**
Risk level 2	**46,992,993**	**2,300**	**–**	**46,995,293**
Risk level 3	**–**	**12,930,808**	**–**	**12,930,808**
Default	**–**	**–**	**9,362,068**	**9,362,068**
Book balance	**638,666,596**	**12,936,807**	**9,362,068**	**660,965,471**
Change in fair value	**146,823**	**–**	**83**	**146,906**
Accrued interest	**2,037,841**	**41,278**	**–**	**2,079,119**
Expected credit losses	**(13,934,625)**	**(3,211,021)**	**(6,772,168)**	**(23,917,814)**
Book value	**626,916,635**	**9,767,064**	**2,589,983**	**639,273,682**

44.1 Credit risk *(Continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Personal loans and advances	December 31, 2018 Stages of expected credit loss allowance Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Risk level 1	**198,824,710**	**568,109**	**–**	**199,392,819**
Risk level 2	**230,762**	**160,106**	**–**	**390,868**
Risk level 3	**–**	**294,567**	**–**	**294,567**
Default	**–**	**–**	**1,329,375**	**1,329,375**
Book balance	**199,055,472**	**1,022,782**	**1,329,375**	**201,407,629**
Accrued interest	**630,305**	**3,239**	**–**	**633,544**
Expected credit losses	**(3,306,248)**	**(170,838)**	**(761,879)**	**(4,238,965)**
Book value	**196,379,529**	**855,183**	**567,496**	**197,802,208**

Financial investment: debt investment	December 31, 2018 Stages of expected credit loss allowance Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Risk level 1	**312,519,946**	**–**	**–**	**312,519,946**
Risk level 2	**19,001,207**	**50,833**	**–**	**19,052,040**
Risk level 3	**–**	**5,250,974**	**–**	**5,250,974**
Default	**–**	**–**	**4,549,530**	**4,549,530**
Book balance	**331,521,153**	**5,301,807**	**4,549,530**	**341,372,490**
Accrued interest	**3,881,899**	**73,339**	**–**	**3,955,238**
Expected credit losses	**(2,399,820)**	**(1,510,540)**	**(3,580,958)**	**(7,491,318)**
Book value	**333,003,232**	**3,864,606**	**968,572**	**337,836,410**

The following table provides an analysis of the credit risk exposure of financial assets at fair value through profit or loss and derivative financial instruments which are not applicable to the expected credit loss measurement.

	Maximum exposure to credit risk December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss	**134,948,782**	46,344,516
Derivative financial instruments	**10,123,361**	4,554,086
Total	**145,072,143**	50,898,602

44.1 Credit risk *(Continued)*

44.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

	December 31, 2018	December 31, 2017
Assets		
Balances with central bank	**125,851,197**	153,629,036
Due from banks and other financial institutions	**55,383,174**	71,432,438
Derivative financial assets	**10,123,361**	4,554,086
Interest receivable	**N/A**	6,774,673
Loans and advances to customers	**837,075,890**	649,816,717
Financial investments		
– Financial assets at fair value through profit or loss	**134,948,782**	46,344,516
– Financial assets at fair value through other comprehensive income	**91,610,792**	N/A
– Financial assets measured at amortized cost	**337,836,410**	N/A
– Available-for-sale	**N/A**	127,873,959
– Held-to-maturity	**N/A**	91,562,790
– Debt instruments classified as receivables	**N/A**	343,222,781
Other financial assets	**23,967,825**	12,086,442
Subtotal	**1,616,797,431**	1,507,297,438
Off-balance sheet exposures		
Acceptances	**235,898,843**	214,386,017
Letters of credit issued	**108,843,659**	108,503,258
Letters of guarantee issued	**28,335,149**	40,837,128
Loan commitments	**690,932**	717,025
Unused credit card limit	**17,648,356**	22,822,115
Subtotal	**391,416,939**	387,265,543
Total	**2,008,214,370**	1,894,562,981

The above table represents a worst-case scenario of credit risk exposure to the Group as of December 31, 2018 and December 31, 2017, without taking into account of any related collateral or other credit enhancements. For on-balance-sheet assets, the exposures above are based on net book value as reported in the statement of financial position.

44.1.6 Due from banks and other financial institutions and derivative instruments

The Group's treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly. As of December 31, 2018, the Group's balance of due from banks and other financial institutions as well as derivative instruments were neither overdue nor impaired (December 31, 2017: nil).

44.1 Credit risk *(Continued)*

44.1.7 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

	December 31, 2018		December 31, 2017	
	Amount	**%**	*Amount*	%
Corporate loans and advances				
Real estate	**118,527,240**	**13.74**	73,159,185	10.87
Leasing and commercial services	**116,611,687**	**13.52**	92,900,199	13.81
Manufacturing	**113,574,111**	**13.17**	115,674,946	17.19
Wholesale and retail trade	**80,961,514**	**9.39**	74,865,365	11.13
Administration of water conservancy, environment and public facilities	**54,183,720**	**6.28**	61,972,488	9.21
Construction	**45,329,965**	**5.26**	39,097,951	5.81
Financing	**16,865,207**	**1.96**	9,371,760	1.39
Electricity, heat, gas and water production and supply	**9,675,724**	**1.12**	7,914,379	1.18
Information transmission, computer services and software	**9,521,037**	**1.10**	6,890,220	1.03
Transportation, storage and postal service	**9,233,210**	**1.07**	13,858,268	2.06
Accommodation and catering	**5,624,076**	**0.65**	4,468,664	0.66
Mining	**5,286,317**	**0.61**	3,919,123	0.58
Agriculture, forestry, animal husbandry and fishery	**5,246,144**	**0.61**	4,856,384	0.72
Culture, sports and entertainment	**4,174,429**	**0.49**	2,541,591	0.38
Scientific research, technology service and geological prospecting	**3,999,603**	**0.46**	2,137,302	0.32
Household services and other services	**1,632,902**	**0.19**	2,424,940	0.36
Health, social security and social welfare	**1,602,628**	**0.19**	1,150,942	0.17
Education	**1,200,947**	**0.14**	835,826	0.12
Public administration and social organizations	**8,000**	**0.00**	557,160	0.08
Total corporate loans and advances	**603,258,461**	**69.95**	518,596,693	77.07
Personal loans and advances	**201,407,629**	**23.36**	133,932,657	19.90
Discounted bills	**57,707,010**	**6.69**	20,349,584	3.03
Total	**862,373,100**	**100.00**	672,878,934	100.00

44.1 Credit risk *(Continued)*

44.1.7 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by security type

	December 31, 2018	December 31, 2017
Collateralized loans	**350,785,476**	248,456,852
Guaranteed loans	**208,182,269**	203,506,330
Pledged loans	**119,429,333**	119,379,949
Unsecured loans	**126,269,012**	81,186,219
Discounted bills	**57,707,010**	20,349,584
Total	**862,373,100**	672,878,934

