



Annual Report

HUA XIA BANK CO., LIMITED

2018



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Chairman of the Board: Li Minji



## MESSAGE FROM CHAIRMAN FOR THE ANNUAL REPORT 2018

In 2018, China started to act on the guiding principles of the 19th CPC National Congress and celebrated the 40th anniversary of reform and opening-up, while Hua Xia Bank promoted its four-year development program towards in-depth implementation. In the year, faced up with the complicated external situation and market environment as well as arduous operating tasks, we pursued the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as a guide, and acted on the core messages conveyed on the 19th CPC National Congress and the new outlook on development in earnest. While focusing our attention on the following three major missions: serving the needs of real economy, forestalling financial risks, and pushing forward financial reform, we resolutely followed the Party leadership, advanced the four-year development program, tackled with the capital bottleneck that held back our development on the whole, brought assets and liabilities under scientific and efficient management, kept a tight grip on asset quality, implemented the strategy of serving State strategies and local mainstream economy, allowed FinTech to give its driving role into full play, and made headway in building a sound cadre team. Thanks to the generous support of governments at various levels and all shareholders, all of us pulled together to overcome setbacks and forge ahead. As a result, we achieved impressive results in all aspects of our work, and took new steps towards the completion of tasks and objectives set out in the development program.

We succeeded in accomplishing the objectives and tasks assigned by the Board of Directors. Our total assets hit RMB2,680.6 billion, up 6.84% over the beginning of 2018, net profit attributable to shareholders of the listed company stood at RMB20.854 billion, up 5.22% year on year, and asset quality got stabilized and picked up. We wrapped up the private equity placement as well as expected. By the end of 2018, the private equity placement managed to raise RMB29,232 million, further consolidating our capital foundation. As we are halfway to the deadline set by the development program, the tasks specified therein have been more than half complete. Our total assets and profit growth both outperform expectations; and many indicators including liquidity and CAR improve comprehensively in line with regulatory requirements. All priority strategies and sub-programs were advanced steadily. Fairly great and fast developments were achieved in terms of FinTech innovation, retail banking, financial services for SMEs, green finance-featured business, and other aspects in particular. So our brand image and market influence got enhanced consequently. The release and implementation of various sub-programs gave an important boost to the realization of the overall goal outlined in the development program. As a steadily upward trend is taking shape, our asset-liability structure has basically stabilized, and net interest margin gone up quarter by quarter; our operating income, pre-provisioning profit, and net profit have all grown at a rate higher than last year; and our cost-to-income ratio has continued to dwindle by dropping 0.38 percentage point year on year. What we have achieved in operational management and business development throughout the year is remarkable.

Hereby, I would like to extend my sincere gratitude to the public, shareholders, senior management and entire staff on behalf of our Party Committee and the Board of Directors. Looking into the future, we will follow the fundamental strategy of "putting deposits at our heart and making us stronger with FinTech and competent employees", stay true to the track towards "featured, digital, comprehensive and asset-efficient development", and strive to develop into a modern financial group that is "large and strong, stable and excellent".

The year 2019 witnesses the 70th anniversary of the founding of new China. It is also a crucial year for China to secure a decisive victory in building a moderately prosperous society in all respects and realizing its first centenary goal. For us, the year is also pivotal, because our four-year development program will carry forward in a new paragraph. So we will go all out to do a good job in 2019. Reform is an ongoing process. In 2019, we will move as just required by the financial supply-side structural reform. Riding on the trend and proceeding from institutional reform, we will keep optimizing asset quality as a guarantee, prioritize on benefit and efficiency enhancement, and put the four-year development program in operation profoundly. Determined and persistent, we will seek for high-quality development, give back to the society and shareholders with excellent performances, and pay tribute to the new China at its 70-year-old birthday.

Chairman of the Board: Li Minji



President: Zhang Jianhua



## MESSAGE FROM PRESIDENT FOR THE ANNUAL REPORT 2018

2018 is a crucial year for Hua Xia Bank to carry forward the four-year development program. In face of the complicated external situation and market environment, we upheld the general principle of “seeking for progress while maintaining stability” and the new development philosophy, and focused on the three major missions: serving the needs of real economy, forestalling financial risks, and pushing forward financial reform. We pursued market-oriented development, furthered reform and innovation, enhanced development quality, promoted the implementation of new development program on all fronts, and secured major progress in strategic priorities. As a result, we succeeded in accomplishing the operating tasks and objectives for the whole year.

As at the end of 2018, our total assets reached RMB2,680.6 billion, up 6.84% year on year; operating income stood at RMB72.2 billion, up 8.80% year on year; and net profit attributable to shareholders of the listed company amounted to RMB20,854 million, up 5.22% year on year. It is worth special mentioning that we completed the private equity placement to realize an increase of RMB2.92 billion in capital base and raise the CAR to 13.19%, thus laying a sound capital base for the implementation of the development program.

In 2018, we made new headway in developing strategic business. We sped up the transform and development of retail business, vigorously improved customer marketing, products and services, and teamed up with external entities in online lending business efficiently. Thanks to these efforts, the proportion and contribution of retail business kept rising. While striving to become a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially, we centered on major tasks such as helping Beijing relieve its non-capital functions, and prioritized on rendering financial services in the following six fields: infrastructure construction, industrial transfer, FinTech innovation, culture & creativity, green finance, and personal finance. What's more, we kept enhancing financial services for SMEs, supported private enterprises and MSEs in growing stronger and larger, and issued the first MSEs-targeted loan securitization product among all Chinese commercial banks. With these moves, we expanded loans for MSEs fairly fast, meeting the regulatory requirements that “the growth rate of MSE loans shall not be lower than the average growth rate of all the loans, and the number and granting rate of MSE loans shall not be lower than those in the same period of last year” and “the year-on-year growth rate of MSE loans with single credit of not more than RMB10 million shall not be lower than the average year-on-year growth rate of all the loans, and the number of MSE loans shall not be lower than that in the same period of last year” in many straight years. In building the green finance brand of “Green Growth, Beautiful Hua Xia”, we used the on-lending funds from the World Bank and the French Development Agency to finance 80 projects in 16 Chinese provinces, municipalities, and autonomous regions.

In 2018, we made new progress in asset quality management. To win the crucial battle for forestalling and defusing financial risks, we took measures such as controlling new loans, sorting out existing loans, and cutting overdue loans to enhance asset quality. We made more efforts to recover and dispose of existing overdue loans and NPLs, and rolled out new businesses featuring stable and sound asset quality, meeting regulatory requirements.

In 2018, we secured new breakthroughs in FinTech innovation. In addition to setting up the IT production framework that consisted of “one department and six centers”, we initiated 15 FinTech sub-programs as key projects on all fronts, and advanced the IT projects and refined related systems in an orderly way. As a result, IT and marketing services worked better together, the Head Office and branches cooperated more smoothly, and FinTech-driven transformation efforts took more noted effect. With 295 new interconnected platforms, our online finance business realized a year-on-year growth of 71.68% in business income.

What we have achieved is impossible without customers' trust, employees' hard work, and governments' support, as well as new opportunities brought about by the new era. We are grateful for all of these and keep our founding mission in mind. In practice, we continue to satisfy every consumer with wholehearted and professional financial services, and deliver consistent and excellent performances in tribute to the 40th anniversary of reform and opening-up.

2019 marks the 70th anniversary of the founding of PRC. It is a great test for every Chinese company to decide what they can do to celebrate this historic moment. Standing at a starting point of the new era, we are exploring for a path of transforming the modern banking industry, pushing forward the reform and opening-up initiative in finance, bolstering the ability to serve the real economy, and making tough efforts to forestall and defuse financial risks. All of this is the key to stead development in the future.

As China is in its prime era, it is high time for us to set sail. In the new year, we will shoulder responsibilities willingly, overcome setbacks confidently, and make innovation unceasingly. To this end, we will seize the fleeting opportunities, grasp the essence of finance, promote the supply-side structural reform in the financial sector, and work hard to pursue steady growth and forestall risks. Amid the switch from old growth drivers to new ones, we will adhere to the established strategies, gain momentum for reform, and get more motivated for innovation, so as to give back to shareholders and the society with outstanding business results.

President: Zhang Jianhua

## IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Hua Xia Bank Co., Limited (the “Company”) undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liability thereto.

ii. The *Annual Report 2018 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the 46th Meeting of the Seventh Board of Directors of the Company on 17 April 2019. 12 of the 15 directors that should attend the meeting were present actually. Directors Wang Hongjun, Liu Chunhua, and Zhao Junxue were absent due to official affairs, and they entrusted Directors Zou Libin, Ren Yongguang and Li Minji to exercise the right to vote respectively. Therefore, there were 15 valid votes. Four Supervisors attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period that was reviewed by the Board of Directors:

With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2018 as the base number, cash dividends will be distributed to all of the shareholders at RMB1.74 (before tax) per 10 shares.

For details, please refer to “Section V Significant Events”.

iv. The 2018 Financial Statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with Chinese auditing standards, with standard unqualified auditor’s report being issued.

v. Li Minji, Chairman of the Board of Directors of the Company, Zhang Jianhua, President of the Company, and Guan Wenjie, Person-in-charge of the Financial Affairs and Accounting Department of the Company, hereby warrant that the Financial Statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company’s actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company’s future development strategies and business objectives. Please refer to risk-related part in “Section IV Discussion and Analysis of Operations”.

Should there be any discrepancy between the English version and the Chinese version, the latter shall prevail.



## SECTION I DEFINITIONS

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

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank, Hua Xia Bank	Hua Xia Bank Co., Limited
CBRC, CBIRC	China Banking Regulatory Commission, China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
Yuan	RMB

## SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

- I. Legal name in Chinese: 华夏银行股份有限公司  
Chinese abbreviation: 华夏银行  
Legal name in English: HUA XIA BANK CO., Limited
- II. Legal Representative: Li Minji
- III. Secretary to the Board of Directors: Zhao Junxue  
Securities affairs representative: Zhang Taiqi  
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing  
Postal code: 100005  
Tel: 010-85238570, 85239938  
Fax: 010-85239605  
Email: zhdb@hxb.com.cn
- IV. Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing  
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing  
Postal code: 100005  
Website: <http://www.hxb.com.cn>; <http://www.95577.com.cn>  
Email: zhdb@hxb.com.cn
- V. Newspaper designated for disclosure of information: *China Securities Journal, Shanghai Securities News and Securities Times*  
Website designated by CSRC for publication of the annual report: <http://www.sse.com.cn>  
Location where copies of this annual report are kept: Office of the Board of Directors of the Company
- VI. Place where share is listed: Shanghai Stock Exchange  
Stock name of ordinary A-share: 华夏银行  
Stock code of ordinary A-share: 600015  
Stock name of preference share: 华夏优1  
Stock code of preference share: 360020
- VII. Other relevant information:  
Name of depository of shares of the Company: Shanghai Branch of China Securities Depository and Clearing Co., Ltd.  
Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China  
Signed CPAs: Wen Qisi & Ma Xiaobo  
Sponsor institution for continuous supervision: CSC Financial Co., Ltd.  
Office address: 9/F, Tower B, Metro World Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing  
Signed sponsor representatives: Lv Xiaofeng & Sui Yuyao  
Period of continuous supervision: 8 January 2019 to 31 December 2020



## VIII. MAJOR PROFIT INDICATORS OF THE YEAR

(Unit: RMB1 million)

Item	2018
Gross profit	26,783
Net profit attributable to shareholders of the listed company	20,854
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	20,807
Operating profit	26,688
Investment loss/(gain)	4,068
Net non-operating income and expenditure	95
Net cash flows from operating activities	-100,935
Net change of cash and cash equivalents	-43,987

### Extraordinary profit and loss items and amounts

(Unit: RMB1 million)

Extraordinary profit and loss item	2018	2017	2016
(Profit)/loss from the disposal of fixed assets	-14	-9	-10
Other net operating income and expenses	95	136	134
Total extraordinary profit and loss	81	127	124
Less: Income tax influence of extraordinary profit and loss	30	44	35
Extraordinary profit and loss, net	51	83	89
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	4	1	5
Extraordinary profit and loss attributable to ordinary shareholders of the Company	47	82	84

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*.

## IX. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS IN THE PAST THREE YEARS

### i. Main accounting data

(Unit: RMB1 million)

Main accounting data	2018	2017	Increase/decrease compared with previous year (%)	2016
Operating income	72,227	66,384	8.80	64,015
Operating profit	26,688	26,117	2.19	26,109
Gross profit	26,783	26,253	2.02	26,243
Net profit attributable to shareholders of the listed company	20,854	19,819	5.22	19,677
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	20,807	19,737	5.42	19,593
Net cash flows from operating activities	-100,935	-87,828	N/A	139,912
	End of 2018	End of 2017	Increase/decrease compared with the end of previous year (%)	End of 2016
Total assets	2,680,580	2,508,927	6.84	2,356,235
Total liabilities	2,461,865	2,339,429	5.23	2,203,262
Owner's equity attributable to shareholders of the listed company	217,141	168,055	29.21	152,184
Total share capital	15,387	12,823	20.00	10,686

### ii. Major financial indicators

Major financial indicator	2018	2017	Increase/decrease compared with previous year (%)	2016
Basic earnings per share (in RMB)	1.56	1.48	5.41	1.53
Diluted earnings per share (in RMB)	1.56	1.48	5.41	1.53
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.56	1.47	6.12	1.53
Weighted average return on equity (%)	12.67	13.54	Down 0.87 percentage point	15.75
Weighted average return on net assets after deduction of extraordinary profit and loss (%)	12.64	13.48	Down 0.84 percentage point	15.68
Net cash flow per share from operating activities (in RMB)	-6.56	-6.85	N/A	10.91
	End of 2018	End of 2017	Increase/decrease compared with the end of previous year (%)	End of 2016
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	12.81	11.55	10.91	10.31
Liability/asset ratio (%)	91.84	93.24	Down 1.4 percentage points	93.51



### Supplementary financial ratios

Item	2018	2017	2016
Net interest spread (%)	1.80	1.88	2.29
Net interest margin (%)	1.95	2.01	2.42

#### Notes:

1. Relevant indicators are calculated according to the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*, the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision 2017)*, and the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.

2. The Company distributed a cash dividend totaling RMB840 million to preference shareholders in March 2018. While calculating the basic earnings per share and the weighted average return on equity (ROE), it takes into account the distribution of dividend to preference shareholders.

3. Liability/asset ratio is calculated by dividing total liabilities by total assets.

4. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

5. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

## X. MAJOR FINANCIAL INDICATORS OF 2018 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	15,905	16,971	17,747	21,604
Net profit attributable to shareholders of the listed company	4,549	5,486	4,478	6,341
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	4,543	5,467	4,488	6,309
Net cash flows from operating activities	-61,406	-47,821	1,477	6,815

## XI. SCHEDULE TO THE INCOME STATEMENT

Profit of the reporting period	Weighted average return on equity (%)	Earnings per share (in RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	12.67	1.56	1.56
Net profit attributable to ordinary shareholders of the Company after deducting extraordinary profit and loss	12.64	1.56	1.56

Note: Calculated according to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.

## XII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Minority interests	Total shareholders' equity
Balance at the beginning of the period	12,823	19,978	26,625	-1,152	11,703	30,055	68,023	1,443	169,498
Increase during the period	2,564	-	26,667	1,777	1,932	1,733	20,854	132	55,659
Decrease during the period	-	-	-	-	-	-	6,441	1	6,442
Balance at the end of the period	15,387	19,978	53,292	625	13,635	31,788	82,436	1,574	218,715

### Major reasons for changes in shareholders' equity:

1. "Share capital" increased because of the non-public offering of shares during the reporting period.
2. "Capital reserve" increased because the share premium arising from the non-public offering of shares during the reporting period was booked into the capital reserve.
3. "Other comprehensive income" changed due to the effect (after tax) of changes in fair value of available-for-sale financial assets on owner's equity during the reporting period.
4. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve and distributed cash dividends to all of the shareholders, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased.
5. The increase of "retained profit" is due to the realization of net profit during the reporting period.
6. The increase of "minority shareholders' equity" is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period. Its decrease is caused by the cash dividends distributed by the subsidiary to its minority shareholders during the reporting period.

## XIII. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Balance at the end of the period	Change during the period	Effect on profit of the period
Financial assets measured at fair value through profit or loss	3,206	12,470	9,264	22
Available-for-sale financial assets	110,230	124,933	14,703	-
Derivative financial instruments	1,560	76	-1,484	-1,486
Others	53	42	-11	1
Total	115,049	137,521	22,472	-1,463



## SECTION III BUSINESS OVERVIEW

### I. MAIN BUSINESSES, BUSINESS MODEL AND INDUSTRIES OF THE COMPANY DURING THE REPORTING PERIOD

#### i. Main businesses, major products and their usage, business model and key performance drivers

The main business cope of the Company covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, interbank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safe deposit box service, foreign exchange settlement and sale, sideline insurance agency and other services approved by China Banking and Insurance Regulatory Commission (“CBIRC”).

The Company provides corporate customers with such financial services as financing and cash management through its business lines including credit business, investment banking, trade finance, and green finance.

The Company offers personal customers individualized, diversified and network-based financial services including deposit, loan, wealth management, fund, insurance, precious metal, credit card and collection and payment service as an agent. At the same time, it also strives to cater to various financing needs of private enterprises and micro and small-sized enterprises (MSEs), by furnishing them with technology-enabled, featured, professional and inclusive financial services.

Please refer to “Discussion and Analysis of Operations—Business Review” of the report for details.

#### ii. Industry’s development stage, cyclical characteristics and the Company’s position in the industry

In 2018, the Chinese economy upheld the overall principle of seeking progress while maintaining stability, pushed forward the supply-side structural reform in depth, appropriately fine-tuned macroeconomic policies in good time, and thus managed to cope with changes in external environment and Sino-US trade frictions well. As a result, it operated within the reasonable range as a whole. Internationally, the combination of many factors such as the rising trade protectionism, the continuously tightened monetary policies in developed countries, and the surging geopolitical risks slowed down the recovery of the global economy somewhat. Domestically, the Chinese economy sustained its operational resilience. But in the stage of transition from old drivers of growth to new ones, the pains caused by structural adjustments continued to emerge, the long-term accumulated risks were exposed over time, and private enterprises and MSEs had poor access to financing at high cost. Overall, the downward pressure on the economy was mounting. The increasing uncertainties at home and abroad brought certain impacts to the Chinese banking industry. However, the monetary policy further stepped up its support for the real economy. Consequently, the liquidity of the banking system remained reasonably abundant, and the banking sector delivered a performance slightly better than expected. In 2018, the Chinese commercial banks got stabilized and improved overall, mainly showing the following characteristics: the scale of assets and liabilities expanded steadily, the asset and liability structure continued to optimize, and the overall profitability of the industry increased steadily; the income from bank card business continued to grow, the income from wealth management business declined at a narrowed rate, and the non-interest income growth gradually stabilized; the provisioning level increased significantly at commercial banks, and the overall asset quality remained stable; and the capital replenishment measures took effect initially, but small and medium banks still faced certain capital constraints.

In the face of complicated external situation and market environment, the Company earnestly implemented the spirit of the 19th National Congress of the Communist Party of China (“CPC”), focused on the implementation of the new development concept and the three major financial tasks, and adhered to the general principle of seeking progress amid stability. In practice, it promoted the reform and innovation in depth, and improved the quality of development. While putting into operation the new development plan, it secured breakthroughs in the following six strategies: promoting innovative financial technology (FinTech), strengthening retail business development, improving the arrangements for integrated business, developing into the lead bank that served the coordinated development of the Beijing-Tianjin-Hebei Region financially, consolidating its positioning as the financial service providers for small and medium-sized enterprises (SMEs), and advancing the green finance-featured business line. As a result, the Company saw its business brand and market influence on the steady rise, sustained a stable market share in the Chinese banking industry, and went up steadily in the comprehensive rankings of the international banking industry.

## II. MATERIAL CHANGES IN PRIME ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

The Company's prime assets include loans and advances to customers, held-to-maturity investments, investments receivable, cash on hand and balances with central banks, and available-for-sale financial assets. At the end of the reporting period, the loans and advances granted totaled RMB1,613,516 million, up RMB219,434 million or 15.74% over the beginning of the year; the financial assets purchased under agreements to resell stood at RMB1,723 million, down RMB38,480 million or 95.71% over the beginning of the year; and the due from banks and other financial institutions posted RMB21,871 million, down RMB34,995 million or 61.54% over the beginning of the year. The major reason for the material changes in the above assets was that the Company scaled down interbank business moderately and scaled up loans steadily as required by regulators and needed by customers.

## III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

**FinTech-driven transformation started to take effect.** The Company listed "promoting innovative FinTech" as a top priority of its six strategies. Specifically, it shored up input into this regard, made vigorous efforts to cultivate and introduce FinTech personnel, and applied FinTech to forge competitive edges unique to itself. Thanks to these moves, FinTech-led transformation started to take effect. The use of FinTech in promoting the development of retail business achieved major breakthroughs. On the premise of strengthening risk control, the Company teamed up with external entities to carry out online loan business efficiently, thus promoting retail finance to grow in both scale and yield significantly. Focusing on the drive of digitalization, it launched the digitalized process reengineering project, with a view to transforming all business processes towards digital, online and automatic operation. With an open and win-win mindset, the Company cemented its all-around and in-depth partnerships with high-tech companies such as Tencent and Huawei to develop innovative FinTech with coordinated efforts.

**Financial services for SMEs continued to be refined.** The Company spared no effort to act on the arrangements made by the CPC Central Committee and the State Council for supporting the development of private economy, in a move to vigorously implement its strategy of "becoming a financial service provider for SMEs". In the meantime, it continued to improve the "Head Office-branch-subbranch" three-level service system, pursued the approach to "professional services, branded business lines, featured operation, and meticulous management", and adopted a full package of policy measures such as allocating special credit resources, shortening enterprises' financing chain, and reducing financing cost facing MSEs so as to help solve the dilemma where private enterprises and MSEs have poor access to financing at high cost, and vigorously support them to grow larger and stronger.

**The initiative to build into a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region ("the Region") financially was advanced in depth.** Bearing closely in mind the *Outline of the Plan for Coordinated Development of the Beijing-Tianjin-Hebei Region*, the Company upheld the working principles of seeking for coordinated development of the Region by taking root in Beijing, serving key customers and making breakthroughs with joint efforts, and gathered its pace in developing itself into the lead bank that served the Region financially. In practice, it drafted the *Work Plan for Coordinated Development of the Beijing-Tianjin-Hebei Region*, established the Steering Office for the Coordinated Development of the Beijing-Tianjin-Hebei Region, refined the distribution of institutions and outlets located in the Region, and introduced exclusive services for promoting the coordinated development of the Region. While seizing the opportunities brought about by regional development, the Company continued diverting more resources into an array of important fields like the construction of integrated transportation in the Region, industrial transfer and upgrading, environmental protection/improvement, and shift of non-capital core functions from Beijing. To boost the transformation and upgrading of the real economy, it was dedicated to providing the Region with a full package of financial services such as industrial structure optimization, ecological environment improvement, and integrated transportation facilities.

**The green finance-featured brand formed gradually.** The Company adapted itself to directions pointed out by the state for economic transformation and industry restructuring, and grasped the financial opportunities brought about by the state's endeavors to make ecological progress. While developing its green finance-featured business continuously, the ratio of its green assets to the total came at the forefront of the comparable peer banks. At the same time, it allowed the low-cost funds from the international cooperation projects to leverage more green credit resources, and took an active part in devising innovative green finance business management and service modes. Moreover, it focused its efforts on the following four service areas: energy efficiency financing, clean energy financing, environmental protection financing, and green equipment supply chain, thus creating a product lineup that comprised green credit, green leasing, green investment, and green debt financing tool underwriting, developing the business features that advocated international cooperation, integration of industry and finance, and innovation in service mode, and forging the green finance brand of "Green Growth, Beautiful Hua Xia".





## IV. HONORS AND AWARDS

i. The Company was conferred with the “Junding Award for the 2018 Excellent Investment Banks in China” on 20 April 2018 when the newspaper *Securities Times* convened the selection of award winners.

ii. The Company was rated with the “Award for the 2018 Most Competitive Assets management Banks” on 28 July 2018 when the newspaper *21st Century Business Herald* hosted the selection of 2018 Golden-Shell Award winners.

iii. The Company was given the “Award for the Best Banks by Green Finance” on 23 August 2018 when the website of *finance.sina.com.cn* held the 2018 Chinese Banking Industry Development Forum and the Sixth Banking Comprehensive Selection Awards Ceremony.

iv. By virtue of its outstanding performance in green finance, the Company won the “Award for the Best Banks by Green Energy Development” on 20 November 2018 when the US magazine *Global Finance* hosted the ceremony to present the winners of the “Stars of China Awards”.

v. The Company was granted with the “Award for the Asset Custodian Bank of the Year” on 2 December 2018 when the newspaper *21st Century Business Herald* hosted the selection of the competitive Asian financial institutions.

vi. The Company was presented with the “Award for the 2018 Best Trade Financing Banks” on 11 December 2018 when *Trade Finance*, the magazine in the charge of the Ministry of Commerce of China, held the eighth annual selection of the Most Trusted Financial Service Providers for Chinese Economic and Trade Enterprises.

vii. The Company was granted with the “Award for Best Mobile Banking Function” and the “Award for Best Direct Banking Function” on 13 December 2018 when China Financial Certification Authority convened the 14th annual gathering for the Chinese electronic banking sector.

viii. The Company’s open-ended wealth management products with fixed terms and fixed income in Longying series was given the “Award for Exemplary Net-worth Wealth Management Products of the Year” on 13 December 2018 when the newspaper *Shanghai Securities News* hosted the selection of winners for “2018 Golden Wealth Management Awards”.

ix. The “Cross-border Cloud-based Account Project for International Business” of the Company was granted with the “Award for Outstanding Contribution in Channel Innovation”, and the “Secure Desktop Cloud Development Project” of it was named with the “Award for Outstanding Contribution to Technological Innovation by Operational and Maintenance Innovation” on 20 December 2018 when *Financial Computerizing*, the magazine of the People’s Bank of China (“PBOC”), held the award winners selection as part of the 2018 annual meeting of Chinese FinTech enterprises.

x. The Company came out No.1 among the Chinese joint-stock commercial banks on the list of “Top 300 Dealers in the Interbank RMB Market” which was released by China Foreign Exchange Trade System on 2 January 2019.

xi. The Company made its way to the Top 100 Settlement Companies selected by China Central Depository & Clearing Co., Ltd., and won the Award for Excellent Dealers on 8 January 2019.

xii. The Company was presented with the “Award for the Most Transmissible News” on 8 January 2019 when China Banking Association hosted the Good News selection across the Chinese banking industry in 2018.

xiii. The Credit Card Center of the Company was given the “Award for Innovation in Marketing Rights and Interests in 2018” by MasterCard International on 8 January 2019.

xiv. The Credit Card Center of the Company received the “Award for 2018 Excellent Partners”, the “Award for Outstanding Contribution by Sports-themed Products in 2018”, and the “Award for Outstanding Contribution by Authorization Success Rate Optimization in 2018” from VISA International on 24 January 2019.

## SECTION IV DISCUSSION AND ANALYSIS OF OPERATIONS

### I. ANALYSIS OF OVERALL OPERATIONS

During the reporting period, the Company upheld the general principle of “seeking for progress while maintaining stability” and the new development philosophy, focused on the three major tasks: serving the real economy, preventing and controlling financial risks, and pushing forward the financial reform, pursued the market-based path, sped up development pace, deepened reform and innovation, enhanced quality of development, and realized the operating objectives for the whole year.

#### i. Sustained business expansion

At the end of the reporting period, the Group’s total assets reached RMB2,680,580 million, an increase of RMB171,653 million or 6.84% over the beginning of the year; total loans increased by RMB219,434 million or 15.74% to RMB1,613,516 million; and deposit balance increased by RMB58,585 million or 4.09% to RMB1,492,492 million.

#### ii. Stable business performance

During the reporting period, net profit attributable to shareholders of the listed company stood at RMB20,854 million, a year-on-year increase of RMB1,035 million or 5.22%, 4.50 percentage points faster compared with the same period of previous year. Operating income increased by RMB5,843 million or 8.80% year on year to RMB72,227 million, 5.10 percentage points faster compared with the same period of previous year. Return on assets (ROA) and return on equity (ROE) were 0.81% and 12.67%, respectively.