(c) Analysis of loans and advances to customers by geographical areas

	December 31, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Yangtze River Delta region	**461,768,587**	**53.55**	402,745,180	59.86
Midwestern China	**170,822,059**	**19.81**	124,495,153	18.50
Bohai Rim region	**152,875,633**	**17.73**	90,467,487	13.44
Pearl River Delta region	**76,906,821**	**8.91**	55,171,114	8.20
Total	**862,373,100**	**100.00**	672,878,934	100.00

(d) Analysis of loans and advances to customers by overdue and impaired status

	December 31, 2017	
	Corporate loans and advances	Personal loans and advances
Neither overdue nor impaired	530,808,157	132,817,570
Overdue but not impaired	1,176,919	309,724
Impaired	6,961,201	805,363
Gross	538,946,277	133,932,657
Less: Collective impairment allowances	(15,222,702)	(3,945,374)
Individual impairment allowances	(3,894,141)	–
Total allowance	(19,116,843)	(3,945,374)
Net	519,829,434	129,987,283

44.1 Credit risk *(Continued)*

44.1.7 Loans and advances to customers (Continued)

(e) Loans and advances neither overdue nor impaired

The credit risk of the portfolio of loans and advances that was neither overdue nor impaired can be assessed by reference to the CBIRC five-category system adopted.

December 31, 2017	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	522,102,284	8,705,873	530,808,157
Personal loans and advances	132,288,184	529,386	132,817,570
Total	654,390,468	9,235,259	663,625,727

(f) Loans and advances overdue but not impaired

	December 31, 2017				
	up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans and advances	446,249	247,071	29,132	454,467	1,176,919
Personal loans and advances	119,304	67,771	68,620	54,029	309,724
Total	565,553	314,842	97,752	508,496	1,486,643

December 31, 2017: The fair value of the overdue but not impaired corporate loan collateral was RMB538 million, and the fair value of the overdue but not impaired personal loan collateral was RMB236 million.

44.1 Credit risk *(Continued)*

44.1.7 Loans and advances to customers (Continued)

(g) Loans and advances that is impaired

The breakdown of the gross amount of impaired loans and advances is as follows:

	December 31, 2017
Corporate loans and advances	6,961,201
Personal loans and advances	805,363
Total	7,766,564

As of December 31, 2017, the fair value of the impaired corporate loans collaterals was RMB5,411,527 thousand. As of December 31, 2017, the fair value of the impaired personal loans collaterals was RMB723,895 thousand.

Most of the Group's impaired personal loans are secured by houses. As of December 31, 2017, such loans accounted for approximately 78% of the total amount of impaired personal loans. The Group has established a five-categories of loan classification rating system for personal loans, taking into account the risk identification factors such as the ratio of loan collateral to loan balance, overdue days, borrower repayment ability and repayment willingness, etc., through the correct classification of loans, early adoption measures to reduce losses.

The Group closely monitors the collateral corresponding to the financial assets in which credit impairment has occurred, as the Group is more likely to confiscate these collaterals in order to reduce potential credit losses than other collateral. As of December 31, 2018, the Group's financial assets credit-impaired and the value of collateral held to reduce its potential losses are listed below.

	December 31, 2018			
Credit-impaired assets	**Book value**	**ECL allowance**	**Carrying value**	**Fair value of holding collateral**
Loans and advances to customers				
– Corporate loans and advances	**9,362,151**	**(6,772,168)**	**2,589,983**	**4,794,854**
– Personal loans and advances	**1,329,375**	**(761,879)**	**567,496**	**887,392**
Financial investments				
– Financial assets measured at amortized cost	**4,549,530**	**(3,580,958)**	**968,572**	**1,174,948**
Total	**15,241,056**	**(11,115,005)**	**4,126,051**	**6,857,194**

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.1 Credit risk *(Continued)*

44.1.7 Loans and advances to customers (Continued)

(h) Overdue loans and advances by security type and overdue days

	December 31, 2018				
	up to 90 days	**90 days to 1 year**	**1-3 years**	**over 3 years**	**Total**
Unsecured	**302,374**	**259,522**	**371,209**	**607**	**933,712**
Guaranteed	**702,470**	**1,948,213**	**1,617,782**	**47,036**	**4,315,501**
Collateralized	**1,076,982**	**1,440,889**	**1,351,641**	**271,272**	**4,140,784**
Pledged	**254,113**	**574,054**	**418,777**	**14,192**	**1,261,136**
Total	**2,335,939**	**4,222,678**	**3,759,409**	**333,107**	**10,651,133**

	December 31, 2017				
	up to 90 days	90 days to 1 year	1-3 years	over 3 years	Total
Unsecured	417,719	284,645	58,690	–	761,054
Guaranteed	196,564	1,102,441	925,397	9,021	2,233,423
Collateralized	550,041	1,771,186	1,319,076	85,730	3,726,033
Pledged	4,260	430,605	34,051	–	468,916
Total	1,168,584	3,588,877	2,337,214	94,751	7,189,426

(i) Rescheduled loans and advances

Rescheduled loans are those loans that have revised repayment terms of loan contracts because of deterioration in the financial position of the borrower or of the inability to repay. The balance of the Group's rescheduled loans and advances is as follows:

	December 31, 2018	December 31, 2017
Rescheduled loans and advances	**1,604,585**	319,099
Less: Allowance for impairment losses	**N/A**	(121,926)
Less: ECL allowance	**(1,289,509)**	N/A
Rescheduled loans and advances, net	**315,076**	197,173

44.1 Credit risk *(Continued)*

44.1.8 Debt instruments

	December 31, 2017				
	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
AAA	2,565,767	5,417,285	12,485,086	–	20,468,138
AA (i)	2,336,083	82,160	107,631	169,775,524	172,301,398
Unrated (ii)	38,158,272	60,976,632	78,970,073	173,447,257	351,552,234
Subtotal	43,060,122	66,476,077	91,562,790	343,222,781	544,321,770
Foreign currencies					
A	–	237,980	–	–	237,980
BBB	677,836	1,562,286	–	–	2,240,122
BB	–	451,246	–	–	451,246
B	137,097	1,213,651	–	–	1,350,748
Unrated (ii)	2,469,461	914,481	–	–	3,383,942
Subtotal	3,284,394	4,379,644	–	–	7,664,038
Total	46,344,516	70,855,721	91,562,790	343,222,781	551,985,808

(i) Among trust plans and asset management plans on December 31, 2017, the balance of senior tranche asset backed securities with credit rating of AA is RMB169,776 million.

(ii) These trust plans and asset management plans are primarily based on guarantees provide by third-party guarantors or guarantees using collaterals. As of December 31, 2017, the sum of principals of the impaired trust plans and asset management plans is RMB794 million, and the balance of impairment allowance is RMB318 million.

44.1 Credit risk *(Continued)*

44.1.9 Foreclosed assets

	December 31, 2018	December 31, 2017
Real estate and land use rights	**64,319**	51,000

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Generally the Group does not occupy foreclosed properties for its business use. Foreclosed assets are presented in other assets in the statement of financial position.

44.1.10 Concentration risk analysis for financial assets with credit risk exposure

As of December 31, 2018 and 2017, the majority of the Group's credit risk exposures rising from both on-balance sheet and off-balance sheet items is from Mainland China.

44.2 Market risk

44.2.1 Overview

Market risk refers to the risk of loss of on-balance-sheet and off-balance-sheet business due to adverse changes in market prices (interest rates, exchange rates, stock prices, and commodity prices). The Group's exposures to market risk refers to the risk of fluctuations in the fair value or future cash flows of financial instruments held by the Group due to fluctuations in market prices.

Under the principle of unified management, the Group has basically formed a comprehensive market risk management framework, built a whole set of organizing system including the board reporting, management monitoring, independent management of risk management department and independent monitoring and reporting of risk monitoring officer from risk management department. The risk management policies and procedures of the Group are formulated based on the nature, size, complexity and risk characteristics of its business, and are consistent with Group's overall business development strategy, management capability and capital strength.

The Group implements limit management on market risks, establishes internal approval procedures and operation procedures for all types and levels of limits, and sets up periodic reviews and updates limits based on business nature, size, complexity and risk tolerance.

Based on business nature and transaction purpose, the Group defines banking book and trading book comprehensively, and applies separate management, taking into account identification, measurement, monitoring and control of banking book and trading book's market risks.

The Group uses the Market Risk Management System (ALGO system) to conduct risk management for trading book, including valuation, sensitivity analysis, value at risk (VaR) analyzes, portfolio managements and other functions.

44.2 Market risk *(Continued)*

44.2.2 Market analysis measurement techniques

The Group adopts appropriate and market-recognized methods to evaluate exposure of market risk for financial instrument on its banking book and trading book respectively based on reasonable assumptions and parameters.

The Group uses sensitivity analysis, scenario analysis, value at risk (VaR) analysis, and other risk measurement methods to evaluate related market risk of trading book, and re-evaluates trading book position once a day. The market risk of banking book is evaluated mainly through sensitivity gap analysis and cash flow analysis. The Group has established a reporting system for the results of market risk measurement and monitoring, and will report the overall market risk to the board of directors and the management on a regular basis.

44.2.3 Interest rate risk

The major market risk for banking book is interest rate risk. The Group measures interest rate sensitivity gap on a regular basis, evaluates interest rate risk through gap analysis, and further assesses the impact of interest rate changes on net interest income and corporate net value in varied interest rate scenarios.

The Group performs business mainly in Mainland China in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-earning loans and interest-bearing deposits in the same direction, but may not be in parallel.

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.2 Market risk *(Continued)*

44.2.3 Interest rate risk *(Continued)*

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2018						
Assets						
Cash and balances with central bank	125,795,958	–	–	–	574,274	126,370,232
Due from banks and other financial institutions	31,676,355	23,604,825	–	–	101,994	55,383,174
Derivative financial assets	–	–	–	–	10,123,361	10,123,361
Loans and advances to customers	177,427,041	382,082,914	198,334,139	76,607,410	2,624,386	837,075,890
Financial investments						
– Financial assets at fair value through profit or loss	7,608,445	26,272,086	12,678,350	5,445,695	83,206,200	135,210,776
– Financial assets at fair value through other comprehensive income	9,224,058	55,584,167	21,250,263	4,914,419	912,885	91,885,792
– Financial assets measured at amortized cost	55,016,065	61,003,286	173,038,506	44,823,907	3,954,646	337,836,410
Other financial assets	2,847,547	5,756,584	9,378,607	509,325	4,824,843	23,316,906
Total assets	409,595,469	554,303,862	414,679,865	132,300,756	106,322,589	1,617,202,541
Liabilities						
Due to other banks and financial institutions	(111,409,293)	(168,333,068)	(256,720)	–	–	(279,999,081)
Financial liabilities at fair value through profit or loss	–	–	–	–	(12,483,213)	(12,483,213)
Derivative financial liabilities	–	–	–	–	(10,648,171)	(10,648,171)
Customer deposits	(600,682,840)	(174,832,965)	(187,187,862)	(300,000)	(11,766,736)	(974,770,403)
Debt securities issued	(35,736,617)	(150,260,146)	(50,000,000)	(10,000,000)	–	(245,996,763)
Other financial liabilities	(132,540)	(151,575)	–	–	(9,586,288)	(9,870,403)
Total liabilities	(747,961,290)	(493,577,754)	(237,444,582)	(10,300,000)	(44,484,408)	(1,533,768,034)
Total interest sensitivity gap	(338,365,821)	60,726,108	177,235,283	122,000,756	61,838,181	83,434,507

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.2 Market risk *(Continued)*

44.2.3 Interest rate risk *(Continued)*

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2017						
Assets						
Cash and balances with central bank	153,608,035	21,000	–	–	462,405	154,091,440
Due from banks and other financial institutions	68,442,151	2,619,403	370,884	–	–	71,432,438
Derivative financial assets	–	–	–	–	4,554,086	4,554,086
Loans and advances to customers	307,361,619	226,802,657	106,063,214	9,589,227	–	649,816,717
Financial investments						
– Financial assets at fair value through profit or loss	6,724,023	16,473,020	14,790,474	8,356,999	–	46,344,516
– Available-for-sale	46,368,479	25,720,904	43,546,902	12,237,674	25,000	127,898,959
– Held-to-maturity	3,248,213	15,932,190	48,664,464	23,717,923	–	91,562,790
– Debt instruments classified as receivables	65,368,259	107,817,308	165,070,772	4,966,442	–	343,222,781
Other financial assets	593,068	2,646,208	5,384,199	281,723	9,955,917	18,861,115
Total assets	651,713,847	398,032,690	383,890,909	59,149,988	14,997,408	1,507,784,842
Liabilities						
Due to other banks and financial institutions	(176,777,183)	(178,678,435)	(1,350,000)	–	–	(356,805,618)
Financial liabilities at fair value through profit or loss	–	–	–	–	(5,615,590)	(5,615,590)
Derivative financial liabilities	–	–	–	–	(5,297,863)	(5,297,863)
Customer deposits	(546,637,352)	(165,781,518)	(146,686,727)	–	(1,513,860)	(860,619,457)
Other financial liabilities	(189,500)	–	–	–	(15,119,421)	(15,308,921)
Debt securities issued	(42,731,706)	(116,651,837)	(21,168,440)	(10,000,000)	–	(190,551,983)
Total liabilities	(766,335,741)	(461,111,790)	(169,205,167)	(10,000,000)	(27,546,734)	(1,434,199,432)
Total interest sensitivity gap	(114,621,894)	(63,079,100)	214,685,742	49,149,988	(12,549,326)	73,585,410