#### iii. Continuously improved business structure

First, income structure further improved. Centering on the objective of value creation, the Company diverted more resources to key business, launched special campaigns to dispose of low-efficient and inefficient assets, highlighted the operating efficiency of assets and liabilities, and exercised more rigid control over interest margin. Many business lines including credit card, trade finance, financial markets, and online finance developed at a fast pace. Fee-based business income grew from more diverse sources, and such income reached RMB20,440 million, accounting for 28.30%. Second, cost structure further improved. The Company brought deposits under further classified management, cut down on fund costs, intensified budget management, wielded meticulous cost control, and further refined classified management from three dimensions: quantity, price and efficiency. As a result, its cost-to-income ratio fell by 0.38 percentage point to 32.58% throughout the year.

#### iv. Constantly deepened channel construction

First, the network of institutions and outlets was expanded continuously. The Company opened two tier-1 branches in Xining and Lanzhou, established six tier-2 branches and 54 institutions in the year, increasing the total number of outlets to 1,022. Second, service channel building went deeper. The Company gathered pace in transitioning to online operation. The online finance business line set 295 new interconnected platforms, and 96.80% major deals were conducted through electronic channels.

#### v. Further deepened risk control and internal control & compliance

First, comprehensive risk management was intensified in a coordinated way. The Company developed the annual risk management strategy, in a bid to reinforce credit risk control and restriction. At the same time, it worked harder to study and implement credit and investment & financing policies, and vigorously brought non-credit asset risks under coordinated management. Consequently, its operational risk management and business continuity management kept going deeper, market risk stayed steady and under control overall, and major liquidity indicators conformed to regulatory requirements. Second, compliance management was conducted with greater efforts. The Company promoted the crackdowns in depth, engaged in negative list-based governance, and actively cooperated with the onsite inspections of shadow banking and cross financing, with a view to making sure existing problems could be corrected, improving anti-money laundering (AML) policies, stepping up internal control & compliance publicity and education, and embedding related requirements into all business and management links throughout whole process.



## II. BUSINESS HIGHLIGHTS

### i. Analysis of principal activity

During the reporting period, the Group recorded an operating income of RMB72,227 million and a net profit attributable to shareholders of the listed company of RMB20,854 million, a year-on-year increase of 8.80% and 5.22%, respectively. The above increase was mainly credited to the further intensified budget management and the continuously strengthened expenditure control.

#### 1. Analysis of major indicators

(Unit: RMB1 million)

Item	2018	2017	Change (%)
Operating income	72,227	66,384	8.80
Operating profit	26,688	26,117	2.19
Net profit attributable to shareholders of the listed company	20,854	19,819	5.22
Net change of cash and cash equivalents	-43,987	-149,214	N/A

#### 2. Breakdowns by geographical area

(Unit: RMB1 million)

Regions	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Northern China and Northeastern China	37,193	5.46	13,353	-16.06
Eastern China	14,093	10.01	5,385	14.36
Central China and Southern China	12,518	13.85	4,666	45.72
Western China	8,426	15.22	3,287	42.79
Offset among segments	-3	N/A	-3	N/A
Total	72,227	8.80	26,688	2.19

### 3. Changes in operating income

(Unit: RMB1 million)

Business type	2018	Percentage (%)	Increase/ decrease compared with previous year (%)
Interest income from loans and advances to customers	74,305	53.42	18.88
Interest income from held-to-maturity investments	15,454	11.11	15.50
Interest income from investments receivable	12,150	8.73	1.03
Interest income from available-for-sale financial assets	4,252	3.06	17.62
Interest income on due from central banks	3,163	2.27	-6.50
Interest income from financial assets purchased under agreements to resell	2,597	1.87	53.94
Interest income from placements with banks and other financial institutions	2,895	2.08	127.06
Interest income from deposits in other financial institutions	1,010	0.73	-53.24
Interest income of financial assets designated at fair value through profit or loss	210	0.15	5.00
Fee income	20,129	14.47	-1.56
Other business	2,931	2.11	344.76
Total	139,096	100.00	14.64

### 4. Explanations on reasons for major changes in profit composition, principal operation and structure, and profitability of principal operation from the previous reporting period

During the reporting period, there were no major changes in profit composition, principal operation and structure, or profitability of principal operation from the previous reporting period.

### 5. Analysis on cash flows of the Company

As at the end of the reporting period, net flow of cash and cash equivalents of the Group was RMB43,987 million of net cash outflows. Of these, net cash outflow from operating activities stood at RMB100,935 million, which was mainly used to improve the operating efficiency of assets and liabilities, enhance the quality and effect of fund use, and spur the enhancement of operating benefits. Net cash inflow from investing activities amounted to RMB13,670 million, mainly a result of cash withdrawals from investments; and net cash inflow from financing activities scored RMB42,687 million, mainly because of the issuance of shares and bonds.



ii. Explanation on material changes in profit due to non-principal operation

During the reporting period, there were no major changes in profit due to non-principal operation.

iii. Analysis of changes in financial indicators

Items with over 30% changes in the comparative accounting statements

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Due from banks	21,871	-61.54	Due from banks decreased
Placements with banks and other financial institutions	40,663	167.17	Placements with banks and other financial institutions increased
Financial assets measured at fair value through profit or loss	12,470	288.96	Held-for-trading financial assets increased
Derivative financial assets	1,130	-65.29	Derivative financial assets decreased
Financial assets purchased under agreements to resell	1,723	-95.71	Financial assets purchased under agreements to resell decreased
Due to central banks	171,064	47.44	Due to central banks increased
Derivative financial assets	1,054	-37.85	Derivative financial liabilities decreased
Financial assets sold under agreements to repurchase	14,378	-79.46	Financial assets sold under agreements to repurchase decreased
Capital reserve	53,292	100.16	Share premium arising from the non-public offering of shares
Other comprehensive income	625	N/A	Net fair value changes of available-for-sale financial assets
Major accounting item	Reporting period	Increase/decrease compared with previous year (%)	Main reason
Investment gains/(losses)	4,068	N/A	Return on investment increased
Gains/(losses) from the changes in fair value	-1,463	-179.68	Accumulated changes in fair value through equity
Other operating income	107	234.38	Other business income increased
Profit/loss from the disposal of assets	-14	N/A	Loss from the disposal of assets increased
Other income	29	-32.56	Government subsidies relating to daily operating activities decreased
Other business costs	22	-52.17	Other business cost decreased

## iv. Analysis of major income statement items

## 1. Interest income

(Unit: RMB1 million)

Item	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans and advances	58,032	50.01	50,631	50.51
Personal loans and advances	15,523	13.38	11,658	11.63
Discounted bills	750	0.65	217	0.22
Held-to-maturity investments	15,454	13.32	13,380	13.35
Investments receivable	12,150	10.47	12,026	12.00
Available-for-sale financial assets	4,252	3.66	3,615	3.61
Balances with central banks	3,163	2.73	3,383	3.38
Placements with banks and other financial institutions	2,895	2.49	1,275	1.27
Financial assets purchased under agreements to resell	2,597	2.24	1,687	1.68
Due from banks	1,010	0.87	2,160	2.15
Financial assets measured at fair value through profit or loss	210	0.18	200	0.20
Total	116,036	100.00	100,232	100.00

## 2. Interest expense

(Unit: RMB1 million)

Item	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposits taken	24,544	38.05	20,725	39.17
Debt obligations payable	15,222	23.60	13,960	26.38
Due to banks and other financial institutions	13,368	20.73	10,157	19.19
Due to central banks	5,067	7.86	3,347	6.33
Placements from banks and other financial institutions	3,705	5.74	2,374	4.49
Financial assets sold under agreements to repurchase	1,910	2.96	1,782	3.37
Others	682	1.06	569	1.07
Total	64,498	100.00	52,914	100.00



### 3. Fee and commission income

(Unit: RMB1 million)

Item	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Bank card business	11,238	55.83	8,229	40.25
Wealth management service	3,178	15.79	6,981	34.14
Credit commitments	2,003	9.95	1,734	8.48
Agency business	1,470	7.30	1,544	7.55
Custody and other fiduciary services	973	4.83	969	4.74
Leasing service	619	3.08	522	2.55
Other business	648	3.22	468	2.29
Total	20,129	100.00	20,447	100.00

### 4. Operation and administrative expenses

(Unit: RMB1 million)

Item	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Staff remuneration and welfare	14,201	60.35	12,198	55.76
Business expenses	6,122	26.01	6,573	30.04
Depreciation and amortization	3,210	13.64	3,107	14.20
Total	23,533	100.00	21,878	100.00

### 5. Income tax expenses

(Unit: RMB1 million)

Item	2018	2017
Pre-tax profit	26,783	26,253
Income tax at statutory tax rate of 25%	6,696	6,563
Plus: Tax effect of non-deductible expense	1,395	1,419
Less: Tax effect of tax-exempt income	2,294	1,662
Total	5,797	6,320

## v. Analysis of assets

## 1. Loan extensions

## (1) Loan extensions by industry

(Unit: RMB1 million)

Industry	At the end of the reporting period		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	239,616	14.85	204,205	14.65
Manufacturing	209,176	12.96	215,681	15.47
Wholesale and retail	161,666	10.02	169,086	12.13
Real estate	119,204	7.39	95,548	6.85
Water conservancy, environment and public facilities management	98,011	6.07	85,981	6.17
Construction industry	96,175	5.96	89,946	6.45
Electric power, heat, gas and water production and supply industry	55,373	3.43	42,876	3.08
Transportation, warehousing and postal industry	51,110	3.17	48,268	3.46
Mining industry	26,959	1.67	32,208	2.31
Other corporate industries	85,385	5.29	70,629	5.07
Discounted bills	38,981	2.42	16,507	1.18
Personal loans and advances	431,860	26.77	323,147	23.18
Total	1,613,516	100.00	1,394,082	100.00

## Notes:

1. To guarantee the continuous comparability of data by same standards, the loan data involved in the Report in the beginning of the year have all been re-affirmed by the *Industrial Classification for National Economic Activities provided in the National Standards of the People's Republic of China GB/T-4754-2017*.

2. Other corporate industries mainly comprise agriculture, forestry, animal husbandry and fishery, information transmission, software and IT services, accommodation and catering, culture, sports and recreation, etc.

The Group actively implemented the macro-control and industrial policies of the state to continuously optimize the industry structure, prioritize on serving the needs of major national projects and infrastructure projects, and preferentially support the development of strategic emerging industries and the transformation and upgrading of manufacturing industries. At the same time, it gathered pace in developing green finance, people's livelihood-related consumption and other business fields, scaled down and exited from such high-risk business areas as those with overcapacity and high liability, pushed forward the strategy of "developing into a financial service provider for SMEs", and continued to increase the proportion of retail loans in the total. During the reporting period, the Group saw the proportions of loans to manufacturing, wholesale and retail, mining industry, construction industry, and other industries in the total loans declining somewhat, the proportion of those to real estate on the steady rise, and the proportions of those to the industries concerning people's livelihood like electric power, heat, gas and water production and supply industry rising slightly. As a result, the credit structure by industries continued to improve at the Group.





## (2) Loan extensions by geographical area

(Unit: RMB1 million)

Geographical area	At the end of the reporting period		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	615,296	38.13	525,878	37.72
Eastern China	425,328	26.36	382,613	27.45
Southern China and Central China	368,529	22.84	305,926	21.94
Western China	204,363	12.67	179,665	12.89
Total	1,613,516	100.00	1,394,082	100.00

During the reporting period, the Group closely followed the state's major regional development strategies and the business characteristics of different regions, encouraged branches to practice classified management and integrate themselves into local mainstream economy, and optimized and adjusted the business structure at a faster pace. Consequently, it achieved differentiated and quality development, and witnessed its region-specific credit structure operating stably as a whole.

## (3) Particulars of top 10 borrowers

(Unit: RMB1 million)

	Balance	Percentage (%)
Top 10 borrowers	42,538	2.77

During the reporting period, the Company strictly controlled the loan concentration risk. The balance of top 10 borrowers amounted to RMB42,538 million, accounting for 2.77% of total loans and 16.00% of net capital at the end of the period, respectively, which were controlled within the regulatory requirements.

## (4) Classification of loans by guarantee method and percentages

(Unit: RMB1 million)

	At the end of the reporting period		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured loans	343,055	21.26	268,629	19.27
Guaranteed loans	574,133	35.58	524,552	37.63
Collateral loans	696,328	43.16	600,901	43.10
– Mortgage loans	529,378	32.81	463,463	33.25
– Pledge loans	166,950	10.35	137,438	9.85
Total	1,613,516	100.00	1,394,082	100.00

During the reporting period, the Group continued to improve the loan guarantee structure. Its unsecured loans accounted for 21.26%, up 1.99 percentage points over the end of last year, which was mainly due to the expansion of credit card overdraft business; its guaranteed loans took a 35.58% share, down 2.05 percentage points over the end of last year; and its mortgage/pledge loans made up 43.16%, up 0.06 percentage point over the end of last year.

## 2. Major loans and interest rates

### (1) Major loans and interest rates by business category

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate loans	1,103,472	58,782	5.33
Retail loans	370,290	15,523	4.19
Total	1,473,762	74,305	5.04

### (2) Major loans and interest rates by term

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
General short-term loans	584,214	26,161	4.48
Medium and long-term loans	889,548	48,144	5.41
Total	1,473,762	74,305	5.04

Note: General short-term loans include discounts.

## 3. Financial assets purchased under agreements to resell

(Unit: RMB1 million)

Item	End of 2018		End of 2017	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	726	35.78	39,373	97.94
Bills	1,303	64.22	830	2.06
Total financial assets purchased under agreements to resell	2,029	100.00	40,203	100.00
Allowance for impairment losses	306	-	-	-
Outstanding financial assets purchased under agreements to resell	1,723	-	40,203	-

## 4. Large-value risk exposure

During the reporting period, the Group saw all its non-banking single customers, non-banking related customers, interbank single customers and interbank group customers meeting the regulatory requirements for large-value risk exposure.



## vi. Analysis of liabilities

### 1. Due to customers

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate demand deposits	586,770	4,321	0.74
Corporate time deposits	593,868	15,263	2.57
Savings demand deposits	104,800	315	0.30
Savings time deposits	155,056	4,645	3.00
Total	1,440,494	24,544	1.70

### 2. Financial assets sold under agreements to repurchase

(Unit: RMB1 million)

Item	End of 2018		End of 2017	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	11,141	77.49	69,946	99.92
Bills	3,237	22.51	56	0.08
Total	14,378	100.00	70,002	100.00

### 3. Due to banks and other financial institutions

(Unit: RMB1 million)

Item	End of 2018		End of 2017	
	Balance	Percentage (%)	Balance	Percentage (%)
Due to domestic banks	82,286	28.08	60,209	26.03
Due to overseas banks	–	–	1,001	0.43
Due to other domestic financial institutions	210,786	71.92	170,146	73.54
Total	293,072	100.00	231,356	100.00

## vii. Analysis of investments

## 1. Material equity investments

During the reporting period, the Company contributed RMB250 million to National Financing Guarantee Fund Co., Ltd.

**(1) Holdings in other listed companies**

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	1	0.05	-	Available- for-sale financial assets	Membership fees converted to shares

**(2) Holdings in unlisted corporations and companies to be listed**

(Unit: RMB1 million)

Name	Initial investment cost	Number of shares held (1 million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
National Financing Guarantee Fund Co., Ltd.	250	-	1.51	250	-	-	Available- for-sale financial assets	Investment with self-owned capital
China UnionPay Co., Ltd.	81	62.50	2.13	81	6.88	-	Available- for-sale financial assets	Investment with self-owned capital
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	100	-	80	100	-	-	Long-term equity investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35	70	35	2.80	-	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	52.50	70	35	-	-	Long-term equity investments	Investment with self-owned capital
Hua Xia Financial Lease Co., Limited	4,920	-	82	4,920	-	-	Long-term equity investments	Investment with self-owned capital

## Notes:

1. The cost method was adopted for accounting of the Group's equity investments above. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

2. The Company convened the 44th Meeting of the Seventh Board of Directors on 28 February 2019, considering and adopting the *Proposal on Transfer All Equities Held in Three Rural Banks*. According to the proposal, the Company planned to transfer all equity held in Beijing Daxing Hua Xia Rural Bank Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., and Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.



## 2. Material non-equity investments

The Company had no material non-equity investment during the reporting period.

## 3. Financial assets measured at fair value

During the reporting period, the Company measured held-for-trading bonds and available-for-sale bonds at fair value, which were determined by means of quotation, transaction price or yield curve. The yield curve published by China Government Securities Depository Trust & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, and the yield curve provided by the Bloomberg system was adopted as the foreign currency-denominated bond yield curve.

### Items related to fair value measurement

(Unit: RMB1 million)

Item	At the beginning of the period	Gain/(loss) on changes in fair value during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	At the end of the period
Financial assets measured at fair value through profit or loss	3,206	22	-	-	12,470
Derivative financial assets	3,256	-2,128	-	-	1,130
Available-for-sale financial assets	110,230	-	625	-2	124,933
Others	53	1	-	-	42
Total financial assets	116,745	-2,105	625	-2	138,575
Derivative financial assets	1,696	642	-	-	1,054

Note: There is no necessary articulation in the table.

## viii. Material asset and stock right sales

During the reporting period, the Group did not make any material asset or stock right sales.

## ix. Analysis of major controlling and equity participation companies

### 1. Beijing Daxing Hua Xia Rural Bank Co., Ltd

The bank with a registered capital of RMB125 million started operation in December 2010, in which the Company holds an 80% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,350,655,000 and RMB126,460,500, respectively. The deposit balance increased by 24.12% over the beginning of the year to RMB1,014,321,400; and the loan balance went down by 1.75% over the beginning of the year to RMB765,833,300. During the reporting period, the bank generated a net profit of RMB4,355,900.

### 2. Kunming Chenggong Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB50 million, started operation in August 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB561,201,400 and RMB70,170,200 respectively. The deposit balance increased by 7.87% over the beginning of the year to RMB487,593,000; and the loan balance rose by 3.61% over the beginning of the year to RMB433,403,100. During the reporting period, the bank generated a net profit of RMB6,245,400.

### 3. Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB75 million, started operation in December 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,025,902,000 and RMB107,602,400, respectively. The deposit balance decreased by 6.05% over the beginning of the year to RMB897,893,300; and the loan balance rose by 13.51% over the beginning of the year to RMB814,018,100. During the reporting period, the bank generated a net profit of RMB6,760,900.

### 4. Huaxia Financial Leasing Co., Ltd.

The company, with a registered capital of RMB6 billion, started operation in May 2013, in which the Company holds an 82% stake. At the end of the reporting period, the company's total assets, total liabilities and net assets were RMB75,602 million, RMB67,304 million and RMB8,298 million, respectively. During the reporting period, the company generated a net profit of RMB705 million.

### x. Structured entities controlled by the Company

For the consolidated structured entities of the Company and the interests and rights enjoyed in structured entities excluded from the consolidated financial statements in detail, please refer to Note XIV. Structured Entities.

### xi. Business review

During the reporting period, the marketing departments of the Company carried out the business segment-specific management by establishing the following business segments: corporate finance, retail & inclusive finance, and financial markets. Besides, they adjusted the structure of FinTech organization, laid stress on leading technologies and supporting services, and created the online financial service platform unique to the Company.

#### 1. Corporate finance

During the reporting period, the Company stayed true to the strategy of "basing its operation on deposit business", and pursued a customer-centric approach to operate customers more meticulously. While working harder to enhance its financing service capacity and cash management capacity, it rendered customers with a full package of financial services including loan and guarantee, investment banking, green finance, supply chain finance, trade finance, and cash management, thus serving and supporting the development of real economy in a substantive way. At the same time, the Company strengthened its deposit marketing organization, put product innovations into more extensive fields, and hence managed to take in more corporate deposits in a continuous and steady way. At the end of the reporting period, the balance of corporate deposits of the Company increased by RMB35,879 million or 3.04% over previous year to RMB1,216,049 million.

The Company always pursued the customer-centered approach, and stressed to serve customers by dividing them into different layers and categories. To serve the needs of national strategies and local mainstream economy, it accelerated the formation of the "3-3-1-1" strategic customer service system, intensified efforts to develop basic customer groups, did more to serve government organs and public institutions better, optimized customer structure, and enhanced customer base and quality. While actively supporting and serving the development of real economy, the Company inked the comprehensive business cooperation agreements with a host of entities such as Qinghai Provincial People's Government, Gansu Provincial People's Government, Jiangsu Provincial People's Government, Tianjin Municipal People's Government, Zhongguancun Science Park Administrative Committee, National Financing Guarantee Fund Co., Ltd., China National Building Material Group Co., Ltd., BAIC Group, Tsinghua UNIGroup, and New Hope Group, with a view to boosting business partnerships with them. Moreover, it did a good job in serving the coordinated development of the Beijing-Tianjin-Hebei Region. Seizing opportunities brought about by regional development, it actively supported the construction of Xiongan New Area. In the process, its collaboration with local mainstream enterprises and entities including China Xiongan Group kept going deeper over time. At the end of the reporting period, the Company's corporate customers numbered 530,600, an increase of 57,300 or 12.10% over the beginning of the year.

The Company engaged in product R&D and business innovation based on market changes and customer needs. It developed product series including loans for constructing homes with joint property rights, financing for collective construction land for commercial use, and loans exclusive for rental housing, in a bid to provide financing services for enterprises engaged in housing construction, construction land for commercial use, and housing rental service. Besides, it rolled out the "Ding Huo Tong" product, and refined an array of existing products such as smart corporate time deposit, 7-day interest-evolving deposit, and corporate agreement deposit, so as to cater to customers' personalized needs for fund yield and liquidity. The Company promoted its supply chain finance business toward transformative development at a faster pace. It made breakthroughs in receivables securitization, carried out its first deal of interbank double-factoring business, applied blockchain technologies into wide fields, and piloted the "blockchain plus supply chain" business cooperation mode in the projects of China Xiongan Group.



In the meantime, it developed the investment banking business at a faster pace, and expanded the scale of the underwriting business. At the end of the reporting period, the Company underwrote the debt financing instruments targeted at non-financial companies in the amount of RMB104,081 million, and the new creditor's rights financing programs in the amount of RMB45,611 million.

The Company adapted itself to direction pointed out by the state for economic transformation and industry upgrading. While developing green finance-featured business, it became more influential in the Chinese society constantly. The credit on-lending program as a part of the Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region in the charge of the World Bank undertaken by the Company went on well, with more than 43% project funds disbursed according to the established schedule. As at the end of the reporting period, the on-lending funds from the World Bank and the French Development Agency had provided financing services for 80 projects in a total of 16 Chinese provinces, municipalities and autonomous regions, which could help save 2.96 million tons of standard coal, and reduce 6.40 million tons of carbon dioxide emission across the Chinese society every year.

Taking the transformation and development as its primary objective, the trade finance business line of the Company continued to refine the three business platforms: settlement + cash management, financing, and treasury, kept improving the "Global Winning" product and service system, and rolled out innovative new products such as "Securities Leasing Express" and "Commercial Factoring Financing". At the same time, it continuously refined many product series like letter of credit, forfaiting, and foreign exchange funds on behalf of customers, thus further enhancing its profit-making, channel protection, and risk control capabilities. By doing so, it was dedicated to providing customers with the trade finance services that integrated local and foreign currencies, domestic and overseas presence, and online and offline operation. During the reporting period, the Company saw its international settlement business volume and fee-based business income growing fairly fast at a rate of about 20%. Its corresponding banks numbered over 1,300, distributed in more than 300 cities of over 100 countries and regions across five continents of the world.

## 2. Retail & inclusive finance

During the reporting period, the Company worked harder to analyze and study economic situation and market environment, grasped opportunities brought about by the upgrade of household consumption structure, based its development on serving the needs of people's livelihood and real economy, and adopted the customer-centered method to provide financial services. At the same time, it accelerated the internal integration, institutional development and innovation-driven growth of the retail & inclusive finance business segment, narrowed down its attention on three key business fields: consumer credit, premier wealth management and acquiring & payment, further promoted the strategy of "becoming a financial service provider for SMEs", tapped deep into retail customer operations, did more to consolidate the marketing foundation, and translated FinTech into commercial use faster. Thanks to all of these efforts, the Company fully enhanced the service efficiency of its retail business as a whole.

### **Personal customers and retail customers**

The Company stuck to its established tenet for customer operation, kept improving its customer service system, stepped up efforts to develop and foster key customer groups, and divided customers into different layers in a better way. At the end of the reporting period, the balance of personal deposits of the Company increased by RMB19,530 million or 7.67% over the previous year to RMB274,043 million, contributing more to the company-wide growth constantly. The number of personal customers, VIP customers, and private banking customer increased by 14.89%, 19.74% and 16.02%, respectively. In the three key business segments set forth in the development program, the consumption credit customer group, personal wealth management customer group, and merchant acquiring customer groups grew by 12.52%, 18.59% and 28.36%, respectively. As the Company continued to develop its marketing network consisting of community sub-branches, the community-based personal customers surged by 50.72%. Hua Xia ETC services extended reaches to 23 branches nationwide and had its registered customers increase by 17.24%. Valid credit card holders numbered 14.41 million, up 25.26%.

### **Consumer credit & inclusive finance**

The Company actively responded to changes in market policies and demands. It focused on the consumer credit & inclusive finance sector, optimized the allocation of credit resources, and worked harder to roll out more innovative financial products. Besides, it spared no effort to promote the coordinated development of the consumer credit & inclusive finance in terms of scale, quality and efficiency.

The Company continued to build a retail loan service system that was intended to meet customers' dwelling, working and living needs. With respect to consumer credit, it actively implemented the state's classified regulation policies, preferentially met the financing needs of people who bought their first home, home for self-use, and home for better living conditions, introduced creative personal loans for rental housing, and developed housing loans in a robust manner. At the same time, it vigorously developed personal business loans, in a move to cater to individuals' financing needs for business innovation and entrepreneurship. Furthermore, it helped to fuel the development of inclusive finance, and moved faster to develop online consumer loans and online business loans. At the end of the reporting period, the balance of personal consumption loans of the Company increased by RMB36,398 million or 20.90% over the previous year to RMB210,483 million.

Spearheaded by the strategy of supporting the real economy, the Company resolutely answered the requirements of the state and regulatory authorities, and further focused its attention on the MSEs each with a credit line of not more than RMB10 million, so as to solve their problem of having poor access to financing at high cost. In the meantime, it promoted such featured products as “annually-reviewed loans” and “House Loan Express”, with a view to satisfying MSEs’ financing needs from multiple dimensions. As at the end of the reporting period, the Company fulfilled the regulatory indicators that “the year-on-year growth rate of MSE loans with single credit of not more than RMB10 million shall not be lower than the average year-on-year growth rate of loans, and the number of loans shall not be lower than that in the same period of last year”, and controlled the interest rate and NPL ratio of loans granted to MSEs each with a credit line of not more than RMB10 million within the reasonable range.

While pushing forward the reform, the Company had the Head Office play a leading role at the center and branches support it on the periphery. With the Internet Plus Initiative and FinTech put at a prominent position, it managed to extend its service radius and improve service efficiency substantially. As to consumer credit, the traditional business mode was replaced by the new pattern that combined offline approval and online operation. By doing so, the Company enabled its personal loan products to go online. Besides, it also launched “Elite e Loan”, an online personal consumption loan. The Company actively partnered with the leading internet companies, renowned FinTech firms specialized in risk control, internet banks, and large insurers, in joint efforts to explore for how to develop petty consumer loans that went online completely, auto loans and other business lines with the help of FinTech including big data analysis technology. With respect to inclusive finance, on the premise of business compliance and risk controllability, it teamed up with internet financial giants to share their data. Empowered by big data-based risk control, cloud computing and other technologies, it tailored for MSEs many online loan products including “Long e Loan”, “Long Business Loan”, and “Long Concessional Loan”. As at the end of the reporting period, online loans at the Company had a balance of over RMB16 billion, and they were granted to more than 40,000 customers.