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.2 Market risk *(Continued)*

44.2.3 Interest rate risk (Continued)

The currency for the Group's majority of interest-earning assets and interest-bearing liabilities is RMB. The potential impact on net profit at each financial reporting date stated below with 100 bps changes along the yield curve is as follows:

	December 31, 2018	December 31, 2017
100 bps up along the yield curve	**(2,049,734)**	(929,616)
100 bps down along the yield curve	**2,049,734**	929,616

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining business conditions and financial inputs:

a. Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;

b. The fluctuations in interest rates of different interest-earning assets and interest-bearing liabilities are the same;

c. All assets and liabilities are re-priced in the middle of relevant periods;

d. No consideration of impact on customers' behavior resulting from interest rate changes;

e. No consideration of impact on market price resulting from interest rate changes;

f. No consideration of impact on off-balance sheet business from interest rate changes;

g. No consideration of actions taken by the Group with regard to interest rate changes.

Therefore, the actual results on net profit due to changes in interest rates may differ from the analysis above.

44.2.4 Foreign exchange risk

The Group's business is mainly operated in China and settled in RMB. However, the Group's assets and liabilities as well as the transactions denominated in foreign currency are exposed to the foreign exchange risk, exchange risk which is due to changes in foreign exchange rates.

The main principle of the Group's control of exchange rate risk is to match the assets and liabilities in each currency as much as possible, and to control the exchange rate risk within the risk level that the Group can bear. The Group minimizes the currency mismatch of assets and liabilities by reasonably arranging the source and use of foreign currency funds in accordance with relevant regulatory requirements and management's assessment of the current environment. For foreign exchange exposure, the Group has established and strictly enforced trading limits, risk limits and stop-loss limits.

The tables show the Group's total assets and liabilities is carrying amounts in RMB, categorized by the original currency.

44.2 Market risk *(Continued)*

44.2.4 Foreign exchange risk (Continued)

	RMB	US Dollar *(RMB equivalent)*	HK Dollar *(RMB equivalent)*	Others *(RMB equivalent)*	Total
December 31, 2018					
Assets					
Cash and balances with central bank	123,881,016	2,469,096	14,212	5,908	126,370,232
Due from banks and other financial institutions	46,154,933	6,315,075	1,989,440	923,726	55,383,174
Derivative financial assets	10,123,361	–	–	–	10,123,361
Loans and Advances to customers	806,106,451	24,101,678	2,816,404	4,051,357	837,075,890
Financial investments					
– Financial assets at fair value through profit or loss	129,801,125	4,713,291	19	696,341	135,210,776
– Financial assets at fair value through other comprehensive income	82,913,593	6,869,046	2,103,153	–	91,885,792
– Financial assets measured at amortized cost	337,836,410	–	–	–	337,836,410
Other financial assets	22,531,699	784,087	1,120	–	23,316,906
Total assets	1,559,348,588	45,252,273	6,924,348	5,677,332	1,617,202,541
Liabilities					
Due to banks and other financial institutions	(260,024,111)	(19,738,421)	(228,028)	(8,521)	(279,999,081)
Financial liabilities at fair value through profit or loss	(12,483,213)	–	–	–	(12,483,213)
Derivative financial liabilities	(9,833,462)	(797,942)	(3,059)	(13,708)	(10,648,171)
Customer deposits	(943,267,418)	(27,094,178)	(368,100)	(4,040,707)	(974,770,403)
Debt securities issued	(245,928,108)	(68,655)	–	–	(245,996,763)
Other financial liabilities	(9,034,671)	(832,364)	(3,368)	–	(9,870,403)
Total liabilities	(1,480,570,983)	(48,531,560)	(602,555)	(4,062,936)	(1,533,768,034)
Net position	78,777,605	(3,279,287)	6,321,793	1,614,396	83,434,507
Financial guarantees and loan commitments	355,706,245	29,537,912	1,975,193	4,197,589	391,416,939

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.2 Market risk *(Continued)*

44.2.4 Foreign exchange risk (Continued)

	RMB	US Dollar *(RMB equivalent)*	HK Dollar *(RMB equivalent)*	Others *(RMB equivalent)*	Total
December 31, 2017					
Assets					
Cash and balances with central bank	149,265,284	4,819,067	2,654	4,435	154,091,440
Due from banks and other financial institutions	64,126,237	4,276,762	501,609	2,527,830	71,432,438
Derivative financial assets	4,554,086	–	–	–	4,554,086
Loans and advances to customers	607,446,052	41,290,348	82,083	998,234	649,816,717
Financial investments					
– Financial assets at fair value through profit or loss	43,060,122	2,507,878	–	776,516	46,344,516
– Available-for-sale	123,519,582	4,154,393	–	224,984	127,898,959
– Held-to-maturity	91,562,790	–	–	–	91,562,790
– Debt instruments classified as receivables	343,222,781	–	–	–	343,222,781
Other financial assets	17,957,359	893,702	229	9,825	18,861,115
Total assets	1,444,714,293	57,942,150	586,575	4,541,824	1,507,784,842
Liabilities					
Due to other banks and financial institutions	(331,108,056)	(25,099,164)	–	(598,398)	(356,805,618)
Financial liabilities at fair value through profit or loss	(5,615,590)	–	–	–	(5,615,590)
Derivative financial liabilities	(5,297,863)	–	–	–	(5,297,863)
Customer deposits	(810,986,458)	(46,839,211)	(248,220)	(2,545,568)	(860,619,457)
Other financial liabilities	(14,810,640)	(496,100)	(12)	(2,169)	(15,308,921)
Debt securities issued	(190,551,983)	–	–	–	(190,551,983)
Total liabilities	(1,358,370,590)	(72,434,475)	(248,232)	(3,146,135)	(1,434,199,432)
Net position	86,343,703	(14,492,325)	338,343	1,395,689	73,585,410
Financial guarantees and loan commitments	339,110,910	38,211,984	572,060	9,370,589	387,265,543

44.2 Market risk *(Continued)*

44.2.4 Foreign exchange risk (Continued)

The Group's foreign exchange exposure is not material and mainly US dollars and HK dollars. The potential impact on net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation of USD and HKD against RMB is as follows:

	December 31, 2018	December 31, 2017
1% of appreciation of USD against RMB	**2,627**	5,873
1% of depreciation of USD against RMB	**(2,627)**	(5,873)

For the purpose of the sensitivity analysis, the Group has considered both spot foreign exchange exposure and forward foreign exchange exposure, and adopts the following assumptions in determining business conditions and financial inputs:

a. Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;

b. No consideration of impact on customers' behavior resulting from exchange rate changes;

c. No consideration of impact on market price resulting from exchange rate changes;

d. No consideration of actions taken by the Group with regard to exchange rate changes.

Therefore, the actual results on net profit due to changes in exchange rates may differ from analysis above.

44.3 Liquidity risk

44.3.1 Overview

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its exposure to liquidity risk.

The Group's assets and liabilities management department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Making projections of future cash flows, and evaluating the appropriate current asset position;
- Maintaining reasonable level of liquidity reserve;
- Performing stress testing on a regular basis.

44.3 Liquidity risk *(Continued)*

44.3.2 Analysis of the undiscounted contractual cash flows

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2018								
Non-derivative financial assets								
Cash and balances with central bank	–	104,909,168	21,517,104	80	–	–	–	126,426,352
Due from banks and other financial institutions	–	101,994	15,651,209	16,120,317	24,533,543	–	–	56,407,063
Loans and advances to customers	8,684,976	–	609,865	177,183,358	397,432,804	217,253,154	99,730,254	900,894,411
Financial investments								
– Financial assets at fair value through profit or loss	–	83,206,200	–	7,615,153	26,627,166	14,424,012	7,992,922	139,865,453
– Financial assets at fair value through other comprehensive income	–	912,885	–	9,228,979	55,758,063	23,089,433	7,471,722	96,461,082
– Financial assets measured at amortized cost	1,091,608	3,954,646	–	57,944,436	67,113,482	194,460,299	58,173,878	382,738,349
Other financial assets	305,791	6,168,609	–	3,216,563	6,362,039	10,452,449	586,521	27,091,972
Total non-derivative financial assets	10,082,375	199,253,502	37,778,178	271,308,886	577,827,097	459,679,347	173,955,297	1,729,884,682

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2018								
Non-derivative financial liabilities								
Due to other banks and financial institution	–	–	(22,135,166)	(91,042,814)	(173,392,022)	(256,347)	–	(286,826,349)
Financial liabilities at fair value through profit or loss	–	(2,522,202)	–	(1,715,212)	(8,245,799)	–	–	(12,483,213)
Customer deposits	–	–	(501,150,922)	(108,855,776)	(177,921,926)	(190,955,593)	(373,264)	(979,257,481)
Debt securities issued	–	–	–	(37,599,961)	(156,624,762)	(55,141,653)	(14,110,000)	(263,476,376)
Other financial liabilities	–	(9,586,288)	–	(605,000)	(1,048,523)	(865,449)	(189,678)	(12,294,938)
Total non-derivative financial liabilities	–	(12,108,490)	(523,286,088)	(239,818,763)	(517,233,032)	(247,219,042)	(14,672,942)	(1,554,338,357)
Net liquidity	10,082,375	187,145,012	(485,507,910)	31,490,123	60,594,065	212,460,305	159,282,355	175,546,325

44.3 Liquidity risk *(Continued)*

44.3.2 Analysis of the undiscounted contractual cash flows (Continued)

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2017								
Non-derivative financial assets								
Cash and balances with central bank	–	119,216,502	34,920,491	10	21,000	–	–	154,158,003
Due from banks and other financial institutions	–	–	21,236,924	47,255,407	2,721,636	520,624	–	71,734,591
Loans and advances to customers	6,988,149	–	–	91,993,210	292,107,267	237,863,753	75,495,992	704,448,371
Financial investments								
– Financial assets at fair value through profit or loss	–	–	–	6,728,434	16,577,487	16,509,573	11,406,945	51,222,439
– Available-for-sale	–	25,000	–	46,573,815	26,287,525	48,140,980	16,142,659	137,169,979
– Held-to-maturity	–	–	–	3,256,566	16,112,765	50,789,911	27,566,016	97,725,258
– Debt instruments classified as receivables	–	–	–	71,050,290	119,449,377	182,450,332	7,541,276	380,491,275
Other financial assets	–	3,705,841	–	5,539	511,365	41,410	2,142	4,266,297
Total non-derivative financial assets	6,988,149	122,947,343	56,157,415	266,863,271	473,788,422	536,316,583	138,155,030	1,601,216,213

	Overdue	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2017								
Non-derivative financial liabilities								
Due to other banks and financial institutions	–	–	(37,276,556)	(141,519,968)	(186,411,677)	(1,782,689)	–	(366,990,890)
Financial liabilities at fair value through profit or loss	–	(149,272)	–	(5,466,318)	–	–	–	(5,615,590)
Customer deposits	–	(1,513,860)	(460,461,715)	(87,786,885)	(167,930,085)	(163,540,885)	–	(881,233,430)
Other financial liabilities	–	(1,521,453)	–	(708,657)	(546,436)	(1,936,670)	(295,209)	(5,008,425)
Debt securities issued	–	–	–	(44,139,576)	(122,329,955)	(23,853,652)	(11,140,000)	(201,463,183)
Total non-derivative financial liabilities	–	(3,184,585)	(497,738,271)	(279,621,404)	(477,218,153)	(191,113,896)	(11,435,209)	(1,460,311,518)
Net liquidity	6,988,149	119,762,758	(441,580,856)	(12,758,133)	(3,429,731)	345,202,687	126,719,821	140,904,695

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.3 Liquidity risk *(Continued)*

44.3.3 Derivative financial instruments cash flow

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include interest rate swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2018, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
December 31, 2018						
Interest rate swaps						
– outflow	**(119,074)**	**(593,892)**	**(577,257)**	**(4,998,471)**	**(5,102)**	**(6,293,796)**
– inflow	**728,290**	**580,441**	**472,892**	**4,136,754**	**4,294**	**5,922,671**
Total	**609,216**	**(13,451)**	**(104,365)**	**(861,717)**	**(808)**	**(371,125)**

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2017						
Interest rate swaps						
– outflow	(10,717)	(17,905)	(62,300)	(1,101,626)	–	(1,192,548)
– inflow	3,468	11,873	63,336	975,289	–	1,053,966
Total	(7,249)	(6,032)	1,036	(126,337)	–	(138,582)

44.3 Liquidity risk *(Continued)*

44.3.3 Derivative financial instruments cash flow (Continued)

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and currency swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2018, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Total**
December 31, 2018					
Foreign exchange derivatives					
– outflow	**(196,948,803)**	**(265,471,026)**	**(763,560,638)**	**(38,766,056)**	**(1,264,746,523)**
– inflow	**191,086,839**	**185,158,710**	**649,216,360**	**31,755,887**	**1,057,217,796**
Total	**(5,861,964)**	**(80,312,316)**	**(114,344,278)**	**(7,010,169)**	**(207,528,727)**

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2017					
Foreign exchange derivatives					
– outflow	(84,299,799)	(110,310,380)	(270,882,338)	(8,379,931)	(473,872,448)
– inflow	78,587,240	116,022,565	270,282,913	8,335,141	473,227,859
Total	(5,712,559)	5,712,185	(599,425)	(44,790)	(644,589)

44.3 Liquidity risk *(Continued)*

44.3.4 Maturity analysis

The tables below summarize the maturity analysis of assets and liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting year.