The Company vigorously devised the online risk control decision-making engine for personal business. In doing so, it brought risk control rules and strategies under uniform management throughout their entire life cycle, created multiple-dimension risk control models, and propelled these models towards fast development, iteration and optimization, thus capable of monitoring how these models operated better. Given the characteristics of MSEs, the risk control system exclusive for the MSEs business was constantly refined so that it could support “standardized approval, whole-flow prevention & control, and multiple-dimension management”, and a risk management mechanism was established, which integrated customer managers, risk managers and full-time approvers as a trinity. By refining access policies and conducting regular assessments, the Company landed secure, high-quality projects. Instructed by the principle of independent risk control, it equipped the traditional risk control mindset with FinTech, and developed the decision-making engine fit for credit extension business with small enterprises. While putting credit access, project review for approval, and post-loan inspection under coordinated management, the Company managed to forestall risks substantially, and maintained the loans newly granted to MSEs in a fairly high quality.

### **Wealth management**

The Company spared no effort to promote the wealth management product sales organizations. As a result, its personal wealth management business segment built up its fund raising ability remarkably, and expanded its scale and proportion dramatically. At the same time, it actively introduced innovative product sales models and channels, which included “off-working-hours wealth management”, “new customers-oriented wealth management”, “Hua Xia e Community-exclusive wealth management”, and “group purchase-type wealth management”. Besides, it gathered pace in creating net value-based wealth management products, did more in customer guidance and cultivation, and strove to transform wealth management products towards net value-based products. Moreover, while cementing its collaboration with funds, insurers, trust companies, securities dealers, and other agencies, the Company selected a mix of premium trust, insurance, fund, precious metal, and other products from a wide range. As the efforts to intensify the product lineup development went deeper, it could meet a diversity of asset allocation and wealth management needs raised by customers on different layers, and get its service extended to more fields and in greater depth. In addition, the Company started to transform its wealth management business and build a private banking system from such perspectives as product, system, service, and team, and helped wealth business lift its professional management standard and service capacity. Also, it shifted the wealth management business toward smart operation, launched the asset transfer platform, and stepped up efforts to develop smart investment consulting services, in an effort to satisfy customers’ needs for asset liquidity and intelligent investment. Given the characteristics of wealth management business, it exercised more rigid risk management of related business, so as to guarantee operational compliance.

### **Acquiring & payment**

The Company actively promoted a demonstration project of developing mobile payment for the convenience of customers, by moving faster to establish the acquiring & payment system that featured “four ones”. While developing the brand-new merchant management system, it improved the “Hua Xia Cashier” aggregate payment product lineup, promoted the smart POS machines based on mobile internet technologies, and rendered customers with a diversity of secure, convenient and smart payment services and functions as well as the acquiring solutions integrated online and offline. As to three types of accounts, it refined account systems as well as related services and functions, increased their application in sub-segments, and lifted account service standards. In addition, the Company vigorously marketed and promoted the industry-uniform app, carried out payment platform development and scenario application, and promoted the cooperation between payment and many other industries such as transportation, campus, medical care, and catering, in a move to acquire and divert more customers. As at the reporting period, the Company distributed over 370,000 acquiring machines in total.





### **Credit card**

The credit card business line of the Company worked hard to explore for innovative product and business modes, coordinated traditional business forms and internet finance business for joint development, intensified efforts to build electronic self-service channels and payment business, and moved faster to increase internet business presence, in a bid to realize sustained, healthy development. The Company launched an array of new credit cards including animation themed credit cards in series of panda, family themed credit cards in series of Shaun the Sheep, and World Cup themed credit cards, Smart Traveling VISA credit cards, and Hainan Airlines Co-branded cards. Meanwhile, it moved faster to increase its presence in internet business, by teaming up with benlai.com, news.qq.com, ximalaya.com, and other websites to roll out co-branded credit cards. Besides, it explored for new models of interest-earning products, introduced the new installment products including “Easy Principal Repayment”, staged a variety of installment marketing campaigns, and spurred income growth by many means like multi-channel publicity, ladder-type discount scheme, bonus point-based rewards, and installment scenarios for merchants. Moreover, it increased the proportion of online applications to the total, optimized the card opening recommendation business, and introduced more customer acquiring scenarios. To develop internet-based installment business creatively, it rolled out new products which allowed merchants to receive payment in installments by scanning QR codes, and launched the Alipay installment payment business. Also it developed the core payment business faster, and got itself connected into NetsUnion platform and UnionPay card-not-present payment platform.

### **Transformation of retail business towards digital operation**

The Company moved faster to transform its retail business towards digital operation, and spared no effort to create a smart retail business system which would focus on customer experience, base itself on data, and be driven by technologies. At the same time, it renovated outlets to support smart operation, established the biological recognition-enabled smart platform targeted at self-service channels, and moved faster to install smart counters and other equipment for extensive use. Additionally, it created the mobile marketing management platform so as to get the retail products used on the go and related sales service online. Big data were employed to create the in-depth customer analysis model, and precision marketing processes were applied to customer service more extensively. Relying on the “Hua Xia e Community” and “Payroll Payment Keeper” platforms, the Company pooled the third-party resources to build a new “living service and financial service” ecology where community customers, car owners, acquiring customers, and payroll customers could interact with each other and achieve a win-win outcome. Also, it wrapped up the building of “Splendid Life” app (credit card holders), bonus point system, rights and interests maintenance system, taking another step towards meticulous customer management; and used big data-driven marketing response models and matching strategies to boost precision marketing, thus capable of getting installment products marketed successfully at a higher rate.

## **3. Financial markets**

During the reporting period, the Company, through taking operational compliance and innovative development as its primary mission, worked hard to develop financial markets business, propelled financial markets, assets management and asset custody, and other business lines towards coordinated advancement, and strove to forge a full package of services that covered monetary market, capital market and international financial market, with a view to making itself more influential and competitive among market peers.

While stepping up efforts to study and judge the macroeconomic trend, the Company actively responded to market changes, timely adjusted its strategies, kept a tight rein on risks, and enhanced its investment management standards. In addition to scaling up stably overall, it appropriately adjusted bond duration and position structure, thus improving the return on bond investment continuously and steadily. In the meantime, it actively fulfilled the responsibilities due to dealers in the interbank foreign exchange market, and solidly conducted the proprietary and agent fund transactions, so as to increase trading volume and profitability constantly. The Company further participated in the market and expanded the trading volume by currency trading, bond trading, foreign exchange trading and commodity trading. As a result, it became more influential in the market. During the reporting period, it completed 47,169 interbank lending transactions and pledged repurchase transactions, amounting to RMB69,117,524 million, up 85.56% year on year. In 2018, the accumulative amount of RMB and foreign currency-denominated treasury transactions (group-level) reached RMB79,666,962 million, a year-on-year increase of 80.55%.

On the premise of operational compliance, the Company moved faster to prepare for and establish the wealth management subsidiary, strengthened innovation in product R&D and assets management investment research capabilities, adjusted the structure of wealth management funds actively, strengthened liquidity management, connectivity between business and technology, and system optimization and upgrading, worked hard to optimize the structure of customers, vigorously developed and sold personal wealth management products, and increased the proportion of personal customers. All of these moves helped to boost the steady development of the Company’s assets management business. During the reporting period, to follow the direction of regulatory policies, the Company spared no efforts to adjust the structure of wealth management products, by suspending the issuance of principal-guaranteed wealth management products and proactively scaling down the non-principal-guaranteed wealth management products targeted at other banks and other financial institutions. As a result, it saw its wealth management business shrinking to some extent. In the year, it issued 4,512 wealth management products in a sales volume of RMB2,521,896 million, down 3.25%. As at the end of the reporting period, there had been 1,865 existing wealth management products at the Company, which secured a balance of RMB576,692 million, down 24.81%. Of these, non-principal-guaranteed wealth management products had a balance of RMB469,317 million, down 33.23%. Among the existing non-principal-guaranteed products of the Company, the personal wealth management products had a balance of RMB343,461 million, representing a year-on-year increase of 25.29%.

The Company continued to build its marketing mechanism, enabled custody business to attain better-grounded growth, and made sure the stable scale expansion could be realized despite the severe market environment. During the reporting period, it had 4,686 products under custody, covering securities investment funds, securities dealers' assets management schemes, banks' wealth management, insurance-related assets management schemes, asset-backed plans, and equity investment funds, with a year-on-year increase of 182.97%. The assets under custody totaled RMB2,838,175 million, up 3.74% year on year. The fee-based business income from custody amounted to RMB972 million accumulatively, up 0.31% year on year.

#### 4. FinTech

During the reporting period, the Company stayed true to FinTech development strategies. Aiming to create more value, it focused attention on such matured technologies as big data, artificial intelligence (AI), and cloud computing, to develop online finance innovatively, and integrate various platforms and scenarios at a faster pace. While responding to new challenges arising from market and new-type technological risks, it sought to "overtake others amid track change". Thanks to these efforts, real breakthroughs were achieved in many aspects such as better exploiting the driving role of FinTech and serving the needs of real economy.

A sound FinTech organizational structure was put in place after adjustment. During the reporting period, the Company wrapped up refining the framework of FinTech production and management organization that consisted of "one department and six centers" as well as the online finance business framework that encompassed "retail online finance, corporate online finance, and open banking". Consequently, it took a further step in enhancing its FinTech innovation capacity and self-supporting ability as a whole. In doing so, it made sure FinTech strategies could be implemented in practice.

Infrastructure including smart underlying systems got consolidated constantly. During the reporting period, the Company completed devising the overall strategy for information system infrastructure transformation and the overall IT framework design for open banking service, finished the building of homemade private cloud that could be controlled automatically, and migrated the Head Office system to the cloud at a rate of 70%, hence flexibly supporting the formation of modern financial corporation and operating open banking service independently. At the same time, the "i Prophet" basic AI service platform was launched. Spearheaded by the philosophy that "AI is service in essence", the platform offered basic services such as knowledge reference and in-depth learning to AI application scenarios, with a view to forging the innovation-led edges and doing better in independent risk control and smart decision-making.

FinTech's driving power started to appear gradually. To implement its strategy for digitalized transformation, the Company initiated 15 key FinTech projects which involved many facets of work such as cash management, integrated payment, precision marketing, and digitalized credit. In the meantime, the enterprise-level biological recognition platform went online, which creatively used "facial + finger vein recognition" to realize cash deposit and withdrawal requiring neither card nor password. Besides, there emerged a host of FinTech-featured products including the counter assistant (i Longan), mobile marketing app (i Shopkeeper), and mobile operational maintenance app (i Operation on Palm), in a bid to practice the customer-centric business philosophy on all fronts. With the P2P fund management and deposit system upgraded, the Company adapted itself to the business features of small amounts and high frequencies, and enhanced its ability to deal with a large number of business at the same time. Thanks to these endeavors, it was included on the white list of depository banks approved by the National Internet Finance Association of China in the first batch.

Online finance lifted its service capacity fast. With online finance-related products and services assessed reversely, the Company released 33 new products, optimized 115 existing functions, and refined the experience of 84 operations throughout the year, thus enhancing the service standards of online finance in an all-around way. In the meantime, it introduced the advanced mobile development platforms, innovated in mobile banking-related technologies, services, products, and flows on all fronts, and provided personalized services from such dimensions as customer service, product operation, scenario and ecology, and user experience. Being one of the first banks that got connected into the new-generation customs system, the Company managed to improve the customs clearance and duty declaration experience for foreign trade enterprises substantially. Such products as "Home Purchasing Deposit" and "Salary Pal" were rolled out to render home buyers and rural migrant workers with affordable convenient financial services. During the reporting period, the mobile banking users and direct banking users of the Company rose by 31.36% and 105.15% over the beginning of the year, and the trading volume and business income of online finance business increased by 45.54% and 71.68% year on year, respectively.

Platforms demonstrated remarkably enhanced carrying capabilities both horizontally and vertically. FinTech innovations were used to empower cooperative platforms. The Company independently developed and rolled out 13 online credit products including "Long Business Loan" in a bid to help MSEs ease their financing pressure. As the first joint-stock commercial bank that got connected to the Xiongan blockchain business management platform, it succeeded in offering services to the platform enterprises and an afforestation project of more than 6,667 hectares in Xiongan New Area. Besides, the introduction of such product as "Platform Express Pal" and "Cross-bank Express Pal" got the fund chain and information flow of the platform-based enterprises both upstream and downstream unblocked, and was able to tailor personalized, integrated solutions for more than 130 industrial internet companies. In the process, the B2B2C platform-based business mode grew more mature day by day.

IT-enabled risk control management system became increasingly sophisticated. During the reporting period, the Company rose to the severely complicated and ever-changing network risk, employed AI and big data technologies to forge the anti-fraud smart risk control platform, realized the all-around risk control that covered ex ante, interim and ex post steps, and cooperated with public security organs to crack down on telecommunication fraud crimes, stopping fraud-involved payments worth RMB145 million in total. To act on the stringent regulatory requirements for radical reform, it exposed through investigations such payment issues as unauthorized payment, illegal operating fund payment and settlement, and cut off direct connection with banks, put in place three lines of defense firmly, and acted as the guard of market order.



### III. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

#### i. Industry competition pattern and development trend

The year of 2019 marks the 70th anniversary of the founding of new China. It is critical to the building of a moderately prosperous society in all respects. China is still and will be in an important period of strategic opportunity for development in a long time to come. The national economy possesses adequate tenacity and huge potential for further development. So it is able to maintain the upward trend in a long term. Although the Chinese economy faces the mounting downward pressure in 2019, its commercial banks can continue their trend of upward profitability. In 2019, the focus of macro policies will go to countercyclical adjustment, and the proactive fiscal policies and robust monetary policies will create a reasonably affluent monetary capital supply. In this context, Chinese commercial banks are expected to get their asset scale stabilized and pick up. With the joint effect of multiple factors, banks have to deal with more pressure from falling asset prices. Therefore, net interest margin is likely to narrow down slightly, and net profit may grow at a slightly lowered pace. As commercial banks step up their support for the key fields backed by the state and the weak links, MSEs, private enterprises, green industries and others are expected to see their credit growing at a further faster rate. In 2019, the economic landscape at home and abroad will be plagued by many uncertain factors, which further complicates the banking industry's risk management. However, the silver lining lies in that commercial banks will demonstrate great risk tolerance overall, and maintain their asset quality at a stable level. To respond to changes in domestic and foreign markets effectively, the Chinese banking industry will move faster to transition from fast expansion to quality development, and promote the strategy of "building asset-efficient banks" in depth. FinTech is disrupting and reshaping the operational and development modes adopted by banks and the competition pattern facing them. Using FinTech innovation as a booster, the banking industry will gather pace in digitalized transformation, and redefine financial service modes. As the Chinese financial sector develops rapidly, the Chinese banking industry faces increasingly fierce competition. Against such a backdrop, entities in the banking industry become polarized severely. The banks will form more impressive competitive edges, as long as they can promote business transformation resolutely, improve asset quality continuously, and lift CAR steadily.

#### ii. The Company's development strategies

In 2019, the Company will continue to push forward the *2017-2020 Development Program of Hua Xia Bank* (the "Development Program"), base its development on serving the needs of real economy and creating value for customers and shareholders, follow the fundamental strategy of "putting deposits at the heart of the bank and making it stronger with FinTech and competent employees", and stay on the track towards "featured, digital, comprehensive and asset-efficient development". While standing fast with the established strategies and putting them under better execution, it will start from the institutional reform, take optimizing asset quality continuously as a guarantee measure, focus its attention on benefit and efficiency enhancement, prioritize on securing new breakthroughs towards the implementation of six major strategies, make new progress in business transformation and expansion, and strive to realize higher-level, and higher-quality development.

#### iii. Operating plan

In 2019, the Company will fully implement the core messages conveyed at the 19th CPC National Congress and the Central Economic Work Conference, adhere to the general principle of "seeking progress amid stability" and the new outlook on development, stand fast with the established strategies and ensure business continuity, and take reform and innovation as the driving force. While following institutional transformation as a main thread, focusing on management enhancement, and pushing forward development plans, the Company will achieve new breakthroughs in addressing difficult issues.

1. Letting retail business grow larger to drive up its business percentage and contribution.

**Establishing the grand retail service system.** With customers at the center, the Company will establish a segment-linked marketing mechanism, pool together grand retail services and resources, shore up coordinated service and cross-selling capabilities, establish a management and work mechanism that is connected, coordinated and efficient as a whole, enhance comprehensive capabilities for serving customers financially, form endogenous driving engines of business development, and propel retail business towards overall development.

**Moving faster to transform premier wealth management business.** The Company will put in place the sound organization structure and operation system for premier wealth management and private banking, and accelerate the introduction and training of expert personnel engaged in private banking business; it will build an open premier wealth management and private banking business platform, and forge a related integrated product system; and it will promote the standardized management and tiered services featuring "customer relationship + customer value", bolster the management of high-net-worth customer relations, and forge the "Hua Xia Family" premier wealth management brand.

**Gathering pace in developing credit card business.** The Company will promote credit card and retail finance business lines towards coordinated and joint operation, deepen the multi-channel marketing pattern; strengthen product innovation and integration of consumption scenarios, intensify integration and application of online channels, actively deploy innovative marketing systems, and strive to maintain the good momentum of credit card business.

**Speeding up the online operation of retail finance.** The Company will continue to build the digitalized consumer credit, premier wealth management, acquiring & payment, and digitalized risk control systems, establish the online systems, products, and operation & management framework of retail financial business, and explore to establish FinTech team exclusive for the retail financial sector. It increase the application of big data, AI, biological recognition, and other new technologies in product development, system construction, model innovation, and service enhancement, in a bid to enable FinTech to better lead and drive business development.

2. Boosting FinTech development, and further implementing FinTech strategy in all aspects.

**Consolidating the foundation of IT development.** The Company will actively build an IT platform, focus on improving data application capabilities, coordinate data processing, application development, and user services, and other aspects of the work across the board, attach great importance to the security and controllability of information systems, and ensure that operation, application, and business can all be secure.

**Developing FinTech at a faster pace.** The Company will strengthen overall planning and management, continuously strengthen FinTech development capabilities, and devise more advantageous products and brands; establish a risk control mechanism that can adapt to the development of online business, and promote the integration of online and offline operation; and explore for the internet-based customer acquisition and profitability modes, and enable the online financial business to create more value.

**Spurring creative vigor of FinTech.** The Company will put forward innovative assessment methods according to industry characteristics, and strengthen the internal assessment and incentive mechanism. It will lose no time to establish the science and technology innovation fund, and move faster to incubate frontier projects in the industry; and explore to establish the innovative R&D mechanism with customer experience at the center, and deliver better FinTech product experience.

**Speeding up the development of cutting-edge FinTech projects.** The Company will get the mobile banking 5.0 developed and going online faster, so as to create an open financial service platform; use cloud computing and big data technology to provide solutions for customers across the industry; gradually improve access of customers within and outside the Bank, risk control, back-office and post-loan management of the digital credit line, so as to build a centralized, unified online loan access platform; and forge an integrated payment platform to provide users with safe, convenient and diversified payment tools, and actively participate in the creation of a healthy and standardized payment industry environment.

3. Following closely up with major strategies of the state, and improving the ability to serve customers with a larger coverage.

**Catering to the new needs as raised by the real economy amid development.** The Company will follow closely up with the policies and measures the state adopts to deepen its supply-side structural reform, and take significant strategies and value creation as a guide to explore for a strategic customer marketing system fit for its own conditions. At the same time, it will vigorously support the development of real economy, and continue to render MSEs with proper financial services. While staying true to the strategic positioning as a “financial service provider for SMEs”, it will take advantage of its featured services and products to help enterprises shorten their financing chain, improve financing efficiency, and cut down on financing cost.

**Marching into new markets as required by industry transformation and upgrade.** The Company will lay more stress on financial services delivered to key areas and weak links of strategic industries designated by the state and the real economy, and increase support for strategic emerging industries, modern manufacturing industries, and modern service sectors; comprehensively use service means and innovations such as credit, investment banking, and supply chain finance to meet a diversity of financial needs raised by different industries in their transformation and upgrading process.

**Seizing the new opportunities brought about by the coordinated development among different regions.** Starting from the coordinated development of different regions, the Company will serve the needs of Beijing in “building itself into four centers”, center on a host of state strategies such as the coordinated development of the Beijing-Tianjin-Hebei Region, the Belt and Road Initiative, the integration of Yangtze River Delta, the construction of Guangdong-Hong Kong-Macao Greater Bay Area, and the construction of China (Hainan) Pilot Free Trade Zone, move faster to innovate in its products, services, systems and mechanisms, and integrate itself into the state’s strategies and local mainstream economies.

**Achieving new breakthroughs in comprehensive operation planning.** The Company will actively promote the establishment of Hong Kong Branch, gather pace in preparing for a wealth management subsidiary, and give full play to the role of financial leasing companies in “banking-leasing linkage”. In the meantime, it will vigorously expand the integrated business plan, and enhance financial services capabilities on all fronts.



**Making new headway towards expansion of basic customer groups.** Pursuing the “customer-centric” approach and following customer demand as a guide, the Company will step up efforts in product research and development, focus on product promotion efficiency and use effect, create value for customers substantively, and enhance customer experience and loyalty. Meanwhile, it will continue to implement the “3-3-1-1” customer strategy, do a good job in deposit take-in, customer development, product innovation, team building and featured business. Moreover, it will actively promote the development of institutional business, and work harder to maintain the core strategic customers and basic customer groups in a long-term sustainable way.

4. Steadily improving and reforming risk management, and building up the awareness of compliance.

**Exercising more rigid control over asset quality.** The Company will wield stricter control over new overdue loans and take strict precautions against written-off loans emerging again. A host of measures such as cash collection, assignment of debt, bad loan writing-off, and paying debts with assets will be taken to cover and dispose of overdue loans, written-off loans, and repossessed assets with greater efforts.

**Forestalling and controlling business risks with intensified efforts.** The Company will work harder to guard against risks arising from online business, and enhance its capability for independent risk control. Besides, it will intensify the analysis of industries to which traditional credit deals are affiliated and the assessment of how enterprises operate, and follow up with enterprises to analyze how their credit position changes. Also, it will establish a dynamic customer adjustment and control mechanism which supports proactive risk research and judgment.

**Refining the organizational framework and flow of risk management.** The Company will strengthen pre-lending investigations, do a good job in ongoing loan review, and intensify post-loan monitoring; rationalize the boundaries of risk management responsibilities, and amplify risk liability constraints; work harder to monitor IT risk monitoring and prevention, improve business monitoring and hard transaction control capabilities, and bolster ability to defend against cyber attacks.

**Intensifying internal control & compliance management constantly.** The Company will consolidate the foundation of internal control & compliance management, carry out internal control assessment, and further cement and expand the results of thorough crackdown efforts; improve the case prevention and control system, improve the case risk screening mechanism, and actively expose and block the case prevention loopholes; and keep a tight grip on money laundering risk prevention and control, lift the quality of AML data to a higher level, and put in place the sound money laundering risk management system.

#### iv. Possible risks

At present, the Chinese economy is developing in a constantly improved quality, the supply-side structural reform is advanced with greater depth, the financial system becomes more flexible, and financial operations are generally stable. However, China today has to deal with the arduous financial risk prevention tasks, and the mounting pressure of a downward economy. Commercial banks are mainly faced with the following challenges:

First, credit risk management still remains under mounting pressure. The Chinese economy is exposed to the downward pressure, and the still prominent structural contradictions. The business enterprise sector reveals a fairly high leverage ratio, which imposes challenges on the banking industry’s credit risk management.

Second, liquidity risk management still requires attention. The central bank of China adopts a prudent monetary policy. The growth rate of broad money and social financing has stabilized and rebounded, and market liquidity has remained reasonably abundant. However, external uncertainty risks are interwoven together, deposit increase still undergoes pressure, and liquidity management cannot be ignored.

Third, IT risk control withstands increasing pressure. FinTech has soared in recent years. It has been applied extensively into many fields such as customer marketing, risk control and operational decision-making process. On one hand, as banking systems are connected to internet and go mobile, there emerges more IT risks. On the other hand, FinTech development and innovation also present more challenges for commercial banks to improve their operation and management practice, technologies, mechanisms and other aspects.

## IV. BANKING BUSINESS DATA

i. Main accounting data for the three years prior to the end of the reporting period

(Unit: RMB1 million)

Item	End of 2018	End of 2017	End of 2016
Total assets	2,680,580	2,508,927	2,356,235
Total liabilities	2,461,865	2,339,429	2,203,262
Owner's equity attributable to shareholders of the listed company	217,141	168,055	152,184
Total deposits	1,492,492	1,433,907	1,368,300
Incl.: Corporate demand deposits	615,009	625,894	560,322
Corporate time deposits	409,205	393,647	404,577
Savings demand deposits	106,523	114,978	114,459
Savings time deposits	114,321	132,356	125,074
Other deposits	247,434	167,032	163,868
Total loans	1,613,516	1,394,082	1,216,654
Incl.: Pass loans	1,583,707	1,369,485	1,196,306
NPLs	29,809	24,597	20,348
Placements from banks and other financial institutions	77,111	65,045	73,130
Allowance for impairment losses on loans	47,275	38,497	32,299



## ii. Capital composition, leverage ratio and changes thereof

### 1. Capital composition and its changes

(Unit: RMB1 million)

Item	31 December 2018		31 December 2017		31 December 2016	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Total net capital	276,056	265,799	223,035	214,212	178,991	173,565
1.1 Core tier-1 capital	198,200	195,221	148,850	146,723	132,857	131,351
1.2 Core tier-1 capital deductions	3	5,090	2	5,090	1	2,630
1.3 Net core tier-1 capital	198,197	190,131	148,848	141,633	132,856	128,721
1.4 Other tier-1 capital	20,116	19,978	20,081	19,978	20,044	19,978
1.5 Other tier-1 capital deductions	-	-	-	-	-	-
1.6 Net tier-1 capital	218,313	210,109	168,929	161,611	152,900	148,699
1.7 Tier-2 capital	57,743	55,690	54,106	52,601	26,091	24,866
1.8 Tier-2 capital deductions	-	-	-	-	-	-
2. Credit risk weighted assets	1,956,605	1,881,942	1,676,454	1,621,645	1,452,825	1,408,869
3. Market risk weighted assets	12,836	12,836	9,944	9,944	12,440	12,440
4. Operational risk weighted assets	122,909	120,116	116,428	114,138	110,486	108,572
5. Total risk weighted assets	2,092,350	2,014,894	1,802,826	1,745,727	1,575,751	1,529,881
6. Core tier-1 CAR (%)	9.47	9.44	8.26	8.11	8.43	8.41
7. Tier-1 CAR (%)	10.43	10.43	9.37	9.26	9.70	9.72
8. CAR (%)	13.19	13.19	12.37	12.27	11.36	11.34

#### Notes:

1. Calculated according to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012).
2. Net core tier-1 capital = Core tier-1 capital – core tier-1 capital deductions.
3. Net tier-1 capital = Net core tier-1 capital + other tier-1 capital – other tier-1 capital deductions.
4. Total net capital = Net tier-1 capital + tier-2 capital – tier-2 capital deductions.

## 2. Leverage ratio and its changes

(Unit: RMB1 million)

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Net tier-1 core capital	210,109	173,974	169,218	165,644
Adjusted on and off-balance sheet asset balance	2,974,845	2,875,332	2,817,738	2,794,159
Leverage ratio (%)	7.06	6.05	6.01	5.93

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015).

3. According to the *Regulatory Requirements on the Disclosure of Capital Composition Information by Commercial Banks* (Y.J.F. [2013] No. 33) and the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015), please refer to the special column of investor relations at [www.hxb.com.cn](http://www.hxb.com.cn), the Company's official website, for the details on capital composition, major characteristics of capital instruments and leverage ratio of the Group.

### iii. Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2018
Stock of high-quality liquid assets	262,506
Net cash outflows over a 30-day time period	245,012
Liquidity coverage ratio (%)	107.14

Note: The above are consolidated data calculated according to the *Notice of CBRC on 2018 Offsite Regulatory Statements Preparation and Reporting* (Y.J.F. [2017] No. 53) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No. 3 Decree in 2018).





iv. Main financial indicators for the three years prior to the end of the reporting period

Major indicator (%)		Standard value	2018	2017	2016
Return on assets			0.81	0.82	0.90
Return on capital			10.81	12.36	14.56
NPL ratio			1.85	1.76	1.67
Allowance-to-NPL ratio			158.59	156.51	158.73
Allowance-to-loan ratio			2.93	2.76	2.65
Cost-to-income ratio			32.58	32.96	34.50
Loan-to-deposit ratio	RMB		96.21	86.30	81.99
	RMB equivalent		54.75	74.89	65.18
	RMB and foreign currency		95.05	86.04	81.65
Liquidity ratio	RMB	≥25%	51.23	45.08	31.45
	RMB equivalent	≥25%	98.72	60.66	80.92
	RMB and foreign currency	≥25%	52.32	45.12	31.59
Loan concentration ratio of the largest single borrower		≤10%	2.35	2.92	3.47
Loan concentration ratio of top 10 borrowers		≤50%	16.00	16.96	19.51

Notes:

- Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%  
Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%
- Loan-to-deposit ratio, liquidity ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated according to the regulatory approach.

**Migration ratios**

Item (%)	At the end of the reporting period	End of 2017	End of 2016
Pass loan migration ratio	3.35	5.82	4.75
Special-mention loan migration ratio	23.98	22.45	20.98
Substandard loan migration ratio	26.46	40.83	65.78
Doubtful loan migration ratio	20.02	21.05	13.53

Note: Migration ratios were calculated according to relevant rules of CBIRC. Pass loan migration ratio = downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans at the beginning of the period) × 100%; special-mention loan migration ratio = downward migrating amount of special-mention loans at the beginning of the period/(balance of special-mention loans at the beginning of the period – decreased amount of special-mention loans at the beginning of the period) × 100%; sub-standard loan migration ratio = downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans at the beginning of the period) × 100%; and doubtful loan migration ratio = downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans at the beginning of the period) × 100%.

## v. Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
<b>Interest-generating assets:</b>			
Loans and advances to customers	1,473,762	74,305	5.04
Balances with central banks	204,229	3,163	1.55
Peer assets	222,470	6,502	2.92
Bond investment	736,731	32,066	4.35
Total interest-generating assets	2,637,192	116,036	4.40
<b>Interest-bearing liabilities:</b>			
Deposits taken	1,440,494	24,544	1.70
Due to central banks	153,750	5,067	3.30
Debt obligations payable	358,434	15,222	4.25
Peer liabilities and others	531,371	19,665	3.70
Total interest-bearing liabilities	2,484,049	64,498	2.60

## vi. Hierarchical management and number and regional distribution of institutions

### 1. Overview of hierarchical management

The Company focuses on economically central cities while radiating over the whole country. It conducts the institutional planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company had set up 42 tier-1 branches, 66 tier-2 branches, 8 non-local branches and 1,022 outlets in 110 Chinese cities at prefecture level and above. During the reporting period, it opened 54 branches and institutions, which included two tier-1 branches in Xining and Lanzhou and 6 tier-2 branches in Quzhou, Baoji, Dezhou, Changde, Lishui and Honghe.



## 2. Branches

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Head Office	22 Jianguomennei Street, Dongcheng District, Beijing		5,238	1,436,461
Beijing Branch	11 Financial Street, Xicheng District, Beijing	73	2,236	228,177
Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	65	2,383	138,307
Hangzhou Branch	F2-3 & 21-36, No.2 Building, Oceanwide International Center, 2 Xiangzhang Street, Sijiqing Sub-district, Jianggan District, Hangzhou	59	2,184	147,676
Shanghai Branch	256 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	30	894	40,316
Ji'nan Branch	138 Wei'er Road, Ji'nan	56	1,895	110,300
Kunming Branch	Hua Xia Bank Tower, 98 Weiyuan Road, Kunming	28	996	69,875
Shenzhen Branch	F1-12, Zhongzhou Plaza, 3088 Jintian Road, Futian Sub-district, Futian District, Shenzhen	38	1,443	118,692
Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	31	1,032	31,788
Guangzhou Branch	Room 102 of F1 and F15-19, Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	46	1,694	78,775
Wuhan Branch	786 Minzhu Road, Wuchang District, Wuhan	63	1,778	93,422
Chongqing Branch	Annex 1, Annex 2, Annex 3-2-1, F26-34, 27 Jiangbeichengxi Street, Jiangbei District, Chongqing	34	1,014	88,395
Chengdu Branch	2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	34	1,111	74,306
Xi'an Branch	111 Chang'an North Road, Beilin District, Xi'an	27	871	35,748
Urumqi Branch	15 Dongfeng Road, Tianshan District, Urumqi	13	398	21,924
Dalian Branch	World Trade Center, 25 Tongxing Street, Zhongshan District, Dalian	27	719	22,962
Qingdao Branch	F1, 5 Donghai West Road, Shinan District, Qingdao	37	1,038	61,047
Taiyuan Branch	113 Yingze Street, Yingze District, Taiyuan	30	1,071	59,485
Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	19	665	39,388
Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	20	612	27,229
Hohhot Branch	57 Airport Expressway, Hohhot	17	916	30,298
Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	25	688	37,312
Shijiazhuang Branch	48 Zhongshan West Road, Shijiazhuang	60	1,903	77,696
Ningbo Branch	366 Heyuan Road, Yinzhou District, Ningbo	12	448	27,490

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Shaoxing Branch	354 Zhongxing South Road, Shaoxing	9	434	37,808
Nanning Branch	F1 and F14-17, Tower B, Huarun Mansion, 136-2 Minzu Avenue, Nanning	14	582	54,737
Changzhou Branch	No.9 Building, Fuxi Garden, 1598 Longjin Road, Xinbei District, Changzhou	16	448	40,278
Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	19	732	63,656
Wuxi Branch	3 Finance No.1 Street, Binhu District, Wuxi	25	622	44,675
Changsha Branch	Facade shop and F2, 3, 4 and 21, Huameiou International Mansion, 389 Wuyi Road, Furong District, Changsha	10	624	34,355
Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	14	667	32,546
Xiamen Branch	10, 11, 16-201 (F16-23), Lingshiguan Road, Siming District, Xiamen	6	376	49,526
Changchun Branch	4888 Renmin Street, Changchun	18	673	32,639
Zhengzhou Branch	Room 0101, F1, 129 Business Outer Ring Road, Zhengdong New District, Zhengzhou	12	783	47,325
Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	16	467	27,200
Shanghai FTZ Branch	2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone	1	36	24,707
Tianjin FTZ Branch	Railway Construction Building, 32 Central Ring West Road, Tianjin Free Trade Zone (Airport Economic Zone)	1	49	1,133
Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	6	235	18,692
Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	3	174	5,199
Harbin Branch	Tower A, Headquarters of Huizhi Finance Enterprise, Intersection of Qunli No.5 Avenue and Lijiang Road, Daoli District, Harbin	5	366	8,804
Guiyang Branch	55 Changling North Road, Guanshanhu District, Guiyang	1	214	3,030
Nanning Branch	Building No.1, Shenji Financial Square, 79 Haiyan Road, Chengxi District, Xining	1	106	1,462
Lanzhou Branch	Zhihui Plaza, 333 Tianshui North Road, Chengguan District, Lanzhou	1	167	6,403
Regional summarization adjustment				-1,023,556
Total		1,022	40,982	2,607,688

Note: Headcount of the Head Office includes the staff of Credit Card Center.

### 3. Representative Office outside the Mainland

Institution name	Office address	Number of branches	Headcount
Hong Kong Representative Office	Room 1801-1807 and Room 1815-1816, F18, International Finance Center (Phase II), 8 Finance St., Central Hong Kong	1	15



## vii. Credit asset quality during the reporting period

### 1. Quality of credit assets

(Unit: RMB1 million)

Five-tier classification	Amount	Percentage (%)	Increase/decrease compared with the end of previous year (%)
Pass loans	1,512,112	93.71	15.84
Special-mention loans	71,595	4.44	11.64
Sub-standard loans	11,283	0.70	11.00
Doubtful loans	9,727	0.60	10.66
Loss loans	8,799	0.55	55.96
Total	1,613,516	100.00	15.74

At the end of the reporting period, the Group's NPL balance was RMB29,809 million, an increase of RMB5,212 million over the end of previous year; NPL ratio increased by 0.09 percentage point to 1.85%; the balance of special-mention loans was RMB71,595 million, an increase of RMB7,464 million, with a ratio of 4.44%, down 0.16 percentage point compared with the end of previous year.

### 2. Restructured loans and overdue loans

(Unit: RMB1 million)

Category	Balance at the beginning of the period	Balance at the end of the period	Percentage (%)
Restructured loans	237	273	0.02
Overdue loans	55,666	55,117	3.42

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB273 million, an increase of RMB36 million and accounting for 0.02%, remaining on par with previous year.

At the end of the reporting period, the balance of overdue loans at the Group was RMB55,117 million, a decrease of RMB549 million over the end of previous year, with a ratio of 3.42%, down 0.57 percentage point compared with the end of previous year.

## viii. Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2018
Balance at the beginning of the year	38,497
Charge for the year	20,186
Recovery of loans and advances that had been written off	258
Less: Transfer-out caused by increase of discounted value	647
Less: Write-offs in the year	11,019
Balance at the end of the year	47,275

## Methods used in charge of allowance for impairment losses on loans:

The Company assessed the impairment losses on all loans on the balance sheet date based on two methods: individual assessment and collective assessment.

As to the single loan with a large amount, the Company applied the individual assessment method to test the impairment. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted value of estimated future cash flows, and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing.

The single loan with a small amount and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed collectively, and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

## ix. Interest receivables and charge of allowance for bad debts

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Increase during the period	Recovery for the period	Balance at the end of the period
Interest receivable	15,362	1,860,698	1,858,710	17,350

## Charge of allowance for bad debts of interest receivables:

During the reporting period, as the Group inspected the interest receivables and there was no impairment, the allowance for bad debts was not set aside.

## Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company followed the principles of "confirming to identification conditions, providing effective evidence, filing after writing-off, and maintaining recovery rights". After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.



## x. Foreclosed assets

(Unit: RMB1 million)

Category	Amount at the end of the period		Amount at the beginning of the period	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Housing properties	2,493	408	1,726	398
Equity	1,746	44	1,397	42
Others	53	19	25	19
Total	4,292	471	3,148	459

At the end of the reporting period, the book balance of the Company's repossessed assets was RMB4,292 million, of which, real estate's amounted to RMB2,493 million, accounting for 58.08% of the total; equity's totaled RMB1,746 million, accounting for 40.68% of the total; and others' aggregated to RMB53 million, accounting for 1.24% of the total.

## xi. Financial bonds held

(Unit: RMB1 million)

Category	Amount
Financial bonds of policy banks	94,884
Financial bonds of commercial banks	65,821
Non-banking financial bonds	9,066
Total	169,771

Of which, material financial bonds:

(Unit: RMB1 million)

Category	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses (in original currency)
CNCB Financial Bonds of 2017	3,300	4.20	2020/04/17	—
CDB Financial Bonds Issue 15 of 2016	3,230	2.65	2019/10/20	—
ADBC Financial Bonds Issue 1 of 2018	3,100	4.98	2025/01/12	—
China Guangfa Bank Financial Bonds Issue 2 of 2016	3,000	3.52	2021/05/25	—
CMBC Financial Bonds Issue 1 of 2016	3,000	2.95	2019/10/28	—
ADBC Financial Bonds Issue 6 of 2018	3,000	4.65	2028/05/11	—
CDB Financial Bonds Issue 5 of 2017	2,870	3.88	2020/04/19	—
CDB Financial Bonds Issue 6 of 2018	2,770	4.73	2025/04/02	—
CDB Financial Bonds Issue 10 of 2018	2,710	4.04	2028/07/06	—
ADBC Financial Bonds Issue 7 of 2017	2,560	3.98	2020/04/19	—





xii. Development and profit/loss of wealth management business, asset securitization, custody, trust and premier wealth management during the reporting period

1. Development and profit/loss of wealth management business during the reporting period

During the reporting period, all the matured wealth management products of the Company have been paid as scheduled, generating an investment return of RMB37,155 million, a year-on-year increase of RMB6,911 million or 22.85%, and wealth management fee-based income of RMB3,178 million.

2. Development and profit/loss of asset securitization during the reporting period

During the reporting period, to better support the development of private enterprises and MSEs, the Company issued the “Long Benefits MSEs Loan Assets-backed Securities (Phase I) for 2018” in a scale of RMB1,040 million. To enrich NPA disposal channels, it launched two NPA-backed securities, which were “Long Prosperity NPA-backed Securities (Phase I) for 2018” and “Long Prosperity NPA-backed Securities (Phase II) for 2018”, in a scale of RMB165 million and RMB205 million, respectively.

3. Development and profit/loss of custody business during the reporting period

During the reporting period, the Company had 4,686 products under custody, covering securities investment funds, securities dealers’ assets management schemes, banks’ wealth management, insurance-related assets management schemes, asset-backed plans, and equity investment funds, with a year-on-year increase of 182.97%. The assets under custody totaled RMB2,838,175 million, up 3.74% year on year. The fee-based business income from custody amounted to RMB972 million accumulatively, up 0.31% year on year.

4. Development and profit/loss of trust business during the reporting period

During the reporting period, the Company didn’t conduct any trust business.

5. Development and profit/loss of premier wealth management business during the reporting period

During the reporting period, the premier wealth management business of the Company always pursued the customer-centric and market-oriented approach, to strengthen customer operation, cement its cooperation with various business entities engaged in trust, fund, securities, insurance and futures, and develop and improve more wealth management means and methods. Besides, it continued to deliver more wealth management-specific trainings, with a view to lifting the professional competence to a higher level. It kept refining the “dual entry” system, and reinforced sales compliance and management. Moreover, it employed big data, AI and other technologies to enhance customer experience, and sought for sustained business development. At the end of the reporting period, the Company ran a total of 22 premier wealth management centers, which generated an accumulative sale of personal wealth management products worth RMB1,946,783 million, an agency insurance premium totaling RMB2,147 million, a trust scale sold by proxy of RMB4,286 million, a fund scale sold by proxy of RMB25,923 million, and a fee and commission income from premier wealth management in the amount of RMB1,165 million.

## xiii. Derivative financial instruments held

(Unit: RMB1 million)

Category	Contractual/ nominal amount	Fair value	
		Assets	Liabilities
Foreign exchange forwards	14,880	159	187
Foreign exchange swaps	971,707	949	851
Interest rate swaps	17,050	11	10
Option contracts	1,236	6	6
Credit risk mitigation certificates	300	5	-
Total		1,130	1,054

## xiv. Off-balance-sheet items that will have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of the reporting period	Balance at the beginning of the year
Credit commitments	575,684	481,323
Of which,		
Irrevocable loan commitments	2,630	2,609
Bank acceptance drafts	275,971	237,638
Letters of guarantee issued	23,490	21,889
Letters of credit issued	97,495	75,807
Lease commitments	7,324	7,508
Capital commitments	40	101

Note: Credit committee data exclude unused credit card limits. Lease commitment means operating lease commitment.

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.



## xv. Risks and risk management

During the reporting period, the Company promoted comprehensive risk management with solid efforts, took “acting on regulatory requirements, never overstepping the bottom line for risk management, and preventing and controlling various risks effectively” as the primary objective, continuously improved the risk control mechanism and measures, and constantly increased risk management and control endeavors. As a result, all risk control indicators operated as expected, and all businesses continued to maintain a healthy and stable trend.

### 1. Credit risk management

(1) Business activities incurring credit risk. Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, interbank lending and investment businesses. The credit risk of the Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee.

(2) Organizational framework and division of responsibilities of credit risk management. The Company has established a mutually restricted credit risk management organizational framework with reasonable work division and definite responsibilities: the Related Party Transactions Control Committee and the Risk & Compliance Management Committee are established under the Board of Directors to be responsible for the formulation of related party transactions management and bank-wide risk management strategies respectively; the Credit, Investment and Financing Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; credit risk management departments of the Head Office and branches shall be responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval of important industries and businesses and continues to expand professional approval scope; the Company strengthens functions of each link of credit business, and sets up mutually restricted positions with definite responsibilities and smooth operation.

(3) Credit risk management and control measures. During the reporting period, the Company took asset quality control as its top priority. First, it focused on serving the real economy and the supply-side structural reform, moved faster to optimize credit structure, and continued to consolidate the foundation of asset quality management. Second, it imposed stricter credit access standards, strengthened risk research and risk early-warning, reinforced due diligence on new customers to reveal potential issues, and brought newly exposed problematic credit under effective control. Third, it kept a tight grip on such key links as business operation monitoring, post-lending management, due diligence and assessment accountability, and continuously carried out asset quality-related process management in a more efficient and high-quality way. Fourth, multiple measures were adopted to dispose of related assets with intensified efforts and greater efficiency. Such measures as control over new loans, clear-up of existing loans, and grip on process management adopted by the Company took initial effect in improving asset quality. Overall, its asset quality remained stable overall.

(4) Credit asset risk classification procedures and methods. Pursuant to the requirements of the former CBRC's *Guidelines on Loan Risk Classification*, the Company classified credit asset risks in consideration of such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management, according to the step-by-step identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the regional credit risk management personnel.

### (5) Credit risk profile

Credit exposures: At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on-and-off-balance-sheet credit exposures of the Group amounted to RMB3,207,471 million, including on-balance-sheet business exposure of RMB2,631,787 million, 82.05% of the total, and off-balance-sheet business exposure of RMB575,684 million, 17.95% of the total.

Risk concentration: At the end of the reporting period, the balance of single largest legal-person customer loans of the Company was RMB6,250 million, accounting for 2.35% of net capital; the balance of top 10 single legal-person customer loans was RMB42,538 million, accounting for 16.00% of net capital.

For details of loan distribution by industry and geographical area, please refer to the “Loan Extension” of this report.

Non-performing loan (NPL) distribution by industry and geographical area: As at the end of the reporting period, wholesale & retail, manufacturing and mining pooled most of the Group's non-performing loans, with NPL ratios of 5.64%, 4.56% and 4.51% respectively, up 0.66, 0.65 and 1.12 percentage points over the end of the previous year. In terms of geographical distribution, NPL ratio of Northern China and Northeastern China was 2.37%, up 0.49 percentage point over the end of the previous year, and that of Southern China and Central China, Eastern China, and Western China stood at 1.72%, 1.42% and 1.38%, down 0.27, 0.09 and 0.19 percentage point over the end of the previous year.

(6) Credit risk management and control measures in 2019. In 2019, the Chinese economy will undergo some changes amid stability. Coupled with the complex and severe external environment, the downward pressure on the overall economy is still very considerable, and the task of controlling risks is still arduous. The Company will continue adhering to the tenet that “asset quality is the lifeline”, and focus on conducting various risk management and control tasks properly. First, it will highlight the importance of risk management orientation and policy-based rigid requirements, step up efforts to adjust business, industry, regional structures, optimize the allocation of credit resources, and ensure that new assets come in stable and high quality. Second, it will give prominence to the quality and efficiency of process management, pay close attention to three checks on loans, specify stringent credit responsibilities and disciplines, optimize risk control processes and technologies, improve risk management and control capabilities, and strengthen business risk prevention and control effectively. Third, it will fulfill the primary responsibility and target responsibility, work harder to dissolve and dispose of risks, and go all out to bring asset quality under proper control.

## 2. Explanation on liquidity risk status

The Company has established a well-functioning liquidity risk governance framework, made clear the responsibilities of the Board of Directors, Board of Supervisors, senior management, and specialized management departments, put in place a fairly complete set of liquidity risk appetite, strategy, procedures, and measures, and introduced specific responsibilities, flows and methods for liquidity management.

In 2018, the central bank pursued the prudential and neutral monetary policy. As a result, the market liquidity revealed an overall stable momentum, with fluctuations still triggered at some time points. In response to changes in external environment, the Company adopted the balanced and prudential liquidity risk appetite, conducted the full-coverage asset and liability management, and sustained a stable asset-liability structure. Besides, it established a close-looped management mechanism that covered the ex ante, interim and ex post links, and intensified earlier liquidity management, stress transmission and process control; shored up liquidity assessment efforts; timely analyzed internal and external situations, and reinforced liquidity expectation management; refined the daily fund management mechanism and introduced more financing channels; and worked harder to develop more liquidity risk policies, systems and tools so that liquidity could be managed in a more systematic and normative way.

During the reporting period, the Company’s asset-liability structure and liquidity remained stable as a whole without any payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards.

In 2019, the Company will continue to strengthen liquidity management, lift daily management to a higher level, and refine asset-liability matching management. At the same time, it will keep strengthening expectation, extension, and daytime liquidity management, and ensure that the regulatory indicators and standards can be met, and liquidity can remain stable without significant fluctuations.

## 3. Explanation on market risk status

(1) Market risk management: In the face of complex macroeconomic and financial situations at home and abroad, the Company in 2018 continued to strengthen market risk management in line with its annual strategy in this regard. It strictly implemented the bank-wide market risk appetite as a whole, strengthened the dynamic monitoring and in-depth analysis of regulatory policies and market trends, stringently enforced the quota management of trading book business, and timely controlled interest rate and exchange rate risks. At the same time, it acted on the latest regulatory requirements on interest rate risk for the banking book, and did a better job in measuring and controlling such risk. In 2018, the bank-wide market risk appetite was implemented well, with the market risk capital tie-up increased slightly and market risk generally controllable compared with the end of previous year.

(2) Interest risk status: The market saw interest rate on the downward trend as a whole in 2018. The Company strengthened the pre-judgment of interest rate trend, comprehensively applied various tools such as sensitivity analysis and stress testing, rationally adjusted the term structure of asset and liability repricing, and the durations of major business lines such as deposits and loans, and intensified the management of interest rate risk arising from banking book and trading book. At the end of 2018, the repricing maturity of major currency types like RMB and USD at the Company was distributed reasonably, and interest rate risk borne was kept within a reasonable range.

(3) Exchange risk status: In 2018, the Federal Reserve (the Fed) continued to announce interest rate raises, and thus the US dollar index kept rising. Coupled with the constantly evolving Sino-US trade friction, RMB and US dollar saw their exchange rate in greater two-way volatility. The Company kept a close eye on RMB exchange rate movements and changes in international financial market, worked hard to study and judge how major global events like the Fed’s interest rate hike would impact the exchange rate trend, and shored up the foreign exchange rate risk monitoring and related quota management. At the end of 2018, the Company’s foreign exchange risk exposure was mainly denominated in US dollar, and came in a relatively small scale.

In 2019, the proactive fiscal policy is expected to take more effect, and the robust monetary policy will be moderately elastic. The Company will actively respond to the complicated market environment, strengthen market situation analysis and prejudgment, and continuously improve management of market risk.



#### 4. Explanation on operational risk status

During the reporting period, the Company continued to identify, monitor, assess, measure and report on operational risk, and the operational risk management delivered a stable performance in general.

The Company enhanced operational risk identification to prevent and control operational risk at source. It organized each major business line to streamline procedures and conduct self-assessment of operational risk and control, established verification mechanisms, and conducted assessment with quality and efficiency further assured. Besides, it stepped up efforts in monitoring key risk indicators, and issued pre-warnings against operational risk for efficient control effect. The Company timely collected operational risk events and loss data and enhanced the analysis and application. In the meantime, it kept printing and distributing the manual on major operational risk points and precautions, gave pre-warnings against typical risk events timely, and exercised tightened control over key business area and links. It wrapped up the operational risk management system optimization project, which allowed the system to be used more conveniently and effectively. It organized trainings on operational risk management system, released developments on operational risk management at fixed intervals of time, and enhanced operational risk management personnel's awareness and capability of performing their duties.

In 2019, the Company will continue to improve operational risk management system, give prominence to the prevention and control of operational risk in the areas vulnerable to such risk, and keep improving operational risk management.

#### 5. Explanation on status of other risks

Other risks faced by the Company mainly consist of internal control & compliance risk, IT risk, reputational risk, and country risk.

**Internal control & compliance risk:** During the reporting period, the Company was committed to operating lawfully and compliantly. As per the Development Program, it further refined the structure of corporate governance, incorporated the general requirements for Party building into the Articles of Association, intensified the shareholder and equity management, and made sure that the Shareholders' General Meeting, Board of Directors, Board of Supervisors, and senior management could operate efficiently and normatively. At the same time, it acted on regulatory requirements on all fronts, and took solid moves to crack down on market disorders in the banking industry. The Board of Directors, Board of Supervisors and senior management attached high importance to related work, by developing unified cognition and making well-planned arrangements. Bearing their work priorities in mind, all professional business lines across the Bank made proactive efforts to carry out self checks and assessments as well as "dually random" onsite inspections in earnest. As a result, they substantially forestalled a variety of risks and hidden hazards, managed to bolster up weak links, better enforced internal control policies, consolidated lines of risk defense fundamentally, and got solidly prepared for serving the needs of real economy. In the meantime, they kept improving internal control measures, optimized rectification check mechanisms, prioritized on correcting problems with quality and efficiency further assured, and stepped up efforts in accountability and punishment. While internalizing external provisions, they kept sorting through and screening business policies, established a reporting mechanism concerning business policy management, made sure the mechanism where policies could exercise efficient control over business lines, institutions and employees functioned well, and enhanced the quality of various business policies substantially. Moreover, they further assigned the primary responsibilities for case prevention to related personnel, refined the case prevention management policies, screened and exposed case risks and abnormal employee behaviors, launched special campaigns against various crimes including illegal fundraising activities, brought case prevention work under stringent supervision and inspection, and kept a tight lid on fraud cases. Also intensive efforts were made to forestall AML risk, engage in data governance, overhaul working modes, optimize suspicious transaction monitoring models, update AML information system, intensify terrorist financing risk management, and shore up money laundering risk prevention capabilities continuously. At last, they delivered more compliance education and training sessions to employees at all levels, issued risk warnings, and selected exemplary individuals and entities to give them commendation and set up role models in compliance. All employees were encouraged to learn, implement and abide by compliance, forge a sound compliance culture continuously, follow the compliance principles throughout the entire business management process, and lift their ability to manage compliance risk to a higher level constantly.

**IT risk:** While fully implementing various requirements raised by the competent state authorities and regulators for IT risk management, the Company kept improving its IT risk mechanisms, enabled information systems to serve as a better security shield and operational guarantee, and did better to prevent and control IT risk. Meanwhile, it launched the new intra-city disaster recovery center, with the business continuity further improved; switched to intelligent operation and maintenance, which enabled system change, task release, and other jobs could be done automatically; got daily operation and maintenance work processed in a mobilized way, a move both improving efficiency and reducing operational risk; set up a digital credit service platform to realize "independent risk control and customer acquisition"; and carried out the research on how to protect the secure and collaborative disposal, and proposed an integral solution of "platform + service + scenario".

Reputational risk: The Company continued to improve the reputational risk management system and mechanism, forestalling reputational risk and responding to related incidents effectively. At the same time, it increased monitoring efforts, organized reputational risk inspections, and did a good job in risk early-warning; helped all employees to raise the awareness of reputational risk and related risk disposal capabilities through relevant trainings and drills; and actively responded to public opinions and concerns, and maintained smooth communication with stakeholders and the public.

Country risk: The Company kept a close eye on the risk of related countries and regions, by monitoring the assets exposed to country risk monthly, rating country risk and setting aside reserve quarterly, and reported country risk exposure and provision statements to regulatory authorities every half a year. Country risk mainly involved Hong Kong and the US. The business exposure accounted for a low proportion of the on-balance-sheet assets. So the bank-wide country risk remained under control as a whole.

## xvi. Innovative products

The Company has always engaged in product R&D and business innovation in line with market changes and customer needs. During the reporting period, it developed and improved a total of 54 products and plans that served various customers. To respond to state policies swiftly, many financial products were tailored to meet customers' needs in key areas concerning economic and social development. As a quotation from the Report on the 19th CPC National Congress goes, "we will move faster to put in place a housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting. This will make us better placed to meet the housing needs of all of our people." Instructed by this overall stand, the Company during the reporting period did a lot in the following aspects. First, it completed developing such special credit products as loans for constructing homes with joint property rights, loans exclusive for rental housing, and financing for collective construction land for commercial use (for corporate customers) as well as personal loans for rental housing. Second, it continued developing and optimizing FinTech-backed products, kept improving user experience of these products, and applied a host of technologies including internet, AI, and big data to a wider range of products. Third, it upgraded the mobile banking into version 5.0, put retail financial products online through mobile terminals with vigorous efforts, and launched a host of new products such as large-amount certificates of deposit, group-purchase wealth management schemes, and featured bill payment products, with a view to rendering customers with smart, convenient financial services. While enhancing its financing service capacity, it further enriched the interbank investment objects, and employed various domestic and foreign financing products and channels such as Commercial Factoring Financing and Securities Leasing Express to meet customers' financing needs. When it came to cash management services, the Company continued to uphold the tenet of "facilitating transactions, generating gains from funds", and kept refining the function of cash management platform, comprehensive payment platform, and cross-bank fund management platform, with a view to satisfying customers' diverse needs for cash management. With respect to serving MSEs, it firmly implemented the strategy of "becoming a financial service provider for SMEs", shored up its support for MSEs, and rolled out and optimized many financing products like "House Loan Express", "annually-reviewed loans", and "online loans" as well as exclusive settlement products including "Campus e Express" and "Logistics e Express".