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2018								
Assets								
Cash and balances with central bank	–	104,857,667	21,512,485	80	–	–	–	126,370,232
Precious metal	–	8,103,317	–	–	–	–	–	8,103,317
Due from banks and other financial institutions	–	101,995	15,651,210	16,025,144	23,604,825	–	–	55,383,174
Derivative financial assets	–	–	–	3,528,796	2,281,226	4,309,045	4,294	10,123,361
Loans and advances to customers	8,616,987	–	609,865	169,483,402	382,862,900	198,738,961	76,763,775	837,075,890
Financial investments								
– Financial assets at fair value through profit or loss	–	83,206,200	–	7,608,445	26,272,086	12,678,350	5,445,695	135,210,776
– Financial assets at fair value through other comprehensive income	–	912,885	–	9,224,058	55,584,167	21,250,263	4,914,419	91,885,792
– Financial assets measured at amortized cost	952,564	3,954,646	–	54,599,721	60,467,066	173,038,506	44,823,907	337,836,410
Other assets, including deferred income tax assets	291,762	24,836,946	–	2,979,542	5,840,294	10,247,923	509,325	44,705,792
Total assets	9,861,313	225,973,656	37,773,560	263,449,188	556,912,564	420,263,048	132,461,415	1,646,694,744
Liabilities								
Due to other banks and financial institutions	–	–	(22,135,166)	(89,274,127)	(168,333,068)	(256,720)	–	(279,999,081)
Financial liabilities at fair value through profit or loss	–	(2,522,202)	–	(1,715,212)	(8,245,799)	–	–	(12,483,213)
Derivative financial liabilities	–	–	–	(2,382,663)	(2,907,757)	(5,352,649)	(5,102)	(10,648,171)
Customer deposits	–	–	(500,440,069)	(108,117,908)	(176,711,207)	(189,197,997)	(303,222)	(974,770,403)
Debt securities issued	–	–	–	(35,736,617)	(150,260,146)	(50,000,000)	(10,000,000)	(245,996,763)
Other liabilities, including deferred income tax liability	–	(11,044,643)	–	(7,200,282)	(1,048,524)	(865,449)	(189,678)	(20,348,576)
Total liabilities	–	(13,566,845)	(522,575,235)	(244,426,809)	(507,506,501)	(245,672,815)	(10,498,002)	(1,544,246,207)
Net liquidity gap	9,861,313	212,406,811	(484,801,675)	19,022,379	49,406,063	174,590,233	121,963,413	102,448,537

44 FINANCIAL RISK MANAGEMENT *(Continued)*

44.3 Liquidity risk *(Continued)*

44.3.4 Maturity analysis (Continued)

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
December 31, 2017								
Assets								
Cash and balances with central bank	–	119,157,518	34,912,912	10	21,000	–	–	154,091,440
Precious metal	–	12,382,513	–	–	–	–	–	12,382,513
Due from banks and other financial institutions	–	–	21,236,924	47,205,227	2,619,403	370,884	–	71,432,438
Derivative financial assets	–	–	–	1,058,897	2,429,956	1,065,233	–	4,554,086
Loans and advances to customers	6,942,996	–	–	86,459,662	280,121,346	219,170,006	57,122,707	649,816,717
Financial investments								
– Financial assets at fair value through profit or loss	–	–	–	6,724,023	16,473,020	14,790,474	8,356,999	46,344,516
– Available-for-sale	–	25,000	–	46,368,479	25,720,904	43,546,902	12,237,674	127,898,959
– Held-to-maturity	–	–	–	3,248,213	15,932,190	48,664,464	23,717,923	91,562,790
– Debt instruments classified as receivables	–	–	–	65,368,259	107,817,308	165,070,772	4,966,442	343,222,781
Other assets, including deferred income tax assets	35,260	18,098,935	38,512	2,803,836	5,253,098	8,378,827	837,394	35,445,862
Total assets	6,978,256	149,663,966	56,188,348	259,236,606	456,388,225	501,057,562	107,239,139	1,536,752,102
Liabilities								
Due to other banks and financial institutions	–	–	(37,315,251)	(139,461,932)	(178,678,435)	(1,350,000)	–	(356,805,618)
Financial liabilities at fair value through profit or loss	–	(149,272)	–	–	(5,466,318)	–	–	(5,615,590)
Derivative financial liabilities	–	–	–	(1,549,871)	(2,567,908)	(1,180,084)	–	(5,297,863)
Customer deposits	–	(1,513,860)	(459,050,794)	(87,586,558)	(165,781,518)	(146,686,727)	–	(860,619,457)
Other liabilities, including deferred income tax liability	(331,297)	(1,557,718)	(5,734,982)	(12,127,639)	(4,155,782)	(3,922,595)	(343,824)	(28,173,837)
Debt securities issued	–	–	–	(42,731,706)	(116,651,837)	(21,168,440)	(10,000,000)	(190,551,983)
Total liabilities	(331,297)	(3,220,850)	(502,101,027)	(283,457,706)	(473,301,798)	(174,307,846)	(10,343,824)	(1,447,064,348)
Net liquidity gap	6,646,959	146,443,116	(445,912,679)	(24,221,100)	(16,913,573)	326,749,716	96,895,315	89,687,754

44.3 Liquidity risk *(Continued)*

44.3.5 Off-balance sheet items

December 31, 2018	**Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
Acceptances	**235,898,843**	**–**	**–**	**235,898,843**
Letters of credit	**108,781,839**	**61,820**	**–**	**108,843,659**
Letters of guarantee issued	**22,321,326**	**5,936,344**	**77,479**	**28,335,149**
Loan commitments	**553,600**	**137,332**	**–**	**690,932**
Unused credit limit	**17,648,356**	**–**	**–**	**17,648,356**
Total	**385,203,964**	**6,135,496**	**77,479**	**391,416,939**

December 31, 2017	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	214,386,017	–	–	214,386,017
Letters of credit	108,490,545	12,713	–	108,503,258
Letters of guarantee issued	26,497,599	14,042,078	297,451	40,837,128
Loan commitments	617,025	100,000	–	717,025
Unused credit limit	22,822,115	–	–	22,822,115
Total	372,813,301	14,154,791	297,451	387,265,543

44.4 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in interbank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.

- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

44.4 Fair values of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers measured at amortized cost, financial assets measured at amortized cost, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables, due to banks and other financial institutions, customer deposits and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, including financial assets measured at amortized cost, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

		December 31, 2018			
	Carrying value	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial investments					
– Financial assets measured at amortized cost	**337,836,410**	**–**	**179,765,614**	**170,964,614**	**350,730,228**
Financial liabilities					
Debt securities issued	**245,996,763**	**–**	**242,477,490**	**–**	**242,477,490**

		December 31, 2017			
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial investments					
– Held-to-maturity	91,562,790	–	89,367,221	–	89,367,221
Financial investments					
– Debt instruments classified as receivables	343,222,781	–	104,098,843	239,226,123	343,324,966
Total	434,785,571	–	193,466,064	239,226,123	432,692,187
Financial liabilities					
Debt securities issued	(190,551,983)	–	(190,551,983)	–	(190,551,983)

44.4 Fair values of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value (Continued)

(i) Financial assets measured at amortized cost, held-to-maturity investments and debt instruments classified as receivables

Financial assets measured at amortized cost, held-to-maturity investments and debt instruments classified as receivables whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows model based on observable yield, the fair value measurement will be included in level 3.

(ii) Debt securities issued

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

(c) Financial instruments measured at fair value

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities investment	–	47,915,143	–	47,915,143
– Fund investments	–	82,342,692	–	82,342,692
– Trust plans and asset management plans	–	2,078,695	–	2,078,695
– Wealth management products issued by other banks	–	2,010,739	–	2,010,739
– Other equity investment	–	–	261,994	261,994
Derivative financial assets	–	10,123,361	–	10,123,361
Loans and advances to customers	–	63,358,593	–	63,358,593
Financial assets at fair value through other comprehensive income				
– Debt securities	–	46,764,971	–	46,764,971
– Equity investment	–	–	275,000	275,000
– Other debt instrument	–	44,207,936	–	44,207,936
Total	–	298,802,130	536,994	299,339,124
Financial liabilities at fair value through profit or loss	–	(12,483,213)	–	(12,483,213)
Derivative financial liabilities	–	(10,648,171)	–	(10,648,171)
Total	–	(23,131,384)	–	(23,131,384)

44.4 Fair values of financial assets and liabilities*(Continued)*

(c) ***Financial instruments measured at fair value*** *(Continued)*

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	46,344,516	–	46,344,516
Derivative financial assets	–	4,554,086	–	4,554,086
Financial investments				
– Available-for-sale				
– Debt securities available for sale	–	61,110,773	–	61,110,773
– Fund investment	–	57,018,238	–	57,018,238
– Equity investment	–	–	25,000	25,000
– Trust plan and asset management plan	–	9,744,948	–	9,744,948
Total	–	178,772,561	25,000	178,797,561
Financial liabilities at fair value through profit or loss	–	(5,615,590)	–	(5,615,590)
Derivative financial liabilities	–	(5,297,863)	–	(5,297,863)
Total	–	(10,913,453)	–	(10,913,453)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

44.5 Capital management

The core of the Group's Capital Management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management.

The Group prudently determines the objectives of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives. In addition, the Group proactively adjusts its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

The Group monitors the capital adequacy rate regularly based on regulations issued by the CBIRC. The Group reports the required capital information to the CBIRC on a quarterly basis.

Core tier-one capital includes paid-in capital, capital reserve, surplus reserve, general risk preparation, undistributed retained earnings, and non-controlling shareholders' capital that could be included in core tier-one capital. Other tier-one capital includes other tier-one capital instruments and their premiums, and non-controlling shareholders' capital that could be included in other tier-one capital. Tier-two capital includes tier-two capital instruments and their premiums, the allowable portion of excessive allowance for loan losses, and non-controlling shareholders' capital that could be included in tier-two capital. The primary regulatory deduction item in the calculation of the capital adequacy ratio is other intangible assets (excluding land use rights).

Effective from January 1, 2013, the Group started to implement the CBIRC's regulation of "Administrative Measures for the Capital of Commercial Banks (Trial Implementation)" which was issued on June 7, 2012. The capital adequacy ratio as of December 31, 2018 under the "Trial Implementation" is as follows:

	December 31, 2018	December 31, 2017
Total capital	**139,250,771**	109,890,152
Including: Core tier-one capital	**87,264,309**	74,653,783
Other tier-one capital	**15,063,441**	15,004,755
Tier-two capital	**36,923,021**	20,231,614
Deduction: other intangible assets	**(220,671)**	(203,101)
Total capital, net of deductions	**139,030,100**	109,687,051
Total core tier-one capital, net of deductions	**87,043,638**	74,450,682
Total tier-one capital, net of deductions	**102,107,079**	89,455,437
Total risk-weighted assets	**1,038,882,918**	898,580,080
Core tier-one capital adequacy ratio	**8.38%**	8.29%
Tier-one capital adequacy ratio	**9.83%**	9.96%
Capital adequacy ratio	**13.38%**	12.21%

45 FIDUCIARY ACTIVITIES

The Group provides custody and trustee services to third parties, and grants entrusted loans on behalf of third-party lenders. They are as follows:

	December 31, 2018	December 31, 2017
Entrusted loans	**48,012,517**	79,789,738
Entrusted investments	**300,000**	1,639,460

46 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material events for disclosure after the balance sheet date.

47 STATEMENT OF FINANCIAL POSITION OF THE BANK

	December 31, 2018	December 31, 2017
ASSETS		
Cash and balances with central bank	**126,314,913**	154,070,430
Precious metal	**8,103,317**	12,382,513
Due from banks and other financial institutions	**54,954,700**	71,032,294
Derivative financial assets	**10,123,361**	4,554,086
Loans and advances to customers	**837,075,890**	649,816,717
Financial investments		
– Financial assets at fair value through profit or loss	**134,610,776**	46,344,516
– Financial assets at fair value through other comprehensive income	**92,804,442**	N/A
– Financial assets measured at amortized cost	**337,424,230**	N/A
– Available-for-sale	**N/A**	127,898,959
– Held-to-maturity	**N/A**	91,562,790
– Debt instruments classified as receivables	**N/A**	343,222,781
Investment in subsidiaries	**1,530,000**	1,530,000
Property, plant and equipment	**9,770,511**	6,258,700
Deferred income tax assets	**8,149,681**	7,304,012
Other assets	**7,376,295**	14,054,589
Total assets	**1,628,238,116**	1,530,032,387
LIABILITIES		
Due to banks and other financial institutions	**266,011,707**	354,325,922
Financial liabilities at fair value through profit or loss	**12,483,213**	5,615,590
Derivative financial liabilities	**10,648,171**	5,297,863
Customer deposits	**974,915,960**	860,436,430
Income tax payable	**1,759,158**	2,850,550
Provisions	**3,118,177**	–
Debt securities issued	**245,996,763**	190,551,983
Other liabilities	**12,516,306**	22,783,475
Total liabilities	**1,527,449,455**	1,441,861,813