## SECTION V SIGNIFICANT EVENTS

### I. PROFIT DISTRIBUTION PLAN/PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE

#### i. Formulation, implementation or adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, except for preference shares adopted with the specific dividend policy, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

The profit distribution plan for 2017 was reviewed and approved at the Annual General Meeting for 2017 and took effect on 29 June 2018. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit realized during the period.

#### ii. Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year	Percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year (%)
2018	–	1.74	–	2,677	20,014	13.38
2017	–	1.51	–	1,936	18,979	10.20
2016	–	1.81	2	1,934	19,677	9.83

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J.[2012] No. 20) released by the MOF and the *Articles of Association of Hua Xia Bank Co., Limited*, the parent company made statutory surplus reserve based on the net profit audited by the accounting firm, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited by the accounting firm. The profit distribution plan for 2018 of the parent company is set forth below:

1. RMB2,027 million or 10% of the net profit of 2018 (RMB20,266 million) as audited by the accounting firm is set aside as statutory surplus reserve.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J.[2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB2,734 million is to be set aside as general reserve for 2018.

3. With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2018 as the base number, cash dividends will be distributed to all of the shareholders at RMB1.74 (before tax) per 10 shares, and the cash dividends are to be distributed in an amount of RMB2,677 million.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2018 of the Company reviews and approves it.

4. The interest accrual period for preference shares issued in 2016 is from 28 March 2018 to 27 March 2019 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million.

The above dividend distribution plan was considered and adopted at the 44th Meeting of the Seventh Board of Directors on 28 February 2019.

The Company is in the phase of strategic transformation and development. The retained profit will be used for capital replenishment. With the new development plan put in place faster, the Company will improve its business structure, lift its profitability level, and increase its risk tolerance constantly. In 2018, the cash dividend ratio remained stable overall and edged up slightly. Furthermore, the ratio has maintained an upward trend in recent three years, which could give due considerations to return on shareholders' investments, requirements raised by regulatory authorities, CAR indicators, and sustainable development of the Company.

## II. PERFORMANCE OF COMMITMENTS

i. The Company's shareholder PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer in 2016 within five years following the delivery date.

Committed by	PICC Property and Casualty Company Limited
Commitment type	Other commitment made in the equity change report
Commitment	Committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	17 November 2016
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

ii. Upon the approval of CSRC, the Company issued 2,564,537,330 ordinary shares (A shares) in a non-public offering, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. Shareholders of the Company, namely Shougang Group Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd., committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.

Committed by	Shougang Group Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd., Beijing Infrastructure Investment Co., Ltd.
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer upon maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	8 January 2019
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes





### **III. FUND OCCUPANCY AND RECOVERY DURING THE REPORTING PERIOD**

During the reporting period, as audited and assured by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder or other related parties.

### **IV. EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT**

Not applicable.

### **V. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND CORRECTIONS OF ACCOUNTING ERRORS DURING THE REPORTING PERIOD**

During the reporting period, there was neither change to accounting policies, estimates and methods nor correction of major accounting errors left previously at the Company.

### **VI. ENGAGEMENT AND REMOVAL OF INTERMEDIARIES**

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the 2018 financial statements with an audit fee of RMB5.38 million. It engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditor of the 2018 internal control with an audit fee of RMB1.05 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for six years.

The Company engaged CSC Financial Co., Ltd. as the sponsor institution for this non-public offering of ordinary shares, paying it sponsorship fee and underwriting fee of RMB418,900.

### **VII. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS**

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. As at 31 December 2018, the Company had 601 pending lawsuits involving RMB10 million or above individually, totaling RMB27,613 million, of which 13 cases that involved RMB1,168 million were brought against the Company. Most of these litigation and arbitration cases were lodged by the Company proactively for recovering NPLs. Therefore, the Company believes that they won't have significant impact on its financial position or business results.

## VIII. PENALTY IMPOSED ON THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS

As far as the Company knows, during the reporting period, none of its directors, supervisors, or senior management members was subject to any investigation by competent authorities, coercive measures taken by judicial authorities or disciplinary inspection departments, transfer to judicial authorities or investigation for criminal responsibility, investigation or administrative penalty by CSRC, restricted access to market, identification as unqualified, material penalty by other administrative authorities, or public denouncement by the stock exchanges.

During the reporting period, the Company was not subject to any administrative supervision measures by CSRC or its agencies or request for rectification within the prescribed time limit.

## IX. STATEMENT ON CREDIT STANDING OF THE LISTED COMPANY

During the reporting period, there was no significant valid court judgment with which the Company had not complied, nor was there any outstanding debt of significant amount.

## X. STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

## XI. MATERIAL RELATED PARTY TRANSACTIONS

### i. Management, pricing principle and basis of related party transactions

During the reporting period, pursuant to the *Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders* and the *Interim Measures on Equity Management at Commercial Banks*, both released by the former CBRC, the Company further tightened the management and control of related party transaction risks, reasonably controlled limits of related party transactions and proactively adjusted the transaction structures. These moves helped to further improve related party transaction management and effectively control related party transaction risks. The Company strictly implemented the former CBRC's *Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders* and the *Interim Measures on Equity Management at Commercial Banks*, conducted related party transactions in accordance with the commercial principles and based on the pricing principle and basis that the condition is not lower than that of similar non-related party transactions.

### ii. Related party transactions concerning daily operation

1. The 35th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2017 were convened on 16 March 2018 and 24 May 2018, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between Shougang Group Co., Ltd. and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between Shougang Group Co., Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 17 March 2018. As at 31 December 2018, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB10.335 billion.



2. The 35th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2017 were convened on 16 March 2018 and 24 May 2018, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between PICC Property and Casualty Company Limited and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between PICC Property and Casualty Company Limited and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 17 March 2018. As at 31 December 2018, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB100 million.

3. The 35th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2017 were convened on 16 March 2018 and 24 May 2018, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between State Grid Yingda International Holdings Corporation, Ltd. and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB24 billion granted for the related party transactions between State Grid Yingda International Holdings Corporation, Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 17 March 2018. As at 31 December 2018, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB1,910 million.

4. The 35th Meeting of the Seventh Board of Directors was convened on 16 March 2018, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions between Yunnan Hehe (Group) Co., Ltd. and Its Related Enterprises*. According to the proposal, the Company agreed to approve the credit line worth RMB3 billion granted for the related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 17 March 2018. As at 31 December 2018, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB40 million.

5. The 35th Meeting of the Seventh Board of Directors and the Annual General Meeting for 2017 were convened on 16 March 2018 and 24 May 2018, considering and adopting the *Proposal on the Credit Line Granted by Hua Xia Bank Co., Limited for the Related Party Transactions of Huaxia Financial Leasing Co., Ltd.* According to the proposal, the Company agreed to approve the credit line worth RMB12 billion granted for the related party transactions of Huaxia Financial Leasing Co., Ltd. (RMB and foreign currency combined) with a validity term of one year. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 17 March 2018. As at 31 December 2018, the balance of the above credit line stood at 0.

### iii. Related party transactions arising from the acquisition and sale of assets or equities

During the reporting period, there was no related party transaction arising from the acquisition or sale of assets or equities at the Company.

### iv. Related party transactions arising from the external investments made by the Company and its related parties jointly

During the reporting period, there was no major related party transactions arising from the external investments made by the Company or its related parties jointly.

v. Details of debt & claim, guarantee or other affairs between the Company and its related parties can be seen in the Notes to the Financial Statements as a part of the Report.

## vi. Other material related party transactions

The 41st Meeting of the Seventh Board of Directors and the First Extraordinary General Meeting for 2018 were convened on 17 September 2018 and 9 October 2018, considering and adopting the *Proposal on the Non-public Offering of Ordinary Shares*, and the *Proposal on Related Party Transaction Affairs Involved in the Non-public Offering of Ordinary Shares*, and other proposals relating to the non-public offering. According to these proposals, the Company agreed that 2,564,537,330 ordinary shares would be issued to Shougang Group Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd. in a non-public offering. Of these shares, Shougang Group Co., Ltd. subscribed 519,985,882 shares, State Grid Yingda International Holdings Corporation, Ltd. subscribed 737,353,332 shares, and Beijing Infrastructure Investment Co., Ltd. subscribed 1,307,198,116 shares, respectively. Furthermore, all these subscribed shares in this offering may not be transferred within five years since the date of subscription. The Company set the issuance price of the ordinary shares in this non-public offering at RMB11.40 per share. All of these aforesaid related party transactions conformed to the provisions of applicable laws and regulations, the clauses of the subscription agreement and related signing procedures were legitimate, and the raised funds with issuing feeds deducted were all used to replenish the Company's core tier-1 capital, a move that helped the Company to boost risk tolerance, fuel sustained, sound development, and safeguard the interests of itself and shareholders. Details can be seen in the *Announcement of Hua Xia Bank Co., Limited on Related Party Transaction Affairs Involved in the Non-public Offering of Ordinary Shares* which was disclosed on 19 September 2018.

## XII. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

### i. Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody or contracting of assets of other companies, neither did other companies take custody, engage in contracting of or lease any assets of the Company.

### ii. Material guarantee

Except for financial guarantees within the business scope as approved by CBIRC, the Company had no material guarantees to be disclosed during the reporting period.

### iii. Other material contracts

During the reporting period, there was not any material dispute over contracts.

## XIII. INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2018 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by PBOC and CBIRC. As at the end of the reporting period, outstanding guarantees of the Company amounted to RMB23,486 million, an increase of RMB1,603 million compared with the end of previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.



## XIV. FULFILLMENT OF SOCIAL RESPONSIBILITIES

### i. Poverty reduction efforts of the listed company

#### 1. Plan on targeted poverty reduction

In active response to the orientation of the government's poverty alleviation policy, the Company fully raised awareness, strengthened policy guidance and worked hard to alleviate poverty in a targeted way in order to carry out the "13th five-year" anti-poverty plan and help lift the areas affected by extreme poverty out of poverty pursuant to the overall arrangement and requirement of the CPC Central Committee, the State Council and the regulatory authorities on poverty relief and development.

Strengthen the building of targeted poverty alleviation mechanism. The Company continued to improve the building of poverty alleviation system and mechanism, and input more financial resources to combat poverty from the aspects of policy orientation, credit authorization, credit granting, resource allocation, loan risk tolerance, human resources, and public welfare projects. Besides, it strengthened communication and cooperation with relevant government departments, various guarantee companies, policy banks, insurers and industrial funds to draw on one another's advantages and co-build the multi-tiered financial service system.

Support the funding demand of targeted poverty alleviation. The Company actively acted on the philosophy of developing inclusive finance, and promoted the drive of targeted poverty reduction with financial strength. It increased funding for major poverty alleviation projects to help poverty-stricken areas to sustain healthy development of economy and society and lift the poor out of poverty, and promote economic growth and industrial structural upgrade across poverty-stricken areas. At the same time, it continued to improve the financial services for take-over of industrial transfer and development of emerging industries in poverty-stricken areas to encourage the coordinated development of local industries. Besides, the Company also supported ecological construction and environmental protection of poverty-stricken areas for sustainability of economy, society and ecological environment.

Provide innovative products and services for targeted poverty alleviation. According to local conditions of poverty-stricken areas, the Company carried forward financial innovation, developed and designed tailor-made products and services by means of product portfolios, product R&D, integrated packaging, and service innovation, and effectively increased the diversity of financial product/service offerings for the anti-poverty purpose. At the same time, it continued to build various institutions including small sub-branches, micro and small-sized sub-branches, and community sub-branches, provided a large scale of standardized financial services for MSEs and personal customers in batches, expanded the coverage of basic financial services, protected the rights and interests of the financially vulnerable groups, and enhanced the level of financial services for the poor.

#### 2. Summary of targeted poverty alleviation efforts in 2018

During the reporting period, the Company deeply implemented the orientation of China's anti-poverty policy and its plans for targeted poverty reduction. While deepening a variety of targeted poverty alleviation work relating to finance, it got involved with the work by non-financial means including donation of money and materials and public welfare programs. Cumulatively speaking, the Company provided fund of RMB2,932,229,000 for targeted poverty alleviation, supplied materials worth RMB244,300 and lifted 58,210 registered poor people out of poverty.

**Extend more credits to support targeted poverty alleviation.** During the reporting period, giving ongoing play to the guiding role of credit policy, the Company increased credit support for agriculture and forestry of poverty-stricken areas, supported the funding demand of local characteristic and advantageous industries like characteristic agriculture and agricultural product processing industry and used assorted financial products and services including corporate/personal credit to address the funding demand of fight against poverty. During the reporting period, the Company extended loans worth RMB1,832,782,800 in support of 23 projects of alleviating poverty through industrial development, which lifted 711 registered poor people out of poverty; disbursed personal loans totaling RMB350,407,500, which lifted 10,034 registered poor people out of poverty; and granted the credit card overdraft limit worth RMB275,930,700, which lifted 28,608 registered poor people out of poverty.

**Donate money and materials for targeted poverty alleviation.** During the reporting period, branches of the Company in many places launched donating events which raised funds of RMB11,051,900 and material supplies of RMB244,300. For example, a donation worth RMB1.5 million was given to Beijing Women & Children's Development Foundation, which went to replenish the "Hua Xia Bank Foundation for Growth of Children of Sanitation Workers"; and the public welfare activity themed with "join hands with Guang'ai for happiness" was rolled out where RMB50,000 was donated to Beijing Guang'ai School view a view to financing the impoverished students to finish school.

**Win awards for targeted poverty alleviation efforts.** During the reporting period, branches of the Company in Shenyang, Chengdu, Urumqi and other places were rated as exemplary anti-poverty units by local governments and regulatory agencies; and a host of employees including Li Chengwu from Shenyang Branch and Zhao Yongjun from Haikou Branch received the title of honor as outstanding anti-poverty individuals. Details can be seen in the following table.

## 3. Achievements of targeted poverty reduction efforts made by the Company in 2018

(Unit: RMB10,000)

Indicator	Quantity & implementation
I. General	
Incl.:1. funds	293,222.90
2. Supplies in monetary terms	24.43
3. Number of registered poor people who managed to shake off poverty with the Company's help	58,210
II. Itemized contributions	
1. Poverty elimination through industrial development	
Incl.: 1.1 Project types	√ Agriculture and forestry √ Others
1.2 Project number	23
1.3 Project inputs	183,278.28
1.4. Number of registered poor people who managed to shake off poverty with the Company's help	711
2. Poverty elimination through transfer employment	
Incl.: 2.1 Funding for vocational trainings	1.22
2.2. Number of persons receiving vocational trainings (persons/times)	400
2.3. Number of registered poor people who managed to get employed with the Company's help	83
3. Poverty elimination through education progress	
Incl.: 3.1 Funding for poor students	419.00
3.2 Number of poor students funded	196
3.3 Inputs into improving education resources in poverty-stricken areas	273.45
4. Poverty alleviation through improvement of health conditions	
Incl.: 4.1 Inputs into improving medical and health resources in poverty-stricken areas	5.00
5. Bail-out guarantee	
Incl.: 5.1 Inputs to help the poor with disabilities	334.85
5.2 Number of the poor with disabilities that have received the Company's help	4
6. Poverty alleviation through social endeavors	
Incl.: 6.1 Inputs into fixed-point poverty alleviation	245.09
6.2 Anti-poverty endowment	156.87
7. Other projects	
Incl.: 7.1 Project number	594
7.2 Inputs	108,533.57
7.3. Number of registered poor people who managed to shake off poverty with the Company's help	56,816



Indicator	Quantity & implementation
III. Award (Content, Ranking)	1. Shenyang Branch was awarded the title of honor for “2017 Exemplary Anti-poverty Units” by Liaoning Provincial Poverty Relief Office; 2. Li Chengwu from Shenyang Branch was given the title of honor for “2017 Exemplary Anti-poverty Individuals” by Liaoning Provincial Poverty Relief Office; 3. Chengdu Branch was rated as one of the “2017 Exemplary Units in Poverty Reduction with Financial Strength” by CBRC Sichuan Office; 4. Urumqi Branch was granted with the “Award for Exemplary Enterprises in Promoting Industrial Development in 2018” by the CPC Hetian Municipal Committee and the Hetian Municipal People’s Government; 5. Urumqi Branch was given the title of honor for “Financing Needy Students with Boundless Love” by the Hetian Municipal People’s Government; 6. Zhao Yongjun from Haikou Branch received the title of honor for “the Most Commendable People Looking to Help the Poor” in the selection organized by <i>Hainan Daily</i> as well as the CPC Committee and People’s Government of Lingao County, Hainan.

#### 4. Subsequent plan on targeted poverty alleviation

**Expand the channels of targeted poverty reduction.** The Company will refine the setting of outlets at grassroots level and actively promote the presence in poverty-stricken areas to expand local coverage. At the same time, the Company will actively construct the “second bank” and coordinate with offline physical outlets to provide farmers in poverty-stricken areas with basic financial services online.

**Set up targeted poverty reduction efforts.** The Company will further probe into the financial needs of poor people, proceed from its own features as a financial institution, and further define the credit policy of using finance to serve targeted poverty alleviation. At the same time, it will try to satisfy the financing needs of poverty-stricken areas including infrastructure loans, featured industry loans, petty credit to poor population, and student loans, and channel more credit funds to poverty-stricken areas and population. Besides, it will make greater efforts on targeted poverty alleviation in more extensive sectors, and keep combating poverty financially through industrial development, education progress and social endeavors, and actively provide support for poverty-stricken areas and population.

**Launch public welfare programs to alleviate poverty in a targeted way.** While donating more money and materials to poverty-stricken areas and population, the Company will promote a series of public welfare activities in depth, which include the public welfare activities themed with “join hands with Guang’ai for happiness”, and the “Hua Xia Bank Foundation for Growth of Children of Sanitation Workers” set up with Beijing Women & Children’s Development Foundation.

#### ii. Fulfillment of social responsibilities

With high importance attached to the daily management of social responsibilities, the Company makes clear that the General Office of the Head Office serves as the competent department in charge of managing as a whole and promoting on a daily basis the social responsibility work across the board. The formulation of multiple social responsibility management documents such as the *Guideline of Hua Xia Bank for Compiling Social Responsibility Reports* and the *Social Responsibility Management Measures of Hua Xia Bank* facilitated bringing the related work under institutional and normative management.

While running business properly, the Company is dedicated to becoming a socially responsible financial institution, constantly increasing communication with customers, shareholders, employees and other stakeholders, and seeking for sustainable development economically, environmentally and socially. So far, it has released a social responsibility report to the public for 11 consecutive years. At the same time, it discloses related information publicly through many channels such as WeChat account and internet media outlets, with a view to informing the public of how it has fulfilled social responsibilities.

In serving the implementation of state strategies and the development of real economy, the Company integrates political, economic, and social responsibilities into its development strategy, operational & management practice and corporate culture, so as to attain the comprehensive, coordinated and sustainable development in economic, social and environmental terms. During the reporting period, it took an active part in fulfilling its social responsibilities in the following aspects: “serving the coordinated development of the Beijing-Tianjin-Hebei Region”, “developing inclusive finance for MSEs”, “switching to a fast track at the pull of FinTech”, “green finance contributing to a beautiful Hua Xia”, “serving real economy, creating more value”, “giving back to the society through targeted poverty reduction efforts”, “protecting customers’ rights and interest, enhancing service standards”, and “engaging in staff management, setting the stage for them”. For details, please refer to the *CSR Report 2018 of Hua Xia Bank Co., Limited* disclosed by the Company.

## XV. SIGNIFICANT EVENTS OF SUBSIDIARIES

As per the resolution made at the Annual General Meeting for 2017, Sichuan Jianguo Hua Xia Rural Bank Co., Ltd. converted the retained profit of RMB25 million into share capital at a ratio of 5 for 10 on the basis of 50 million shares, which increased the share capital by 25 million shares. After that, the company owned 75 million shares in total. This conversion did not cause any change in the shareholder structure or the structure of assets and liabilities.

## XIV. INDEX OF INFORMATION DISCLOSURES

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Resolutions of the 35th Meeting of the Seventh Board of Directors of Hua Xia Bank	<i>China Securities Journal, Shanghai Securities News, Securities Times</i>	17-Mar-18	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	17-Mar-18	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	17-Mar-18	Ditto
Announcement on Resolutions of the 36th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	20-Apr-18	Ditto
Announcement on Resolutions of the 21st Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	20-Apr-18	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2017	Ditto	20-Apr-18	Ditto
Announcement of Hua Xia Bank on Amendments to the Articles of Association	Ditto	20-Apr-18	Ditto
Announcement of Hua Xia Bank on the Establishment of the Asset Management Subsidiary	Ditto	20-Apr-18	Ditto
Announcement of Hua Xia Bank on the Establishment of the Direct Banking Subsidiary	Ditto	20-Apr-18	Ditto
Announcement on Advance Notice about the Explanation Session of Cash Dividend Distribution of Hua Xia Bank	Ditto	20-Apr-18	Ditto
Announcement on Annual Report of Hua Xia Bank in 2017	Ditto	20-Apr-18	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of Phase-1 Financial Bonds in 2018	Ditto	26-Apr-18	Ditto
Announcement on First Quarterly Report of Hua Xia Bank in 2018	Ditto	28-Apr-18	Ditto
Announcement on Resolutions of the 38th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	12-May-18	Ditto
Announcement on Canceling Fixed Proposals and Adding Interim Ones for the Annual General Meeting for 2017 of Hua Xia Bank	Ditto	12-May-18	Ditto
Announcement of Hua Xia Bank on Attending the Investors Open Day for Listed Companies based in Beijing	Ditto	16-May-18	Ditto
Announcement on Resolutions of the Annual General Meeting for 2017 of Hua Xia Bank	Ditto	25-May-18	Ditto
Announcement on Annual Equity Distribution for 2017 of Hua Xia Bank	Ditto	21-Jun-18	Ditto



Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Resolutions of the 23rd Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	22-Jun-18	Ditto
Announcement on Resignation of Chairman of the Board of Supervisors of Hua Xia Bank	Ditto	06-Jul-18	Ditto
Announcement on Resignation of Vice President of Hua Xia Bank	Ditto	19-Jul-18	Ditto
Announcement on Resolutions of the 39th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	25-Jul-18	Ditto
Announcement on Resolutions of the 40th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	20-Aug-18	Ditto
Announcement on Interim Report of Hua Xia Bank in 2018	Ditto	20-Aug-18	Ditto
Announcement on Resignation of Employee Supervisor of Hua Xia Bank	Ditto	01-Sep-18	Ditto
Announcement on Resolutions of the 41st Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	18-Sep-18	Ditto
Announcement of Hua Xia Bank on Signing the Conditional Share Subscription Agreement with Specified Objects	Ditto	18-Sep-18	Ditto
Announcement of Hua Xia Bank on Related Party Transaction Affairs Involved in the Non-public Offering of Ordinary Shares	Ditto	18-Sep-18	Ditto
Indicative Announcement of Hua Xia Bank on Change in Shareholders' Equity	Ditto	18-Sep-18	Ditto
Announcement of Hua Xia Bank on Amendments to the Articles of Association	Ditto	18-Sep-18	Ditto
Notice of Hua Xia Bank on Holding the First Extraordinary General Meeting for 2018	Ditto	18-Sep-18	Ditto
Announcement on Resolutions of the First Extraordinary General Meeting for 2018 of Hua Xia Bank	Ditto	10-Oct-18	Ditto
Announcement on Resolutions of the 42nd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	31-Oct-18	Ditto
Announcement on Resolutions of the 25th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	31-Oct-18	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2018	Ditto	31-Oct-18	Ditto
Announcement of Hua Xia Bank on Non-public Offering of A Shares and Related Shareholder Qualification Approved by CBIRC	Ditto	22-Nov-18	Ditto
Announcement of Hua Xia Bank on the Reply to Feedback Opinions Concerning Application for Non-public Offering of Ordinary Shares	Ditto	10-Dec-18	Ditto
Announcement of Hua Xia Bank on Approval of the Application for Non-public Offering of Ordinary Shares by the Issuance Examination Committee of CSRC	Ditto	18-Dec-18	Ditto
Announcement on Resolutions of the 43rd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	20-Dec-18	Ditto
Announcement on Demission of Director of Hua Xia Bank	Ditto	25-Dec-18	Ditto
Announcement of Hua Xia Bank on its Application for Non-public Offering of Ordinary Shares Approved by China Securities Regulatory Commission	Ditto	17-Mar-18	Ditto

## SECTION VI DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

### I. CHANGES IN ORDINARY SHARES

#### i. Changes in ordinary shares

##### 1. Table on changes in shares

#### Changes in registered shares during the reporting period

(Unit: Share)

	31 December 2017		Increase/ Decrease (+,-)	31 December 2018	
	Number	Percentage (%)		Number	Percentage (%)
<b>I. Shares subject to restrictions on sales</b>	-	-	-	-	-
<b>II. Shares not subject to restrictions on sales</b>	12,822,686,653	100.00	-	12,822,686,653	100.00
1. RMB-denominated ordinary shares	12,822,686,653	100.00	-	12,822,686,653	100.00
2. Foreign shares listed domestically	-	-	-	-	-
3. Foreign shares listed overseas	-	-	-	-	-
4. Others	-	-	-	-	-
<b>III. Total number of shares</b>	12,822,686,653	100.00	-	12,822,686,653	100.00



**Changes to shares as at 8 January 2019 (registration date of shares in this non-public offering)**

(Unit: Share)

	Before this offering		Increase/ Decrease (+,-)	After this offering	
	Number	Percentage (%)	New shares	Number	Percentage (%)
<b>I. Shares subject to restrictions on sales</b>	-	-	2,564,537,330	2,564,537,330	16.67
1. State-owned shares	-	-	-	-	-
2. Shares held by state-owned corporations	-	-	2,564,537,330	2,564,537,330	16.67
3. Shares held by other domestic investors	-	-	-	-	-
Of which: shares held by domestic non-state-owned corporations	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-
Of which: shares held by foreign corporations	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-
<b>II. Shares not subject to restrictions on sales</b>	12,822,686,653	100.00	-	12,822,686,653	83.33
1. RMB-denominated ordinary shares	12,822,686,653	100.00	-	12,822,686,653	83.33
2. Foreign shares listed domestically	-	-	-	-	-
3. Foreign shares listed overseas	-	-	-	-	-
4. Others	-	-	-	-	-
<b>III. Total number of shares</b>	12,822,686,653	100.00	2,564,537,330	15,387,223,983	100.00

## 2. Explanation on changes in shares

During the reporting period, the Company privately issued 2,564,537,330 ordinary shares (A shares) upon the approval of CSRC, and wrapped up related subscription payment and capital verification work. Upon the completion of the above offering, the Company's total shares jumped from 12,822,686,653 to 15,387,223,983. These shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019.

## 3. Influence of share changes on financial indicators including earnings per share and net assets per share in the past year and during the recent period

During the reporting period, the shares privately issued by the Company included the basic earnings per share, diluted earnings per share, and net assets per share attributable to ordinary shareholders of the Company in the past year and during the recent period as follows:

In 2018, basic earnings per share stood at RMB1.56, diluted earnings per share were RMB1.56, and net assets per share attributable to shareholders of the listed company as at the end of 2018 amounted to RMB12.81.

In 2017, basic earnings per share stood at RMB1.48, diluted earnings per share were RMB1.48, and net assets per share attributable to shareholders of the listed company as at the end of 2017 amounted to RMB11.55.

### ii. Changes in shares subject to restrictions on sales

Changes to shares subject to restrictions on sales as at 8 January 2019 (registration date of shares in this non-public offering)

(Unit: Share)

Name of shareholder	Number of shares subject to restrictions on sales at the beginning of the reporting period	Number of shares released from restrictions on sales during the reporting period	Increase of shares subject to restrictions on sales in the reporting period	Number of shares subject to restrictions on sales at the end of the reporting period	Reason for restrictions on sales	Date on which shares become tradable
Shougang Group Co., Ltd.	0	0	519,985,882	519,985,882	(Refer to Note 1 for details)	8 January 2024
State Grid Yingda International Holdings Corporation, Ltd.	0	0	737,353,332	737,353,332		
Beijing Infrastructure Investment Co., Ltd.	0	0	1,307,198,116	1,307,198,116		
Total	0	0	2,564,537,330	2,564,537,330	-	-

#### Notes:

1. The shares in this non-public offering got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019, and the subscribers may not transfer these shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. Upon the expiration of lock-up period, the transfer of related shares shall be conducted as per the applicable laws and regulations like the *Company Law of the People's Republic of China* as well as the relevant provisions of CSRC and Shanghai Stock Exchange.

2. The comparative period of the changes to the shares subject to restrictions on sales mentioned in the above table lasts from 1 January 2018 to 8 January 2019.



## II. SECURITIES ISSUE AND OFFERING

### i. Securities issue during the reporting period

To continuously meet the regulatory requirements for capital of commercial banks, increase the CAR, and propel various business lines towards sustained, robust development, the Company issued to Shougang Group Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd. 2,564,537,330 ordinary shares (A shares) in a non-public offering. At the price of RMB11.40 per share, these shares raised funds totaling RMB29,235,725,562.00. This non-public offering wrapped up subscription payment and capital verification on 28 December 2018. These shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019.

### ii. Changes in the total number of shares and shareholder structure as well as the Company's asset & liability structure

Upon the completion of the above offering, the Company's total shares jumped from 12,822,686,653 to 15,387,223,983. Before that, the Company's shareholders with a stake of 5% or above were Shougang Group Co., Ltd., PICC Property and Casualty Company Limited, and State Grid Yingda International Holdings Corporation, Ltd., that held shares at a ratio of 20.28%, 19.99% and 18.24%, respectively. Upon the completion of this offering (on 8 January 2019, the registration date of shares in this non-public offering), the Company's shareholders with a stake of 5% or above are Shougang Group Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd., PICC Property and Casualty Company Limited, and Beijing Infrastructure Investment Co., Ltd., with the shareholding ratio of 20.28%, 19.99%, 16.66% and 8.50%, respectively. As at the end of the reporting period, owners' equity attributable shareholders of the listed company stood at RMB217,141 million, an increase of RMB49,086 million or 29.21% compared with the beginning of the year.

### iii. Individual employee stock ownership

The Company had no individual employee stock during the reporting period.

### III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

#### i. Number of shareholders and shareholdings

Shareholders of record as at 31 December 2018 (shareholders and shares not registered by the end of the reporting period excluded), particulars of shareholding of the top 10 shareholders, and particulars of shareholding of top 10 shareholders subject to no restrictions on sales:

(Unit: Share)

Total number of shareholders at the end of the reporting period	121,432	Total number of shareholders at the end of the month immediately before disclosing date of this Annual Report					121,070
Shareholdings of the top 10 shareholders							
Name of shareholder	Nature of shareholder	Percentage (%)	Number of shares held by shareholders	Increase/decrease during the reporting period	Number of shares subject to restrictions on sales that were held	Number of pledged or frozen shares	
						Share status	Number
Shougang Group Co., Ltd.	State-owned legal person	20.28	2,599,929,412	0	0	None	
PICC Property and Casualty Company Limited	State-owned legal person	19.99	2,563,255,062	0	0	None	
State Grid Yingda International Holdings Corporation, Ltd	State-owned legal person	18.24	2,338,552,742	0	0	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	4.37	560,851,200	0	0	None	
China Securities Finance Corporation Limited	State-owned legal person	3.00	384,598,542	-185,959,335	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	2.13	273,312,100	100	0	Pledged	273,312,002
Huaxia Life Insurance Company Limited – Universal Insurance Product	Others	1.76	225,758,339	0	0	None	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	1.31	167,671,900	0	0	Pledged	167,671,900
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.30	166,916,760	0	0	None	
Buttonwood Investment Holding Company Ltd.	State-owned legal person	0.87	111,297,048	0	0	None	



<b>Shareholdings of the top 10 shareholders not subject to restrictions on sales</b>		
<b>Name of shareholder</b>	<b>Number of shares not subject to restrictions on sales that were held</b>	<b>Type of shares</b>
Shougang Group Co., Ltd.	2,599,929,412	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,563,255,062	RMB-denominated ordinary shares
State Grid Yingda International Holdings Corporation, Ltd.	2,338,552,742	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	560,851,200	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	384,598,542	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,100	RMB-denominated ordinary shares
Huaxia Life Insurance Company Limited – Universal Insurance Product	225,758,339	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	167,671,900	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	166,916,760	RMB-denominated ordinary shares
Buttonwood Investment Holding Company Ltd.	111,297,048	RMB-denominated ordinary shares
Remarks on the connected relation or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders.	

Particulars of shareholding of the top 10 shareholders as at 8 January 2019 (registration date of shares in this non-public offering):

(Unit: Share)

Shareholdings of the top 10 shareholders						
Name of shareholder	Nature of shareholder	Percentage (%)	Number of shares held by shareholders	Number of shares subject to restrictions on sales that were held	Number of pledged or frozen shares	
					Share status	Number
Shougang Group Co., Ltd.	State-owned legal person	20.28	3,119,915,294	519,985,882	None	
State Grid Yingda International Holdings Corporation, Ltd	State-owned legal person	19.99	3,075,906,074	737,353,332	None	
PICC Property and Casualty Company Limited	State-owned legal person	16.66	2,563,255,062	0	None	
Beijing Infrastructure Investment Co., Ltd.	State-owned legal person	8.50	1,307,198,116	1,307,198,116	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	3.64	560,851,200	0	None	
China Securities Finance Corporation Limited	State-owned legal person	2.50	384,598,542	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	1.78	273,312,100	0	Pledged	273,312,002
Huaxia Life Insurance Company Limited – Universal Insurance Product	Others	1.47	225,758,339	0	None	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	1.09	167,671,900	0	Pledged	167,671,900
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.08	166,916,760	0	None	
Remarks on the connected relation or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders.					





## ii. Number of shares subject to restrictions on sales held by shareholders and restrictions on sales

Numbers of shares held by shareholders subject to restrictions on sales and these restrictions on sales as at 8 January 2019 (registration date of shares in this non-public offering):

(Unit: Share)

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales that were held	Particulars of trading of shares subject to restrictions on sales		Restrictions on sales
		Tradable time	Number of new tradable shares	
Shougang Group Co., Ltd.	519,985,882	8 January 2024	519,985,882	The Company issued 2,564,537,330 ordinary shares (A shares) in a non-public offering, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. All subscribers may not transfer their shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. These shares are expected to become tradable on 8 January 2024 (which will be postponed to the subsequent trading day in case of a statutory public holiday/festival or rest day).
State Grid Yingda International Holdings Corporation, Ltd	737,353,332		737,353,332	
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116		1,307,198,116	

## iii. Particulars of shareholders holding over 5% shares of the Company

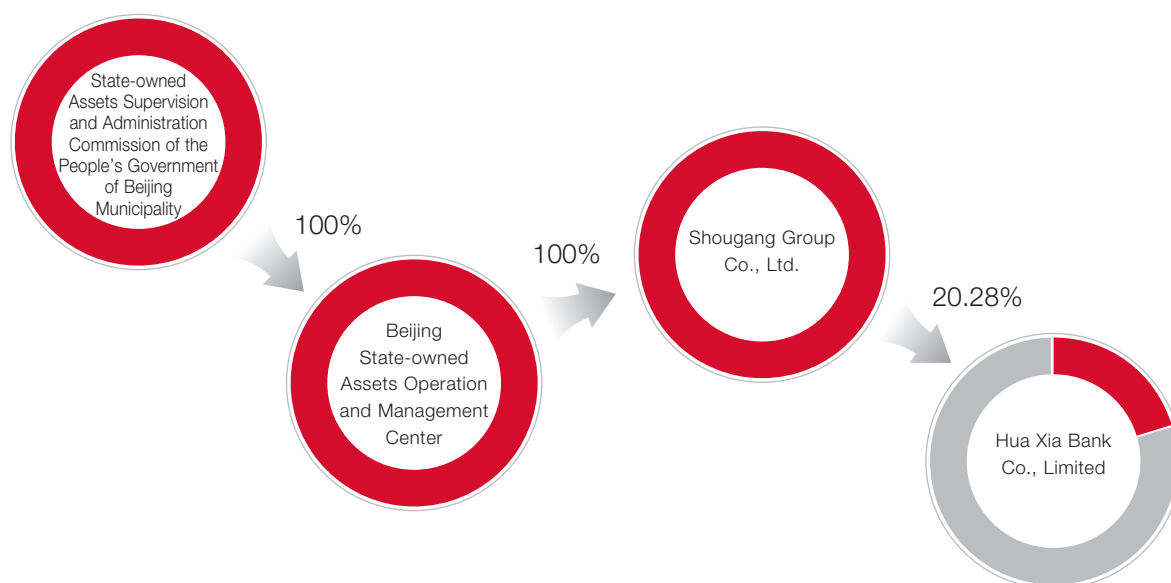
The Company has no controlling shareholder or de facto controller. Shougang Group Co., Ltd. is the largest shareholder of the Company.

As shown by the particulars of shareholders of record at the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Group Co., Ltd. (20.28%), PICC Property and Casualty Company Limited (19.99%) and State Grid Yingda International Holdings Corporation, Ltd. (18.24%). At of 8 January 2019 (registration date of shares in this non-public offering), shareholders holding over 5% shares of the Company were Shougang Group Co., Ltd. (20.28%), State Grid Yingda International Holdings Corporation, Ltd. (19.99%), PICC Property and Casualty Company Limited (16.66%) and Beijing Infrastructure Investment Co., Ltd. (8.50%).

### 1. Shougang Group Co., Ltd.

Shougang Group Co., Ltd. (formerly known as “Shougang Corporation”) was changed into its current name in May 2017 and restructured from an enterprise owned by the whole people into a wholly state-owned company with the approval of the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality. With unified social credit code as 911100001011200015, its legal representative is Zhang Gongyan. As at the end of the reporting period, its registered capital stood at RMB28,755 million. Shougang Group Co., Ltd. is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technologic service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets; establishment of the newspaper *Shougang Daily*; design and production of TV ads; release of ads with its self-owned TV station; design and production of prints and ads; placement of ads on its self-owned *Shougang Daily*; sewage treatment and recycling; seawater desalination; art creation and performance; operations of sports events (except those involving high risk); operations of sports venues; internet information service; and municipal domestic waste treatment.

The equity relationship between the Company and Shougang Group Co., Ltd. as the largest shareholder is illustrated below:



## 2. State Grid Yingda International Holdings Corporation, Ltd.

State Grid Yingda International Holdings Corporation, Ltd. (abbreviated as “State Grid Yingda Group Company” and formerly known as “SGCC Asset Management Co., Ltd.”), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with Li Ronghua as its legal representative. Its unified social credit code is 91110000710935089N. As at the end of the reporting period, its registered capital stood at RMB19.9 billion. It mainly deals with investment and asset operation and management, asset custody; services in corporate restructuring, M&A, strategic placement, start-up business; investment advisory and consultation; etc.

## 3. PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was sponsored by People’s Insurance Company of China in July 2003 after obtaining approval from the State Council and CIRC. It is the largest property insurer in Asia. The unified social credit code is 91100000710931483R and the legal representative is Miao Jianmin. As at the end of the reporting period, its registered capital stood at RMB14,828.51 million. The scope of its business covers: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China’s insurance regulatory authority.



#### 4. Beijing Infrastructure Investment Co., Ltd.

Founded in 2003, Beijing Infrastructure Investment Co., Ltd. (short for “Beijing Infrastructure Investment”) is a wholly state-owned company of the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality. With unified social credit code as 911100001011241849, its legal representative is Zhang Yanyou. As at the end of the reporting period, its registered capital stood at RMB135,671.28 million. The scope of its business covers: manufacturing of subway vehicles and subway equipment; management and investment of state-owned assets as authorized, and planning and construction of new subway lines; operation and management of completed subway lines; import and export business of various commodities and technologies on proprietary or agent basis, except for commodities and technologies that are restricted or banned from operation by the state; design and repair of subway vehicles; design and installation of subway equipment; project supervision; property management; real estate development; subway ad design and production etc.

#### iv. Other major shareholders

As prescribed by the former CBRC’s *Interim Measures on Equity Management at Commercial Banks*, other major shareholders of the Company included Yunnan Hehe (Group) Co., Ltd., Runhua Group Co., Ltd., and Shanghai Giant Lifetech Co., Ltd. as at the end of the reporting period.

Yunnan Hehe (Group) Co., Ltd.: As at the registration date of shares in this non-public offering, Yunnan Hehe (Group) Co., Ltd. held 3.64% shares of the Company. It had a registered capital of RMB6 billion and its legal representative was Li Jianbo by the end of the reporting period. Hongta Tobacco (Group) Co., Ltd. holds 75% of Yunnan Hehe (Group) Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is China National Tobacco Corporation. Hongta Tobacco (Group) Co., Ltd. was incorporated on 15 September 1995, with a registered capital of RMB6 billion and its legal representative is Wang Yong.

Runhua Group Co., Ltd.: As at the registration date of shares in this non-public offering, Runhua Group Co., Ltd. held 1.78% shares of the Company. It had a registered capital of RMB109 million and its legal representative was Luan Tao by the end of the reporting period. Luan Tao holds 50.17% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

Shanghai Giant Lifetech Co., Ltd.: As at the registration date of shares in this non-public offering, Shanghai Giant Lifetech Co., Ltd. held 1.09% shares of the Company. It had a registered capital of RMB245.4 million and its legal representative was Wei Wei by the end of the reporting period. Giant Investment Co., Ltd. holds 90.49% of Shanghai Giant Lifetech Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is Shi Yuzhu. Giant Investment Co., Ltd. was incorporated on 23 April 2001, with a registered capital of RMB116.88 million and its legal representative is Shi Yuzhu.

#### v. Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Group Co., Ltd. is the largest shareholder of the Company.

#### vi. Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Group Co., Ltd. is the largest shareholder of the Company.

## SECTION VII PREFERENCE SHARES

### I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN LATEST THREE YEARS

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Issuing number	Date of listing	Number of shares listed for trading	Date of de-listing
360020	Hua Xia Preference Share 1	23 March 2016	100	4.20	20,000	20 April 2016	20,000	-

Notes:

1. According to the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No.427) and the *Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited* (ZH.J.X.K. [2016] No.342), the Bank issued 200 million preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.

2. The coupon rate of Hua Xia Preference Share 1 in the first five years was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bonds 20 trading days before the cut-off date of payment for the preference shares issued this time (the date just 20 trading days before the cut-off date of payment was excluded) and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates.

3. Use of raised funds: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19,978 million, were used to replenish the tier-1 capital.

## II. NUMBER OF PREFERENCE SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 PREFERENCE SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

(Unit: Share)

Total number of preference shareholders as at the end of the reporting period	16	Total number of preference shareholders at the end of the month immediately before the disclosure date of annual report	16			
Particulars of shareholding of the top 10 preference shareholders						
Name of shareholder	Shares held at the end of the period	Increase/decrease during the reporting period	Percentage (%)	Nature of shareholder	Number of pledged or locked-up shares	Class of shares
Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product	39,100,000	0	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product	39,100,000	0	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product	39,100,000	0	19.55	Others	None	Preference share
Bank of Communications Schroder Asset Management Co., Ltd.	11,200,000	0	5.60	Others	None	Preference share
Hft Investment Management Co., Ltd.	10,000,000	10,000,000	5.00	Others	None	Preference share
Truvalue Asset Management Co., Ltd.	9,500,000	-10,000,000	4.75	Others	None	Preference share
Bank of Communications Schroder Fund Management Co., Ltd.	8,600,000	0	4.30	Others	None	Preference share
Bank of Beijing Scotiabank Asset Management Co., Ltd.	8,400,000	0	4.20	Others	None	Preference share
China Resources Sztic Trust Co., Ltd. – Investment No. 1 Stand-alone Money Trust	7,300,000	0	3.65	Others	None	Preference share
Bosera Fund Management Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
China CITIC Bank Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
AXA SPDB Investment Managers Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
Connected relations or concert party action among top 10 preference shareholders and among the afore-mentioned shareholders and top 10 ordinary shareholders	Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product, Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product and Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product are persons acting in concert. Bank of Communications Schroder Asset Management Co., Ltd. and Bank of Communications Schroder Fund Management Co., Ltd. are connected.					

### III. PAYOUT OF DIVIDENDS ON PREFERENCE SHARES

#### i. Distribution of profit from preference shares

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 28 March 2019, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2019. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.20% and the dividends distributed this time totaled to RMB840 million.

Please refer to the announcements disclosed by the Company on the website of Shanghai Stock Exchange and the website of the Company for details on the dividend payment.

#### ii. Amount and proportion of dividends distributed on preference shares in the latest three years

(Unit: RMB1 million)

Year	Amount distributed	Distribution proportion
2018	840	100%
2017	840	100%
2016	840	100%

Note: Distribution proportion=(Dividend amount distributed/agreed-upon dividend amount paid of the year)×100%

### IV. REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Company did not redeem or convert any preference shares.

### V. RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank did not restore any voting right of preference shares.



## VI. ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments* (Revised in 2014) and the *Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time shall be calculated as equity instruments.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company classifies the financial instruments it has issued into equity instruments when all of the following conditions are met: (1) The financial instrument shall not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions; (2) and the Company's own equity instruments should be or can be used for settlement of such financial instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Company's own equity instruments; in case of a derivative instrument, it can only be settled with the fixed number of the Company's own equity instruments exchanging for cash or other financial assets with the fixed amount.

On 23 March 2016, the Company issued non-cumulative preference shares to domestic investors in an aggregate amount of RMB20 billion, all of which after deducting issuing cost was recognized into other tier-1 capital. During the existence of the preference shares, the Company has the right to exercise the right to redeem them all or in part on the interest calculation day of each year if being approved by CBIRC and meeting relevant requirements five years after the end of the issuance (i.e. 28 March 2016). Preference shareholders have no right to ask the Company to redeem the preference shares and should not have the expectation on the preference shares being redeemed. The coupon rate of the preference shares is adjusted by stages, i.e. the dividends are distributed in cash at a fixed dividend rate once a year within the five-year dividend rate adjustment period. Upon approval of the Shareholders' General Meeting, the Company has the right to cancel all or part of the dividends distributed on the preference shares, which is not deemed a default event.

Upon the approval of CBIRC, all or part of the preference shares issued by the Company this time and still in existence will be converted into ordinary shares of the Company upon the occurrence of the following events that will trigger mandatory conversion of shares to the Company: (1) when core tier-1 capital adequacy ratio of the Company falls to 5.125% or below, the Company shall have the right to convert all or part of the preference shares that have been issued and are still in existence into ordinary shares as per the total par value without the prior consent of preference shareholders, in order to restore the core tier-1 capital adequacy ratio of the Company to above 5.125%; (2) when the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders.

When the triggers for compulsory share conversion are met, the preference shares that are still in existence will be wholly or partially converted into ordinary shares at a price of RMB14.00 per share subject to the approval of regulatory authority. As approved by CSRC, the Company privately issued 2,564,537,330 ordinary shares in a non-public offering on 28 December 2018. Calculated by the mandatory conversion price adjustment formula as set out in the related articles of the *Prospectus for Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited*, the mandatory conversion price of shares was adjusted into RMB10.58/share upon the completion of the non-public offering of ordinary shares. From the day when the Board of Directors of the Company approved the preference share issuing plan, the Company will change the price of mandatory share conversion and disclose relevant information according to pertinent provisions whenever shares of the Company change due to distribution of stock dividend, share conversion to strengthen capital base and additional issuance (excluding share capital increase due to conversion of financing instruments issued by the Company and with articles allowing conversion into ordinary shares, e.g. preference share and convertible corporate bond) and rights issue.

In accordance with applicable laws and regulations and the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427), funds raised from the preference share issuance are used to replenish other tier-1 capital of the Company. When the Company liquidates, preference shareholders of the Company take precedence over ordinary shareholders to be distributed the residual properties of the Company. That is, when the Company liquidates, dividends that have not been canceled nor distributed but have been announced to distributed but not been paid for the period yet as well as the total carrying amount of preference shares held shall be paid from the residual properties after liquidation firstly to preference shareholders; if the residual properties are not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

In conclusion, the Company recognizes the preference shares into other equity instruments according to the articles of the contract on the issuance of preference shares and the economic substance.

## SECTION VIII BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

### I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Minji	Chairman	Male	1965	14 April 2017 to the reelection of the Board of Directors	0	0	0	68.56	None	No
Zhang Jianhua	President, Director	Male	1965	14 April 2017 to the reelection of the Board of Directors	0	0	0	68.66	None	No
Wang Hongjun	Director	Male	1969	30 November 2016 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Lin Zhiyong	Director	Male	1963	29 December 2017 to 19 March 2019	0	0	0	0	None	Yes
Li Jianbo	Director	Male	1965	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Liu Chunhua	Director	Female	1970	27 February 2014 to the reelection of the Board of Directors	0	0	0	62.46	None	No
	CAO			Since 18 December 2013						
Ren Yongguang	Director	Male	1959	30 October 2010 to the reelection of the Board of Directors	0	0	0	62.46	None	No
	Vice President			Since 14 October 2010						
Zhao Junxue	Director	Male	1958	10 September 2002 to the reelection of the Board of Directors	0	0	0	259.87	None	No
	Secretary to the Board			Since 10 August 2002						
Ding Shilong	Director	Male	1963	28 September 2007 to 19 March 2019	0	0	0	0	None	Yes
Zou Libin	Director	Male	1967	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zhang Wei	Director	Male	1975	29 December 2017 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zeng Xiangquan	Independent Director	Male	1955	30 October 2010 to the reelection of the Board of Directors	0	0	0	22.00	None	No
Yu Changchun	Independent Director	Male	1952	30 October 2010 to the reelection of the Board of Directors	0	0	0	23.80	None	No
Xiao Wei	Independent Director	Male	1960	27 February 2014 to the reelection of the Board of Directors	0	0	0	22.00	None	No
Chen Yonghong	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	24.40	None	No
Yang Delin	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	23.20	None	No
Wang Huacheng	Independent Director	Male	1963	27 February 2014 to the reelection of the Board of Directors	0	0	0	21.40	None	No





Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Cheng Yanhong	Former Chairman of the Board of Supervisors	Female	1968	29 June 2004 to 4 July 2018	0	0	0	52.63	None	No
	Employee Supervisor			29 June 2004 to the reelection of the Board of Supervisors						
Li Liangang	Supervisor	Male	1968	30 October 2010 to the reelection of the Board of Supervisors	0	0	0	7.20	None	No
Tian Ying	Supervisor	Female	1965	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	6.00	None	Yes
Cheng Chen	Supervisor	Female	1975	28 September 2007 to 28 February 2019	0	0	0	5.40	None	Yes
Zhu Wei	External Supervisor	Male	1965	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	15.40	None	No
Lin Xin	External Supervisor	Male	1966	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.20	None	No
Wu Changqi	External Supervisor	Male	1955	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	15.40	None	No
Ma Yuanju	External Supervisor	Male	1957	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.20	None	No
Sun Tongjun	Employee Supervisor	Male	1961	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	164.04	None	No
Li Qi	Employee Supervisor	Male	1958	19 July 2001 to the reelection of the Board of Supervisors	0	0	0	109.42	None	No
Wang Liying	Employee Supervisor	Female	1962	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	5.41	None	No
Guan Wenjie	Vice President	Male	1970	Since 24 January 2017	0	0	0	62.50	None	No
	Principal of Financial Affairs			Since 27 February 2014						
Wang Yiping	Vice President	Male	1963	Since 24 January 2017	0	0	0	62.46	None	No
Li Ruge	Former Vice Chairman	Male	1963	28 September 2007 to 21 December 2018	0	0	0	0	None	Yes
Li Xiang	Former Vice President	Male	1957	28 September 2007 to 17 July 2018	0	0	0	36.05	None	No
Lu Guoyi	Former Vice President	Male	1964	20 March 2017 to 17 July 2018	0	0	0	57.04	None	No
Total	/	/	/	/	0	0	0	1292.16	/	/

## Notes:

1. The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*.

2. Mr. Li Ruge, Mr. Wang Hongjun, Mr. Lin Zhiyong, Mr. Li Jianbo, Mr. Ding Shilong, Mr. Zou Libin, and Mr. Zhang Wei voluntarily gave up receiving allowance from the Company.

3. Remunerations of the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.

4. Pre-tax remunerations of the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, employee supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.

5. Pre-tax remunerations of the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, employee supervisors and other senior management members serving the Company in 2018 include the contribution by the Company to social insurance, enterprise annuity, additional medical insurance and housing provident fund.

The rest-part remuneration of company officers in 2015-2017 approved and verified by the competent authorities is disclosed as below:

Name	Paid-out tenure incentive income in 2015 (RMB10,000)	Paid-out tenure incentive income in 2016 (RMB10,000)	2017	
			The rest part of pre-tax remunerations (RMB10,000)	Paid-out tenure incentive income in 2017 (RMB10,000)
Li Minji	-	-	30.78	19.15
Zhang Jianhua	-	-	37.62	23.41
Liu Chunhua	19.73	19.56	30.63	21.09
Ren Yongguang	19.73	19.56	30.63	21.09
Guan Wenjie	-	-	47.81	17.58
Wang Yiping	-	-	48.25	17.58
Cheng Yanhong	19.73	19.56	30.63	21.09
Li Xiang	19.73	19.56	30.63	21.09
Lu Guoyi	-	-	30.63	21.09

Note: The rest part of pre-tax remunerations of Vice President Guan Wenjie and Vice President Wang Yiping in 2017 doesn't include the pre-tax remuneration before they served as vice president. Bonus to the above-mentioned persons before they served as vice president shall be delayed in payment. The total bonus subject to delayed payment is RMB232,300 and is not paid to those individuals yet.

Disclosure of the rest-part remuneration for other personnel in 2017:

Name	The rest part of pre-tax remunerations for 2017 (RMB10,000)
Zhao Junxue	62.57
Sun Tongjun	122.89
Li Qi	123.76
Wang Liying	33.73

Notes: Part of remunerations paid to the secretary to the Board and employee supervisors during the reporting period have been disclosed in the Annual Report 2017, and the rest part of pre-tax remunerations for such personnel in 2017 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2017 is RMB2,091,200 and is not paid to those individuals yet.



## ii. Changes in directors, supervisors and senior management members of the Company

On 4 July 2018, the Board of Supervisors of the Company received a written resignation report from Ms. Cheng Yanhong. Ms. Cheng resigned from the posts of the Company's Chairman of the Board of Supervisors, employee supervisor, and member of relevant committees of the Board of Supervisor due to work engagement. Since her resignation caused the number of employee supervisors in the Board of Supervisors of the Company to become less than the quorum, she would continue to carry out the functions and powers of an employee supervisor in accordance with laws and regulations and the Articles of Association before a new employee supervisor was elected by the employees' congress.

On 17 July 2018, the Board of Directors of the Company received a written resignation report from Mr. Li Xiang and Mr. Lu Guoyi. Mr. Li resigned from the post of the Company's vice president since he reached the retiring age. Mr. Lu resigned from the post of the Company's vice president due to work engagement.

On 30 August 2018, the Board of Supervisors of the Company received a written resignation report from Mr. Li Qi. Mr. Li resigned from the posts of the Company's employee supervisor and member of relevant committees of the Board of Supervisors as he reached the retiring age. Since his resignation caused the number of employee supervisors in the Board of Supervisors of the Company to become less than the quorum, he would continue to carry out the functions and powers of an employee supervisor in accordance with laws and regulations and the Articles of Association before a new employee supervisor was elected by the employees' congress.

On 30 October 2018, the Seventh Board of Directors of the Company reviewed and adopted the *Proposal on Engaging Vice President* at its 42nd Meeting, according to which Mr. Yang Wei and Mr. Li Min were engaged as vice president of the Company. The qualification of Mr. Yang and Mr. Li for serving as vice president was approved by CBIRC on 12 February 2019 and 14 February 2019, respectively.