47 STATEMENT OF FINANCIAL POSITION OF THE BANK *(Continued)*

	December 31, 2018	December 31, 2017
EQUITY		
Share capital	**18,718,697**	17,959,697
Other equity Instruments	**14,957,664**	14,957,664
Capital reserve	**22,130,353**	19,974,808
Surplus reserve	**6,024,739**	4,882,975
Statutory general reserve	**18,461,991**	17,243,730
Investment revaluation reserve	**1,389,355**	(1,553,817)
Retained earnings	**19,105,862**	14,705,517
Total equity	**100,788,661**	88,170,574
Total liabilities and equity	**1,628,238,116**	1,530,032,387

The financial statements were approved by the Board of Directors on March 18, 2019 and were signed on its behalf by:

Shen Renkang	Xu Renyan
Legal Representative, Chairman of Board	Vice Chairman of Board, President

	Share capital	Other equity instrument	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Total
Balance at December 31, 2017	**17,959,697**	**14,957,664**	**19,974,808**	**4,882,975**	**17,243,730**	**(1,553,817)**	**14,705,517**	**88,170,574**
Impact on Accounting policy changes	**–**	**–**	**–**	**–**	**–**	**1,256,465**	**(1,475,093)**	**(218,628)**
Balance at January 1, 2018	**17,959,697**	**14,957,664**	**19,974,808**	**4,882,975**	**17,243,730**	**(297,352)**	**13,230,424**	**87,951,946**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**11,417,641**	**11,417,641**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,686,707**	**–**	**1,686,707**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,686,707**	**11,417,641**	**13,104,348**
Contribution of shareholders	**759,000**	**–**	**2,155,545**	**–**	**–**	**–**	**–**	**2,914,545**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**1,141,764**	**–**	**–**	**(1,141,764)**	**–**
Appropriation to statutory general reserve	**–**	**–**	**–**	**–**	**1,218,261**	**–**	**(1,218,261)**	**–**
Cash dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(3,182,178)**	**(3,182,178)**
Balance at December 31, 2018	**18,718,697**	**14,957,664**	**22,130,353**	**6,024,739**	**18,461,991**	**1,389,355**	**19,105,862**	**100,788,661**
Balance at January 1, 2017	17,959,697	–	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	67,475,378
Net profit for the year	–	–	–	–	–	–	10,925,687	10,925,687
Other comprehensive income for the year	–	–	–	–	–	(1,253,339)	–	(1,253,339)
Total comprehensive income	–	–	–	–	–	(1,253,339)	10,925,687	9,672,348
Other equity instruments issued	–	14,957,664	(15,212)	–	–	–	–	14,942,452
Appropriation to statutory surplus reserve	–	–	–	1,092,569	–	–	(1,092,569)	–
Appropriation to statutory general reserve	–	–	–	–	4,001,274	–	(4,001,274)	–
Cash dividend	–	–	–	–	–	–	(3,919,604)	(3,919,604)
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,705,517	88,170,574

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
(All amounts expressed in thousands of RMB unless otherwise stated)

1 Liquidity ratios

	December 31, 2018	December 31, 2017
(Expressed in percentage)		
RMB current assets to RMB current liabilities	**53.09**	51.61
Foreign currency current assets to foreign currency current liabilities	**49.06**	28.20

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBIRC.

2 International claims

The Group is principally engaged in business operations within Mainland China, international claims are the sum of cross-border claims in local claims in foreign currencies and all currencies.

International claims include balances with balances with central banks, due from banks and other financial institutions, financial assets at fair value through profit or loss, loans and advances to customers, available-for-sale financial assets, financial assets measured at amortized cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

December 31, 2018	**Bank**	**Official sector**	**Non-bank private sector**	**Total**
Local claims in foreign currencies	**9,495,496**	**170,311**	**35,957,503**	**45,623,310**
Asia Pacific excluding Mainland China	**7,658,510**	**175,398**	**1,904,681**	**9,738,589**
– of which attributed to Hong Kong	**6,453,772**	**175,398**	**1,698,927**	**8,328,097**
Europe	**249,479**	**–**	**–**	**249,479**
North America	**2,409,457**	**–**	**–**	**2,409,457**
Oceania	**71,908**	**–**	**–**	**71,908**
Total	**19,884,850**	**345,709**	**37,862,184**	**58,092,743**

2 International claims *(Continued)*

December 31, 2017	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	8,873,987	–	39,831,771	48,705,758
Asia Pacific excluding Mainland China	74,968	–	4,050,331	4,125,299
– of which attributed to Hong Kong	45,572	–	4,050,331	4,095,903
Europe	739,598	–	–	739,598
North America	2,331,328	–	–	2,331,328
Oceania	98,514	–	–	98,514
Total	12,118,395	–	43,882,102	56,000,497

3 Currency concentrations

	Equivalent in RMB			
	US Dollars	**HK Dollars**	**Others**	**Total**
As at December 31, 2018				
Spot assets	**45,252,273**	**6,924,348**	**5,677,332**	**57,853,953**
Spot liabilities	**(48,531,560)**	**(602,555)**	**(4,062,936)**	**(53,197,051)**
Forward purchases	**915,034,775**	**–**	**75,159,882**	**990,194,657**
Forward sales	**(334,219,656)**	**(2,898,370)**	**(7,681,502)**	**(344,799,528)**
Net options position	**180,421**	**–**	**204,344**	**384,765**
Net long/(short) position	**577,716,253**	**3,423,423**	**69,297,120**	**650,436,796**

	Equivalent in RMB			
	US Dollars	HK Dollars	Others	Total
As at December 31, 2017				
Spot assets	57,536,972	586,346	4,531,999	62,655,317
Spot liabilities	(71,938,375)	(248,220)	(3,143,966)	(75,330,561)
Forward purchases	65,841,403	–	3,217,462	69,058,865
Forward sales	(4,427,354)	(7,564,302)	(71,413,466)	(83,405,122)
Net options position	528,476	–	(4,050)	524,426
Net long/(short) position	47,541,122	(7,226,176)	(66,812,021)	(26,497,075)

4 Overdue and rescheduled assets

(1) Gross amount of overdue loans and advances to customers

	December 31, 2018		December 31, 2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Within 3 months	**2,335,938**	**21.93**	1,168,584	16.25
Between 3 and 6 months	**1,447,055**	**13.59**	1,153,107	16.04
Between 6 and 12 months	**2,775,624**	**26.06**	2,435,770	33.88
Over 12 months	**4,092,516**	**38.42**	2,431,965	33.83
Total	**10,651,133**	**100.00**	7,189,426	100.00

(2) Overdue and rescheduled loans and advances to customers

	December 31, 2018	December 31, 2017
Total rescheduled loans and advances to customers	**1,604,585**	319,099
Including: rescheduled loans and advances to customers overdue for not more than 3 months	**52,244**	269,597
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	**0.01%**	0.04%