On 21 December 2018, the Board of Directors of the Company received a written resignation report from Mr. Li Ruge. Mr. Li resigned from the posts of the Company's vice chairman, director and member of relevant committees of the Board of Directors due to work engagement.

On 28 February 2019, the Board of Supervisors of the Company received a written resignation report from Ms. Cheng Chen. Ms. Cheng resigned from the posts of the Company's employee supervisor and member of relevant committees of the Board of Supervisors due to work engagement.

On 19 March 2019, the Board of Directors of the Company received a written resignation from Mr. Lin Zhiyong and Mr. Ding Shilong, respectively. Mr. Lin and Mr. Ding resigned from the posts of the Company's director and member of relevant committees of the Board of Directors due to work engagement.

## iii. Main work experiences of directors, supervisors and senior management members

Li Minji, Chairman, male, was born in January 1965, and holds the title of senior economist. He majored in Finance in Renmin University of China and graduated with a Master's Degree in Economics. He majored in Business Administration in Huazhong University of Science and Technology and graduated with a PhD in Management. He ever held such positions as Member of the Party Committee, Director and Executive Deputy General Manager at Beijing State-owned Assets Management Co., Ltd.; Party Committee Secretary and Chairman of Beijing International Trust Co., Ltd.; and Deputy President of China Trustee Association and Member of China Trust Protection Fund Council concurrently. He now serves as a Member of the 12th CPC Beijing Municipal Committee; and Party Committee Secretary and Chairman of Hua Xia Bank Co., Limited.

Zhang Jianhua, Director and President, male, was born in March 1965. He is a PhD in Management and a research fellow. The positions he ever held are: Deputy Chief and Chief of Regulatory Division for Financial Leasing Company, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Regulatory Division III, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Fiscal Taxation Research Division, PBOC Research Bureau; Deputy Head of PBOC Financial Stability Bureau; Head of PBOC Research Bureau; Party Committee Secretary and General Manager of PBOC Hangzhou Central Sub-branch and Head of State Administration of Foreign Exchange (SAFE) Zhejiang Branch concurrently; and Deputy Party Committee Secretary, Director and President of Beijing Rural Commercial Bank Co., Ltd. He currently serves as Chairman, President and Deputy Party Committee Secretary of Hua Xia Bank.

Wang Hongjun, Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation. He currently serves as CFO of Shougang Group Co., Ltd.

Lin Zhiyong, Director, male, was born in March 1963. He is an MBA and senior economist. He is a recipient of the special allowance from the State Council. The positions he ever held are: Manager of Jinjiang Branch, the People's Insurance Company of China (PICC); Deputy General Manager and Member of Leading Party Group of Quanzhou Branch, PICC Property and Casualty Company Limited; Deputy General Manager, General Manager, Member of the Party Committee, Deputy Party Committee Secretary, and Party Committee Secretary of PICC Fuzhou Branch; Deputy General Manager and Member of the Party Committee of PICC Fujian Branch; Deputy General Manager, General Manager, Member of the Party Committee, and Party Committee Secretary of PICC Property and Casualty Company Limited; Vice President and Member of the Party Committee of PICC Property and Casualty Company Limited; and Executive Directors, Vice President and Member of the Party Committee of PICC Property and Casualty Company Limited. He now serves as Business Director of the People's Insurance Company of China, and Director of the People's Insurance Company of China (Hong Kong). Mr. Lin resigned from the post of the Company's Director on 19 March 2019.

Li Jianbo, Director, male, was born in June 1965. He holds a bachelor's degree and is a senior economist. The positions he ever held are: Deputy Chief and Chief of Planning and Statistics Section of Yuxi Cigarette Factory, Deputy Chief Economist, Chief Economist, Director, the Board of Supervisors and Vice President of Hongta Tobacco (Group) Co., Ltd., Chairman of Yunnan Hongta Group, and Director, Deputy Party Committee Secretary, Executive Deputy General Manager, Party Committee Secretary, and General Manager of Yunnan Hehe (Group) Co., Ltd. He currently serves as Party Committee Secretary and Chairman of Yunnan Hehe (Group) Co., Ltd.

Liu Chunhua, Director, Chief Audit Officer, female, was born in January 1970. She holds a master's degree and is a senior economist. She was ever Deputy Chief (divisional level) of Planning and Treasury Division of Jiangxi International Trust and Investment Corporation; Full-time Discipline Inspector of Discipline Inspection Team of Leading Party Group (divisional level) and Deputy Director of Inspection Office, General Manager of Human Resources Department, Deputy Leader of Preparatory Group of Hua Xia Bank Fund Company, and Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She once temporarily served as Assistant to Director of Business Innovation Supervision & Cooperation Department of CBRC. She currently serves as Director, Member of the Party Committee, Secretary of the Party Discipline Committee and Chief Audit Officer of Hua Xia Bank.

Ren Yongguang, Director, Vice President, male, was born in December 1959. He holds a bachelor's degree and is a senior economist. He used to be Deputy Head and Head of Foreign Fund Management Division, Head of Foreign Exchange Management Division, Director of Executive Office and Head of Plan Fund Division of PBOC Beijing Branch, Head of Credit Management Division of Business Management Department, Deputy Director and Member of Leading Party Group of Business Management Department of the PBOC, member of the Preparation Team for and Deputy Director General and Member of Leading Party Group of CBRC Beijing Office, and Director, Vice President and Deputy Party Committee Secretary of Hua Xia Bank. He currently serves as Director, Vice President, Member of the Party Committee and Chairman of the Labor Union of Hua Xia Bank.

Zhao Junxue, Director, Secretary to the Board, male, was born in April 1958. He holds a master's degree and is a senior economist. He served as Assistant to General Manager of South Branch of China National Packaging Corporation, Deputy General Manager and General Manager of Yuehai Finance Holding Co., Ltd., and General Manager and Secretary of Leading Party Group of Shenzhen Branch of Hua Xia Bank. He currently serves as Director and Secretary to the Board of Directors of Hua Xia Bank.

Ding Shilong, male, was born in July 1963. He is a PhD in Management and a senior accountant. He served as Deputy Chief and Chief of the General Financial Section of Henan Power Industry Bureau, Deputy Head of the Financial Division, Assistant Consultant (holding a temporary leading post) of Electric Regulation Division and State-owned Asset Supervision Division of the Electric Power Department and Associate Chief Accountant and Head of the Financial Division of Henan Power Company (Bureau). He later became Chief Accountant of Henan Power Company, Chairman of Henan Kaixiang Electric Power Industrial Holding Co., Ltd., Deputy Head of the Financial Asset Management Department of State Grid Corporation of China, Deputy General Manager and Member of Leading Party Group of SGCC Asset Management Co., Ltd., Deputy General Manager and Member of Leading Party Group of State Grid Yingda International Holdings Corporation, Ltd., Member of Leading Party Group, Deputy General Manager and Chief Accountant of State Grid Jibei Electric Power Company Limited, and Secretary General of Enterprise Management Association of SGCC. He now serves as Chairman and Party Committee Secretary of Yingda Taihe Life Insurance Co., Ltd. Mr. Ding resigned from the post of the Company's Director on 19 March 2019.



Zou Libin, Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, Deputy Division Chief of Bodi Investment Co., Ltd., Deputy Chief of Treasury Division of Budget and Finance Department of Shougang Xingang Co., Ltd., and Assistant to Head and Head of Capital Operation Department, Head of Investment Management Department, and Head of Planning and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Group Co., Ltd.

Zhang Wei, Director, male, was born in April 1975. He is a PhD and an economist. The positions he ever held are: Senior Manager of Division of Comprehensive Affairs, General Office, PICC Investment Holding Co., Ltd.; Senior Manager of Secretariat, General Office (Party Committee Office), the People's Insurance Company of China; General Manager Assistant to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the Executive Office (Party Committee Office), the People's Insurance Company of China; Deputy General Manager to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the General Office (Party Committee Office), the People's Insurance Company of China; Deputy General Manager of the Board of Secretariat (Office of the Board of Supervisors), the People's Insurance Company of China; and General Manager of Department of Investment and Financial Management, the People's Insurance Company of China. He now serves as General Manager of Department of Operation Sharing, the People's Insurance Company of China.

Zeng Xiangquan, Independent Director, male, was born in November 1955. He is a PhD in Economics, professor and tutor to PhD students. He was the Dean of the School of Labor and Human Resources of Renmin University of China. Now, he is a professor of the School of Labor and Human Resources of Renmin University of China.

Yu Changchun, Independent Director, male, was born in February 1952. He is a PhD and professor. He used to be associate professor, dean of the teaching-research section and Deputy Dean of the Accounting Department of Jilin Finance and Trade College; Dean, professor and MA student adviser of the Accounting Department of Changchun Taxation College; and Director of Teaching and Research Center, Professor and tutor to PhD students of Beijing National Accounting Institute. Now, he is a professor of Beijing National Accounting Institute (retired).

Xiao Wei, Independent Director, male, was born in December 1960. He holds a master's degree and once served as Director of Hainan Office of China Legal Affairs Center. He established Jun He Law Offices in Beijing in 1989 and is the Offices' Director and Partner now.

Chen Yonghong, Independent Director, male, was born in December 1962. He holds a bachelor's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was ever Senior Staff Member and Principal Staff Member of Investment Audit Division of Hunan Audit Office; Deputy Director and Director of Hunan Auditors Office, Chairman and Chief Accountant of Baker Tilly China, and Principal Partner and Chief Accountant of Baker Tilly China Certified Public Accountants. Now, he is Partner of Baker Tilly China Certified Public Accountants and Chairman of Tianzhi Engineering Project Management Co., Ltd.

Yang Delin, Independent Director, male, was born in April 1962. He is a PhD and professor. He once taught Physics at No. 2 Middle School of Xiangfan and Hubei Provincial Supply and Marketing Institute, was an engineer of (Planning Division) and Assistant Researchers of Mathematics Department Office of Department Co-office of Wuhan Institute of Physics, Chinese Academy of Sciences; held a temporary post of Deputy Director/Member of Party Leading Group of Lanzhou Economic Commission; and Lecturer and Associate Professor of School of Economics and Management of Tsinghua University. Now, he is a professor of School of Economics and Management of Tsinghua University.

Wang Huacheng, Independent Director, male, was born in January 1963. He is a PhD and professor. He was once Teaching Assistant, Lecturer, Associate Professor and Deputy Director of Accounting Department and Vice Dean of School of Business of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Accounting & Finance, School of Business of Renmin University of China.

Cheng Yanhong, Employee Supervisor, female, was born in February 1958. She holds a bachelor's degree and is a senior accountant. She served as Deputy Head of the General Planning Division, Deputy Head and Head of the Debt Division, Deputy Director General and Member of Leading Party Group of Beijing Municipal Bureau of Finance, Party Committee Secretary and General Manager of Beijing Securities Co., Ltd., Deputy Secretary and Secretary of the Beijing Finance Working Committee, Head of the Finance Office of Beijing Municipal Government, Chairman of the Board of Supervisors, Deputy Party Committee Secretary and Secretary of the Party Discipline Committee of Hua Xia Bank; and Chairman of the Board of Supervisors and Deputy Party Committee Secretary of Hua Xia Bank. She currently serves as Deputy Director of the Financial and Economic Committee under Beijing Municipal Peoples' Congress (Director General level), and Employee Supervisor of Hua Xia Bank.

Li Liangang, Supervisor, male, was born in May 1968. He holds a bachelor's degree and is a senior economist. He used to be Deputy General Manager of the Finance Department of Shandong Office, and General Manager of the Shandong Securities Operations Department of China New Technology Venture Capital Company, Head of the Corporate Banking Division of Jinan Branch of Hua Xia Bank Co., Limited, and Deputy Director and Director of the Board of Directors' Office and Director of the President's Office, Director, Secretary of the Board of Directors and Chief Financial Officer of Runhua Group. He currently serves as General Manager of Qingdao Zhujiian Ecological Health-and-Fitness Co., Ltd.

Tian Ying, Supervisor, female, was born in April 1965. She holds a master's degree and is a senior accountant. She previously taught at Beijing Finance College and was Manager of the Fund and Finance Department, Chief Accountant and Deputy General Manager of Beijing Sanjili Energy Co., Ltd. and Chairman of Huaxing Power Co., Ltd. Now, she is Vice President of Yongtai Group Co., Ltd.

Cheng Chen, Supervisor, female, was born in March 1975. She holds an EMBA degree. She previously served as Deputy General Manager of Shanghai Giant Biotech Co., Ltd. Now, she is Vice General Manager of Giant Investment Co., Ltd. and Chairman of Green Giant Energy Co., Ltd. Ms. Cheng resigned from the post of the Company's Supervisor on 28 February 2019.

Zhu Wei, External Supervisor, male, was born in August 1965. He holds a master's degree and is a senior economist and Chinese CPA. He was ever Deputy Division Chief of Industrial Transportation Department and Economic and Trade Department of the Ministry of Finance, and Director and Deputy General Manager of Zhong Sheng Environmental Protection Technology Development and Investment Co., Ltd. Now, he is Chief Partner of Jonten Certified Public Accountants.

Lin Xin, External Supervisor, male, was born in October 1966. He is a PhD and lawyer. He previously was a lawyer at China Legal Affairs Center. Now, he is Partner of Beijing Zhongming Law Firm.

Wu Changqi, External Supervisor, male, was born in June 1955. He holds a PhD degree and is a professor. He was Director of the Center of Executive Master of Business Administration (EMBA) Degree Program and Vice Dean of the Guanghua School of Management of Peking University and a part-time professor of HKUST Business School. Now, he is a professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Center of Peking University and Executive Vice Director of International Operation & Management Research Institute of Peking University.

Ma Yuanju, External Supervisor, male, was born in March 1957. He is a PhD and professor. He taught accounting and did scientific research at Zhuhai Radio & TV University. Now, he is a professor at the Accounting School of Capital University of Economics and Business.

Sun Tongjun, Employee Supervisor, male, was born in November 1961. He holds a master's degree and is a senior economist. He served as Head and Party Committee Secretary of Agricultural Bank of China Penglai Sub-branch and Vice Head and Party Committee Member of Agricultural Bank of China Yantai Branch. When he joined Hua Xia Bank, he was successively Head and Party Committee Secretary of Yantai Sub-branch, Head and Party Committee Secretary of Shenyang Branch, and Head and Party Committee Secretary of Ji'nan Branch. Now, he is Employee Supervisor, Internal Control & Compliance Director and General Manager of Internal Control & Compliance Department of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He holds a bachelor's degree and is a senior economist. He once was a teacher of the Law Department of Shandong University, Deputy General Manager of Rural Credit Cooperative of China in Shandong and Deputy General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank, including Head of the Audit and Compliance Department of Ji'nan Branch, Member of the Discipline Inspection Committee, General Manager of Legal Affairs Department and Special Assets Resolution Department, Party Committee Secretary and General Manager of Chongqing Branch, Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee, as well as Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee of Hua Xia Bank. He currently serves as Employee Supervisor of Hua Xia Bank.

Wang Liying, Employee Supervisor, female, was born in May 1962. She holds a bachelor's degree and is a senior accountant. She was ever Deputy Director of Taiyuan Audit Office of Shanxi Branch of China Construction Bank, Chief of Budget and Finance Division & Director of Bills Center of Taiyuan Sub-branch of Hua Xia Bank, Vice President and Member of Party Committee of Taiyuan Branch of Hua Xia Bank, Vice President and Member of Party Committee of Tianjin Branch of Hua Xia Bank, Deputy General Manager and General Manager of Compliance Department of Hua Xia Bank, as well as Employee Supervisor, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Employee Supervisor of Hua Xia Bank.



Guan Wenjie, Vice President and Principal of Financial Affairs, male, was born in October 1970. He holds a master's degree and is a senior accountant. He was once Deputy Chief (in charge of specific work) and Chief of Budget & Finance Division of Qingdao Sub-branch of Hua Xia Bank, General Manager of Budget & Finance Department of Qingdao Branch of Hua Xia Bank, Vice General Manager and Member of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager and Secretary of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager of Accounting Department of Hua Xia Bank, Principal of Financial Affairs and General Manager of Budget and Finance Department of Hua Xia Bank, and Principal of Financial Affairs, CFO, General Manager of Budget and Finance Department and General Manager of Financial Markets Department of Hua Xia Bank. Now, he is Vice President, Principal of Financial Affairs, and CFO of Hua Xia Bank.

Wang Yiping, Vice President, male, was born in June 1963. He holds a master's degree and is a senior economist. The positions he ever held are: Secretary to Minister (divisional level) of Secretariat, General Office, Ministry of Coal Industry; Secretary (divisional level) of Secretariat, General Office, the State Bureau of Coal Industry; Assistant President of China Coal Trust & Investment Co., Ltd.; Deputy General Manager of Corporate Financing Department and General Manager of Financial Interbank Department of Hua Xia Bank; and General Manager and Party Committee Secretary of Taiyuan Branch, Hua Xia Bank. He currently serves as Vice President of Hua Xia Bank.

#### iv. Positions or concurrent jobs of directors, supervisors and senior management members in shareholder entities or other entities

Name	Shareholder entity	Position	Tenure
Wang Hongjun	Shougang Group Co., Ltd.	CFO	Since August 2015
Lin Zhiyong	PICC Property and Casualty Company Limited	Vice Chairman, President, Party Committee Secretary	August 2016 – February 2019
Li Jianbo	Yunnan Hehe (Group) Co., Ltd.	Director, General Manager, Party Committee Secretary	June 2017 – June 2018
		Party Committee Secretary, Chairman	Since June 2018
Zou Libin	Shougang Group Co., Ltd.	Head of Operation and Finance Department	Since December 2015

Name	Position or concurrent position in other entities excluding shareholder entities
Wang Hongjun	Chairman of Shougang Group Finance Co., Ltd.
Lin Zhiyong	Business Director of the People's Insurance Company of China; and Director of the People's Insurance Company of China (Hong Kong)
Li Jianbo	Chairman of Hongta Securities Co., Ltd.
Ren Yongguang	Chairman of Huaxia Financial Leasing Co., Ltd.
Ding Shilong	Chairman and Party Committee Secretary of Yingda Taihe Life Insurance Co., Ltd.
Zou Libin	Director of Beijing Jingxi Venture Capital Fund Management Co., Ltd.; Director of Beijing Shougang Construction Investment Co., Ltd.; Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd.; Director of China Bond Insurance Corporation; and Director of Shougang Group Finance Co., Ltd.
Zhang Wei	General Manager of Department of Operation Sharing at the People's Insurance Company of China; and Director of PICC Asset Management Company Limited
Zeng Xiangquan	Professor of the School of Labor and Human Resources, Renmin University of China; and Independent Director of China Film Group Corporation

Name	Position or concurrent position in other entities excluding shareholder entities
Yu Changchun	Professor of Beijing National Accounting Institute (retired); Independent Director of Shandong Haihua Co., Ltd.; and Executive Member of Education Branch, Accounting Society of China
Xiao Wei	Director and Partner of Beijing Jun He Law Offices; Deputy to the 15th Beijing Municipal People's Congress; Legal Consultant to the State-owned Assets Supervision and Administration Commission of the State Council; Adviser to the Ministry of Industry and Information Technology of China; and Member of the Legal Expert Base affiliated to the CPC Beijing Municipal Committee
Chen Yonghong	Partner of Baker Tilly China Certified Public Accountants; Chairman of Tianzhi Engineering Project Management Co., Ltd., and Independent Director of Inner Mongolia Jinyu Bio-technology Co., Ltd.
Yang Delin	Professor of Tsinghua University School of Economics and Management; Independent Director of Changjiang Publishing & Media Co., Ltd.; Independent Director of Juewei Food Co., Ltd.; Secretary General of Chinese Society of Technology Economics; and Executive Vice Chairman of Chinese Institute of Business Administration
Wang Huacheng	Professor of School of Business of Renmin University of China
Cheng Yanhong	Deputy Director of the Financial and Economic Committee (Office) under Beijing Municipal Peoples' Congress (Director General level)
Li Liangang	Director of Shandong Juya Environmental Protection Co., Ltd.; and General Manager of Qingdao Zhujian Ecological Health-and-Fitness Co., Ltd.
Tian Ying	Vice President of Yongtai Group Co., Ltd.; Vice Chairman of Hong Kong-based Greatime International Holdings Limited Company; and General Manager of CDB Jintai Capital Investment Co., Ltd.
Cheng Chen	Vice General Manager of Giant Investment Co., Ltd.; Chairman of Green Giant Energy Co., Ltd.; Director of Guangxi Beibu Gulf Bank Co., Ltd.; and Supervisor of Linzhi Minsheng Village Bank
Zhu Wei	Chief Partner of Jonten Certified Public Accountants
Lin Xin	Partner of Beijing Zhongming Law Firm
Wu Changqi	Professor teaching strategic management at the Guanghua School of Management of Peking University; Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University; Director of Guanghua Leadership Research Center of Peking University; Executive Vice Director of International Operation & Management Research Institute of Peking University; Non-executive Director of Qingdao Haier Co., Ltd.; Independent Director of Beijing Electronics Zone Investment and Development Co., Ltd.; Independent Director of Yijiahe Technology Co., Ltd.; Independent Director of Aixin Life Insurance Co., Ltd.; and Independent Non-executive Director of Beijing Media Co., Ltd.
Ma Yuanju	Professor at the Accounting School of Capital University of Economics and Business; Non-executive Independent Director of Sound Global Limited; Independent Director of Jinhe Biotechnology Co., Ltd.; and Independent Director of Qinghai Huading Industrial Co., Ltd.
Guan Wenjie	Director of Huaxia Financial Leasing Co., Ltd.





## v. Remunerations of directors, supervisors and senior management members during the reporting period

### 1. Basis for the assessment and incentive mechanism of directors, supervisors and senior management members

The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* that had been considered and adopted by the Shareholders' General Meeting. As to the executive directors, other senior management members and employee supervisors who are included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the management policies fit for the abovementioned officers. As to the executive directors and other senior management members who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank*. As to the employee supervisors who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the Company's related employee remuneration management measures. The remunerations of directors, supervisors and senior management members shall be made known to the public after being considered and adopted by the Board of Directors.

Remunerations (salaries) payable to directors, supervisors and senior management members are related to their annual duty performance. The annual duty performance of directors and supervisors shall be supervised and assessed by the Board of Supervisors according to the *Duty Performance Evaluation Measures for Directors of Hua Xia Bank Co., Limited (Provisional)* and the *Duty Performance Evaluation Measures for Supervisors of Hua Xia Bank Co., Limited (Provisional)*. The annual duty performance assessment for directors consists of the following steps: self-assessment by directors, peer assessment among directors, assessment by the Board of Directors, and assessment by the Board Supervisors. The annual duty performance assessment for supervisors consists of the following steps: self-assessment by supervisors, peer assessment among supervisors, and assessment by the Board Supervisors. The aspects of assessment cover attendance and speaking at related meetings, inspections, surveys and trainings, compliance with applicable policies, and years of working at the Company, among others. The assessment results shall be reported to CBIRC after being considered and adopted by the Shareholders' General Meeting. The annual duty performance of senior management members shall be preliminarily assessed by the Remuneration and Assessment Committee of the Board of Directors as per the *Annual Performance Assessment Measures for Senior Management Members of Hua Xia Bank*. The assessment results shall be disclosed publicly after being considered and adopted by the Board of Directors. Given the annual assessment results issued by the Board of Directors and the daily supervision information gathered by the Board of Supervisors, the Board of Supervisors shall produce the annual duty performance assessment opinions on senior management members, and make them known to the public and submit to CBIRC for filing purpose.

The Remuneration and Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2018 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2018 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

### 2. Remunerations actually paid to directors, supervisors and senior management members

During the reporting period, RMB12,921,600 (before tax) was actually paid to all of the directors, supervisors and senior management members.

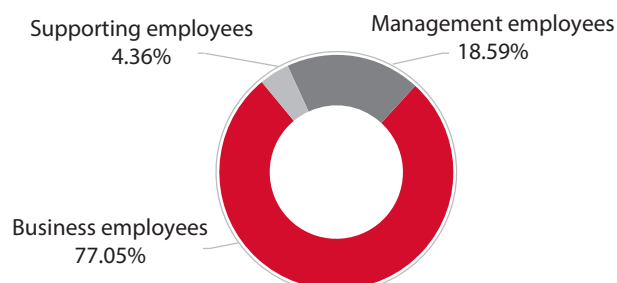
## vi. Penalties imposed on directors, supervisors and senior management members of the Company by securities regulatory authority in the past three years

As far as the Company knows, there have been no penalties imposed on its directors, supervisors or senior management members by securities regulatory authorities in the recent three years.

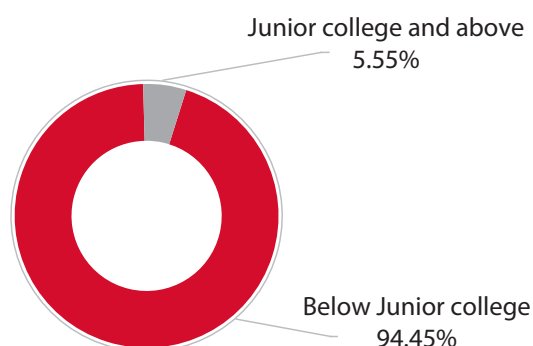
## II. EMPLOYEES

At the end of the reporting period, the Group had 41,283 service employees, including 40,997 ones working in the Company and 286 ones working in the major subsidiaries. The Group paid for 728 retired employees.

### i. The Company's employees by professional field



### ii. The Company's employees by educational background



### iii. Remuneration policy and training plan of the Company

During the reporting period, according to the bank-wide development strategy and operation targets, the Company constantly improved performance management system, applied management accounting more widely into performance assessment, took further steps in classified assessment, stepped up risk control and operational compliance, and promoted the coordinated development across the board in terms of quality, benefit and scale.

The Company continued to improve the tiered and specialized talent cultivation system, developed the training schemes in the light of business development plans and priority tasks, constantly created a smart, efficient mobile learning platform, enhanced the quality and efficiency of trainings, and sped up the knowledge upgrade, in a bid to help employees enhance their comprehensive capabilities.

## SECTION IX CORPORATE GOVERNANCE

### I. CORPORATE GOVERNANCE PRACTICE

The Company earnestly implements regulatory requirements on corporate governance, continuously improves corporate governance framework, brings more disciplines to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the senior management in accordance with the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Governance Standards of Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize shareholders' long-term value on the premise of respecting and protecting the interests of depositors. The actual condition of corporate governance has no material discrepancies with the normative documents on governance of listed companies released by CSRC.

During the reporting period, the Company drafted the plan on revisions to the *Articles of Association of Hua Xia Bank Co., Limited*, and submitted the plan to the Board of Directors and the Shareholders' General Meeting for deliberation and adoption, and then to CBIRC for verification and implementation, as per the guiding principles set forth in the related documents of the central government and Beijing municipal government about including the Party building work of SOEs into their articles of association and the former CBRC's *Interim Measures on Equity Management at Commercial Banks*. In accordance with the guiding principles set out in the documents on the remuneration reform targeted at officers of SOEs governed by the central government and Beijing municipal government, the plans on revisions to the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank*, the *Annual Performance Assessment Measures for Head Office-level Senior Management of Hua Xia Bank*, and the *Remuneration and Annual Performance Assessment Flow for Head Office-level Senior Management of Hua Xia Bank* were drafted, and implemented after being considered and adopted by the Board of Directors.

### II. BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held two Shareholders' General Meetings and adopted 29 resolutions in strict accordance with the *Rules on the Shareholders' General Meetings of Listed Companies*, the *Articles of Association* and the procedural rules on the Shareholders' General Meeting. The Company established and improved effective channels of communication with shareholders, increased representation of public shareholders at the Shareholders' General Meetings through online voting and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

General Meeting	Date	Website designated for publishing resolutions	Disclosure date
Annual General Meeting for 2017	24 May 2018	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	25 May 2018
First Extraordinary General Meeting for 2018	9 October 2018	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	10 October 2018

### III. DUTY PERFORMANCE OF THE DIRECTORS

#### i. Attendance of directors at Board meetings and General Meeting

Director	Independent Director (Yes/no)	Attendance at Board Meeting						Attendance at Shareholders' General Meetings
		Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Shareholders' General Meetings attended
Li Minji	No	9	9	3	0	0	No	2
Zhang Jianhua	No	9	7	3	2	0	No	1
Wang Hongjun	No	9	5	3	4	0	Yes	0
Lin Zhiyong	No	9	6	3	3	0	No	0
Li Jianbo	No	9	7	3	2	0	No	0
Liu Chunhua	No	9	7	3	2	0	No	2
Ren Yongguang	No	9	8	3	1	0	No	2
Zhao Junxue	No	9	9	3	0	0	No	2
Ding Shilong	No	9	9	3	0	0	No	0
Zou Libin	No	9	9	3	0	0	No	2
Zhang Wei	No	9	8	3	1	0	No	0
Zeng Xiangquan	Yes	9	7	3	2	0	No	2
Yu Changchun	Yes	9	9	3	0	0	No	1
Xiao Wei	Yes	9	8	3	1	0	No	1
Chen Yonghong	Yes	9	9	3	0	0	No	1
Yang Delin	Yes	9	9	3	0	0	No	0
Wang Huacheng	Yes	9	7	3	2	0	No	1
Li Ruge	No	9	3	3	6	0	Yes	0
Number of Board meetings held this year						9		
Of which: Number of onsite meetings						6		
Number of meetings held by correspondence						3		



## ii. Dissents of independent directors on relevant issues of the Company

During the reporting period, independent directors did not raise any dissents on relevant issues of the Company.

During the reporting period, there were six independent directors on the Board of Directors of the Company, accounting for over one third of its members. They earnestly attended meetings and reviewed proposals, performed the role of conveners for the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave independent opinions on cash dividends, external guarantee, reappointment of accounting firm, related party transactions, appointment of senior management members, non-public offering of shares, and other major issues, and voiced the prior approval opinions on related party transactions, non-public offering of shares, and related issues throughout the year in the interest of depositors and minority shareholders pursuant to laws, regulations and the Articles of Association.

## **IV. IMPORTANT OPINIONS AND SUGGESTIONS PROPOSED BY SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD**

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner, made good use of their respective advantages in line with their working rules, issued professional opinions and suggestions, and performed their duties diligently.

The Strategy Management and Consumer Protection Committee held two meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2018, 2017-2020 capital program, report on formulation and implementation of the Development Program in 2017, report on the work of consumer protection in 2017 and work suggestions for 2018, report on internal capital adequacy assessment procedures for 2017, and report on implementation of green credit (January 2017 to June 2018). Besides, it heard the report made by the senior management on the implementation of new capital accord.

The Risk and Compliance Management Committee held two meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2018, report on risk management in 2017, risk management strategy for 2018, report on market risk management in H1 2018, report on liquidity risk management in H1 2018, and report on credit risk management in H1 2018.

The Related Party Transactions Control Committee held two meetings, and reviewed and approved the following proposals: the annual work plan for 2018 of the Committee, the report on implementation of related party transactions management policies and conditions of related party transactions in 2017, the credit line granted for related party transactions between Shougang Group Co., Ltd. and its related enterprises, the credit line granted for related party transactions between PICC Property and Casualty Company Limited and its related enterprises, the credit line granted for related party transactions between State Grid Yingda International Holdings Corporation, Ltd. and its related enterprises, the credit line granted for related party transactions between State Grid Yunnan Hehe (Group) Co., Ltd. and its related enterprises, the credit line granted for related party transactions with Huaxia Financial Leasing Co., Ltd., the conditional share subscription agreement signed with specified objects, and the related party transaction issues involved in the non-public offering of ordinary shares.

The Audit Committee held six meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2018, report on duty performance in 2017, final accounts report in 2017, profit distribution plan in 2017, 2017 auditor's report under International Accounting Standards, consolidated management report for 2017, raised funds retention and use management policies in 2017 (revision), internal audit report of 2017, internal control assessment report of 2017, internal control audit report of 2017, 2017-2020 audit work plan, financial budget report for 2018, internal audit plan for 2018, engagement and remuneration of accounting firm in 2018, first quarterly report of 2018, interim report of 2018, internal audit work report in H1 2018, internal control assessment plan for 2018, 2018 performance contract of the Audit Department, third quarterly report of 2018, distribution of dividends for preference shares in 2018, amendments to implementation rules on annual assessment of employees in the Audit Department, and plan for internal audit reform. Besides, it heard the report made by Shijiazhuang Branch on asset quality management.

The Remuneration and Assessment Committee held two meetings and reviewed the proposals relating to the Committee's annual work plan for 2018, 2017 assessment results of senior management members, bonus pool for Head Office-level senior management members not in the charge of Beijing municipality in 2017, plan on bonus distribution to Head Office-level senior management members not in the charge of Beijing municipality in 2017, suggestions on bonus distribution to Head Office-level senior management members in the charge of Beijing municipality in 2017, remuneration of directors, supervisors and senior management members disclosed in the annual report 2017, return of risk security deposits to Head Office-level senior management members in 2018, and revisions to the measures and work flow for remuneration assessment of Head-Office-level senior management. It also assessed and appraised the duty performance of senior management members in 2017.

The Nomination Committee held one meeting and reviewed and approved the proposal on qualification of vice president candidates.

## **V. EXPLANATION ON THE DETECTION OF THE COMPANY'S RISK EXPOSURES BY THE BOARD OF SUPERVISORS**

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control building and risk management, having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held five meetings and adopted 16 resolutions covering the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the Articles of Association of the Company and the procedural rules on the Board of Supervisors. At the same time, it conducted the following eight inspections and surveys: discussion with the senior management about the actual operation in 2017 and working ideas for 2018; supervisory inspection on the duty performance of directors and senior management members in 2017; field survey on how the Company supported the planning and construction of Xiongan New Area; inspection on how the Company addressed the violations against disciplines and provisions exposed in 2017; survey on the Company's reform on FinTech organizational structure and management transformation; follow-up inspection on the Company's management of NPAs; survey on the implementation of the Company's 2017-2020 development program outline; and field survey on how Guangzhou Branch and Shanghai Branch sped up their reform and development.

## **VI. EXPLANATION ON INABILITY TO ENSURE INDEPENDENCE OR INDEPENDENT OPERATION IN THE ASPECTS OF BUSINESS, PERSONNEL, ASSET, INSTITUTION AND FINANCE BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER**

Not applicable.

## **VII. INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT**

The Company regulates day-to-day information disclosures pursuant to the state's laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure authenticity, accuracy, completeness and timeliness of the information disclosed and safeguard investors' interests. During the reporting period, the Company prepared and disclosed four regular reports and 37 interim reports and informed the investors of such significant information as financial data, related party transactions, non-public offering, and profit distribution plan on a timely basis.

The Company further deepened investor relations management. It made interactions and communication with investors through multiple channels and platforms. Specifically, it held meetings with investors and analysts as well as online explanatory session on cash dividend distribution to inform them of the connotation and values of the Company so that the market could have a further understanding of the Company and the investors would enhance their recognition of the Company's value. Besides, the Company diversified the approaches of communication with investors and fully availed of SSE E Platform to have online exchanges with investors, thereby promoting a benign interaction with the capital market.



## VIII. REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2018 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as other regulatory requirements for internal control. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the 2018 Internal Control Assessment Report of Hua Xia Bank Co., Limited disclosed by the Company on the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Company ([www.hxb.com.cn](http://www.hxb.com.cn)).

## IX. EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as auditor of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control* and the *Guideline for Enterprise Internal Control Audit*. The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Auditor's Report on Internal Control of Hua Xia Bank Co., Limited* disclosed by the Company.

## **SECTION X FINANCIAL STATEMENTS**

- I. Auditor's Report (see Appendix)
- II. Financial Statements (see Appendix)





## SECTION XI LIST OF DOCUMENTS FOR INSPECTION

I. Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs

II. Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs

III. Original of the Annual Report Bearing the Signature of Chairman of the Company

IV. Originals of All Documents and Announcements Disclosed by the Company on the *China Securities Journal*, *Shanghai Securities News* and *Securities Times* during the Reporting Period

V. *Articles of Association of Hua Xia Bank Co., Limited*

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

17 April 2019

## WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2018 BY DIRECTORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

Pursuant to relevant provisions and requirements of the Securities Law and the Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2-Contents and Formats of Annual Reports (Revision 2017), we, in the capacity of Directors and Senior Management Members of Hua Xia Bank Co., Limited, after a full understanding and review of the Annual Report 2018 of the Company and its summary, are in the opinion that:

1. The Company operates in strict compliance with the Accounting Standards for Business Enterprises and its application guidelines; the Annual Report 2018 of the Company and its summary present the financial position and operating results of the Company during the reporting period in a fair way.

2. The Auditor's Report 2018 of Hua Xia Bank Co., Limited issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP is true, objective and impartial.

We undertake that the information contained in the Annual Report 2018 of the Company and its summary is authentic, accurate and complete without any false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

17 April 2019

Name	Position	Signature
Li Minji	Chairman	
Zhang Jianhua	Director, President	
Wang Hongjun	Director	
Li Jianbo	Director	
Liu Chunhua	Director, CAO	
Ren Yongguang	Director, Vice President	
Zhao Junxue	Director, Secretary to the Board of Directors	



Name	Position	Signature
Zou Libin	Director	
Zhang Wei	Director	
Zeng Xiangquan	Independent Director	
Yu Changchun	Independent Director	
Xiao Wei	Independent Director	
Chen Yonghong	Independent Director	
Yang Delin	Independent Director	
Wang Huacheng	Independent Director	
Guan Wenjie	Vice President, Principal of Financial Affairs	
Wang Yiping	Vice President	
Yang Wei	Vice President	
Li Min	Vice President	

# AUDITOR'S REPORT

D.SH.B. (SH) Z. (19) No. P02463

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To the shareholders of Hua Xia Bank Co., Limited,

## I. AUDIT OPINION

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank"), which comprise balance sheet as at 31 December 2018, income statement, statement of cash flows and statement of changes in equity of the Group and the Bank for the year then ended and notes to these Financial Statements.

In our opinion, the attached financial statements comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the financial position of the Group and the Bank as at 31 December 2018 and the operating results and cash flows of the Group and the Bank for the year then ended.

## II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## III. KEY AUDIT ISSUES

Key audit issues are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current year. These issues are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these issues. We determine the followings are the key audit issues that merit communication in our auditor's report.

### 1. Allowance for impairment losses set aside for loans and advances to customers:

#### Issue description

As indicated by Note IX – 8. Loans and advances to customers to customer to the Financial Statements, the Bank disbursed loans and advances to customers totaling RMB1,613,516 million and had the outstanding allowance for impairment losses stood at RMB47,275 million as of 31 December 2018. As shown in Note V – 1, the Bank shall recheck the book value of loans and advances to customers and set aside the allowance for impairment losses on each balance sheet date. While setting aside the allowance for impairment losses, the senior management of the Bank shall on the sensible and well-established grounds estimate the amount and time of the future cash inflow or sensibly determine the future cash flow to be generated by the financial asset portfolios with similar risk features with reference to the previous data on the losses caused by such portfolios. The process requires the senior management of the Bank to employ significant judgments and estimations, thus involving fairly great complexity.



## AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (19) No. P02463

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### III. KEY AUDIT ISSUES (CONTINUED)

#### 1. Allowance for impairment losses set aside for loans and advances to customers (continued):

As the balance of loans and advances to customers is of importance and significant estimations and judgments are involved while the senior management measures impairment losses, we have identified the provision for impairment losses caused by loans and advances to customers as a key audit issue.

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of internal controls relating to the estimation of impairment losses arising from loans and advances to customers and the provision of allowance for such impairment losses;
- Selecting samples for credit review, and assessing whether the impaired loans are determined properly by the senior management and on sufficient basis;
- For the assets that apply the individual provisioning, sampling and testing the par value of the future cash flow estimated by the senior management and its basis;
- For the assets that apply the collective provisioning, rechecking the collective provisioning method adopted by the Bank and the appropriateness of using key assumptions, and running the re-calculating program to check whether the provisioning for impairment losses is accurate.

#### 2. Consolidated recognition of structured entities:

Issue description

As indicated by Note XIV. Structured Entities, structured entities mainly include wealth management products, asset-backed securities, funds, trust plans, and asset management programs that the Bank issues, manages or invests in. The Bank enjoys rights and interests in structured entities by initiating establishment, directly holding investments, reserving equity shares, or other means. While determining whether the Bank should include the structured entities into the consolidated scope, the senior management needs to consider powers exercised by the Bank over such entities, risks exposed to it due to them and compensation entitled to it through the related activities of the structured entities as well as the ability through which it may wield the related authority to influence its variable returns. The recognition of structured entities requires the senior management to make significant accounting estimation and judgment, and whether these entities can be consolidated will have major bearings on the Bank's financial statements. Therefore, we have identified the structured entities as a key audit issue.

## AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (19) No. P02463

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### III. KEY AUDIT ISSUES (CONTINUED)

#### 2. Consolidated recognition of structural entities (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of internal controls relating to consolidation of structured entities;
- Sampling and checking the related contract documents, and assessing the appropriateness of the conclusion on whether the Bank can control the structured entities in terms of the powers exercised by the Bank over these entities, the variable returns from such entities, and the ability of the Bank to influence such returns by wielding its authority;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the structured entities.

### IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the 2018 annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 the other information, we are required to report that fact. We have nothing to report in this regard.

## AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (19) No. P02463

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### V. THE SENIOR MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The senior management of the Bank shall prepare the financial statements in accordance with the Accounting Standards for Enterprises and present them fairly; design, implement and maintain necessary internal controls so that the financial statements are free from material misstatement, whether due to fraud or error.

While drafting the financial statements, the senior management shall assess the business continuity of the Bank, disclose the affairs relating to business continuity (if applicable), and employ the assumption on business continuity, unless it plans to liquidate the Bank, terminates its operation or has no other feasible choice.

The governance body shall oversee the financial reporting process of the Bank.

### VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards 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 the financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. At the same time we also do the following work:

(1) Identify and assess the risks of material misstatement of the 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 auditing opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the senior management.

(4) Reach a conclusion on the appropriateness of the senior management's using the assumption on business continuity. Conclude based on the audit evidence obtained whether there are material uncertainties on the affairs or conditions which may cast significant doubt on the Bank's business continuity. 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 financial statements or, if such disclosures are inadequate, we should issue the non-unqualified auditing opinion. Our conclusions are based on the information obtained up to the issue date of the auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for guiding, overseeing and executing the group-wide audit, and assume full liability for the audit opinion.

## AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (19) No. P02463

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### VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and will communicate with the body 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 governance body, we determine those matters that are of the most significance in the audit of the financial statements of the current period and are therefore the key audit issues. We describe these issues in our auditor's report unless law or regulation precludes public disclosure about the issues or when, in extremely rare circumstances, we determine that an issue 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.

Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership)	Certified Public Accountants Registered in China	Wen Qisi (Engagement Partner)
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Certified Public Accountants Registered in China	Ma Xiaobo
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Shanghai, China

17 April 2019



## BALANCE SHEET OF THE BANK AND THE GROUP

31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
<b>Assets</b>					
Cash on hand and balances with central banks	1	210,204	225,837	209,528	225,382
Due from banks	2	21,871	56,866	21,919	55,827
Placements with banks and other financial institutions	3	40,663	15,220	40,663	15,220
Financial assets measured at fair value through profit or loss	4	12,470	3,206	12,470	3,206
Derivative financial assets	5	1,130	3,256	1,130	3,256
Financial assets purchased under agreements to resell	6	1,723	40,203	1,583	40,203
Interest receivable	7	17,350	15,362	17,311	15,330
Loans and advances to customers	8	1,566,241	1,355,585	1,492,239	1,300,368
Available-for-sale financial assets	9	125,265	110,312	125,265	110,312
Held-to-maturity investments	10	415,524	401,493	415,250	402,093
Investment receivables	11	233,762	250,315	232,875	249,428
Long-term equity investments	12	–	–	5,090	5,090
Fixed assets	13	13,582	12,864	13,549	12,829
Intangible assets	14	81	83	78	80
Deferred income tax assets	15	7,410	6,533	7,083	6,291
Other assets	16	13,304	11,792	11,655	10,486
<b>Total assets</b>		<b>2,680,580</b>	<b>2,508,927</b>	<b>2,607,688</b>	<b>2,455,401</b>

## BALANCE SHEET OF THE BANK AND THE GROUP (CONTINUED)

31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
<b>Liabilities</b>					
Due to central banks	18	171,064	116,019	171,000	116,000
Due to banks and other financial institutions	19	293,072	231,356	293,490	232,174
Placements from banks and other financial institutions	20	77,111	65,045	19,871	22,677
Derivative financial assets	5	1,054	1,696	1,054	1,696
Financial assets sold under agreements to repurchase	21	14,378	70,002	14,126	70,002
Deposits taken	22	1,492,492	1,433,907	1,490,092	1,434,683
Accrued payroll	23	5,799	6,535	5,708	6,434
Taxes and dues payable	24	7,167	5,879	7,021	5,791
Interest payable	25	19,151	15,883	18,737	15,446
Debt obligations payable	26	360,469	369,689	357,969	369,689
Other liabilities	27	20,108	23,418	13,421	14,108
<b>Total liabilities</b>		<b>2,461,865</b>	<b>2,339,429</b>	<b>2,392,489</b>	<b>2,288,700</b>
<b>Equity</b>					
Share capital	28	15,387	12,823	15,387	12,823
Other equity instruments	29	19,978	19,978	19,978	19,978
Of which: Preference shares		19,978	19,978	19,978	19,978
Capital reserve	30	53,292	26,625	53,291	26,624
Other comprehensive income	43	625	(1,152)	625	(1,152)
Surplus reserve	31	13,635	11,703	13,635	11,703
General risk reserve	32	31,788	30,055	31,019	29,467
Retained profit	33	82,436	68,023	81,264	67,258
<b>Total equity attributable to shareholders of the parent company</b>		<b>217,141</b>	<b>168,055</b>	<b>215,199</b>	<b>166,701</b>
<b>Minority interests</b>		<b>1,574</b>	<b>1,443</b>	<b>-</b>	<b>-</b>
<b>Total shareholders' equity</b>		<b>218,715</b>	<b>169,498</b>	<b>215,199</b>	<b>166,701</b>
<b>Total liabilities and equity</b>		<b>2,680,580</b>	<b>2,508,927</b>	<b>2,607,688</b>	<b>2,455,401</b>

The accompanying notes are an integral part of these financial statements

The financial statements on pages 103-221 are signed by:

Legal representative:  
Li Minji

President  
Zhang Jianhua

Principal of Financial Affairs  
Guan Wenjie

Seal

## INCOME STATEMENT OF THE BANK AND THE GROUP

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		2018	2017	2018	2017
<b>I. Operating income</b>		<b>72,227</b>	<b>66,384</b>	<b>70,480</b>	<b>65,021</b>
Net interest income	34	51,538	47,318	50,428	46,493
Interest income		116,036	100,232	112,709	97,797
Interest expense		(64,498)	(52,914)	(62,281)	(51,304)
Net fee and commission income	35	17,758	18,407	17,169	17,898
Fee and commission income		20,129	20,447	19,509	19,925
Fee and commission expenses		(2,371)	(2,040)	(2,340)	(2,027)
Investment gains/(losses)	36	4,068	(1,527)	4,071	(1,524)
Gains/(losses) from the changes in fair value	37	(1,463)	1,836	(1,463)	1,836
Exchange gains	38	204	284	204	284
Other operating income		107	32	57	14
Profit/loss from the disposal of assets		(14)	(9)	(14)	(9)
Other income		29	43	28	29
<b>II. Operating expenses</b>		<b>(45,539)</b>	<b>(40,267)</b>	<b>(44,726)</b>	<b>(39,706)</b>
Tax and surcharges	39	(867)	(754)	(844)	(736)
General and administrative expenses	40	(23,533)	(21,878)	(23,292)	(21,655)
Impairment losses on assets	41	(21,117)	(17,589)	(20,580)	(17,302)
Other business costs		(22)	(46)	(10)	(13)
<b>III. Operating profit</b>		<b>26,688</b>	<b>26,117</b>	<b>25,754</b>	<b>25,315</b>
Plus: Non-operating income		167	207	140	196
Less: Non-operating expenses		(72)	(71)	(71)	(71)
<b>IV. Total profit</b>		<b>26,783</b>	<b>26,253</b>	<b>25,823</b>	<b>25,440</b>
Less: Income tax expense	42	(5,797)	(6,320)	(5,557)	(6,119)
<b>V. Net profit</b>		<b>20,986</b>	<b>19,933</b>	<b>20,266</b>	<b>19,321</b>
i. Classified by operational continuity					
1. Net profit from continuous operation		20,986	19,933	20,266	19,321
2. Net profit from ceased operation		-	-	-	-
ii. Classified by ownership affiliation					
1. Net profit attributable to shareholders of the parent company		20,854	19,819	20,266	19,321
2. Minority shareholders' gains/losses		132	114	-	-
<b>VI. After-tax other comprehensive income</b>	<b>43</b>	<b>1,777</b>	<b>(1,174)</b>	<b>1,777</b>	<b>(1,174)</b>
i. Other comprehensive income not to be classified as profit/loss		-	-	-	-
ii. Other comprehensive income to be classified as profit/loss					
1. Profit/loss from changes in fair value of available-for-sale financial assets		1,777	(1,174)	1,777	(1,174)
After-tax other comprehensive income attributable to shareholders of the parent company		1,777	(1,174)	1,777	(1,174)
After-tax other comprehensive income attributable to minority shareholders		-	-	-	-
<b>VII. Total comprehensive income</b>		<b>22,763</b>	<b>18,759</b>	<b>22,043</b>	<b>18,147</b>
Total comprehensive income attributable to shareholders of the parent company		22,631	18,645	22,043	18,147
Total comprehensive income attributable to minority shareholders		132	114	-	-
<b>VIII. Earnings per share</b>					
Basic earnings per share (RMB yuan)	44	1.56	1.48		

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CASH FLOWS OF THE BANK AND THE GROUP

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		2018	2017	2018	2017
<b>Cash flows from operating activities</b>					
Net increase in customer deposits and due to banks and other financial institutions		120,301	71,830	116,725	74,638
Net increase in due to central banks		55,045	8,014	55,000	8,000
Net decrease in balances with central banks and due from banks and other financial institutions		37,879	7,423	37,935	7,236
Net increase in business debt obligations payable		–	54,505	–	54,505
Proceeds from interest and fee & commission		109,108	98,611	105,221	95,722
Other proceeds received related to operating activities		2,761	7,144	2,365	3,361
Sub-total of cash inflows from operating activities		325,094	247,527	317,246	243,462
Net increase in loans and advances to customers		(231,100)	(188,043)	(211,791)	(177,610)
Net decrease in placements from banks and other financial institutions and financial assets purchased under agreements to resell		(43,558)	(44,779)	(58,682)	(51,394)
Net increase in placements with banks and other financial institutions and financial assets purchased under agreements to resell		(18,492)	(900)	(18,492)	(900)
Net decrease in business debt obligations payable		(29,720)	–	(29,720)	–
Cash paid as interest and fee & commission expenses		(59,334)	(51,620)	(57,063)	(50,073)
Cash paid to and for employees		(14,937)	(13,820)	(14,749)	(13,655)
Taxes and dues paid		(12,933)	(12,086)	(12,587)	(11,837)
Other cash paid related to operating activities		(15,955)	(24,107)	(12,639)	(23,031)
Sub-total of cash outflows from operating activities		(426,029)	(335,355)	(415,723)	(328,500)
<b>Net cash flows from operating activities</b>	<b>46</b>	<b>(100,935)</b>	<b>(87,828)</b>	<b>(98,477)</b>	<b>(85,038)</b>
<b>Cash flows from investing activities</b>					
Proceeds from disposal of investments		1,166,355	744,843	1,166,302	744,243
Investment gains received		34,765	26,763	34,711	26,716
Net gains on disposal of fixed assets, intangible assets and other long-term assets (2)		123	208	123	208
Sub-total of cash inflows from investing activities		1,201,243	771,814	1,201,136	771,167
Acquisition of investments		(1,185,730)	(872,587)	(1,184,803)	(872,587)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,843)	(2,611)	(1,840)	(2,601)
Net cash paid for capital increase in subsidiaries		–	–	–	(2,460)
Sub-total of cash outflows from investing activities		(1,187,573)	(875,198)	(1,186,643)	(877,648)
<b>Net cash flows from investing activities</b>		<b>13,670</b>	<b>(103,384)</b>	<b>14,493</b>	<b>(106,481)</b>

## STATEMENT OF CASH FLOWS OF THE BANK AND THE GROUP (CONTINUED)

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		2018	2017	2018	2017
<b>Cash flows from financing activities</b>					
Proceeds from disposal of investments		29,231	540	29,231	–
Of which: Cash received by subsidiaries from investment of minority shareholders		–	540	–	–
Proceeds from issuance of bonds		20,500	52,000	18,000	52,000
Sub-total of cash inflows from financing activities		49,731	52,540	47,231	52,000
Cash paid for debt repayment		–	(5,000)	–	(5,000)
Cash paid for dividends and profit distribution or interest repayment		(7,044)	(4,880)	(7,043)	(4,880)
Sub-total of cash outflows from financing activities		(7,044)	(9,880)	(7,043)	(9,880)
<b>Net cash flows from financing activities</b>		<b>42,687</b>	<b>42,660</b>	<b>40,188</b>	<b>42,120</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>591</b>	<b>(662)</b>	<b>591</b>	<b>(662)</b>
<b>Net change of cash and cash equivalents</b>	<b>46</b>	<b>(43,987)</b>	<b>(149,214)</b>	<b>(43,205)</b>	<b>(150,061)</b>
<b>Plus: Opening balance of cash and cash equivalents</b>		<b>110,191</b>	<b>259,405</b>	<b>108,719</b>	<b>258,780</b>
<b>Closing balance of cash and cash equivalents</b>	<b>45</b>	<b>66,204</b>	<b>110,191</b>	<b>65,514</b>	<b>108,719</b>

The accompanying notes are an integral part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	Equity attributable to shareholders of the parent company							Minority entity	Total	
		Share capital	Other equity instrument	Capital reserve	Capital comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve			Retained Profit
<b>I. Balance as at 1 January 2018</b>		12,823	19,978	26,625	(1,152)	11,703	30,055	68,023	168,055	1,443	169,498
<b>II. Changes during the year</b>											
i. Net profit		-	-	-	-	-	-	20,854	20,854	132	20,986
ii Other comprehensive income	43	-	-	-	1,777	-	-	-	1,777	-	1,777
Subtotal of the above i and ii		-	-	-	1,777	-	-	20,854	22,631	132	22,763
iii. Capital injection by equity holders											
1. Capital injection by equity holders	28	2,564	-	26,667	-	-	-	-	29,231	-	29,231
iv. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	1,932	-	(1,932)	-	-	-
2. General risk reserve withdrawn	32	-	-	-	-	-	1,733	(1,733)	-	-	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(1,936)	(1,936)	(1)	(1,937)
4. Distribution of dividends on preference shares	33	-	-	-	-	-	-	(840)	(840)	-	(840)
<b>III. Balance as at 31 December 2018</b>		<b>15,387</b>	<b>19,978</b>	<b>53,292</b>	<b>625</b>	<b>13,635</b>	<b>31,788</b>	<b>82,436</b>	<b>217,141</b>	<b>1,574</b>	<b>218,715</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	Equity attributable to shareholders of the parent company							Minority entity	Total	
		Share capital	Other equity instrument	Capital reserve	Capital comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve			Retained Profit
<b>I. Balance as at 1 January 2017</b>		10,686	19,978	28,762	22	9,771	24,605	58,360	152,184	789	152,973
<b>II. Changes during the year</b>											
i. Net profit		-	-	-	-	-	-	19,819	19,819	114	19,933
ii. Other comprehensive income	43	-	-	-	(1,174)	-	-	-	(1,174)	-	(1,174)
Subtotal of the above i and ii		-	-	-	(1,174)	-	-	19,819	18,645	114	18,759
iii. Capital injection by equity holders											
1. Capital injection by minority shareholders		-	-	-	-	-	-	-	-	540	540
iv. Profit distribution											
1. Surplus reserve withdrawn	31	-	-	-	-	1,932	-	(1,932)	-	-	-
2. General risk reserve withdrawn	32	-	-	-	-	-	5,450	(5,450)	-	-	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(1,934)	(1,934)	-	(1,934)
4. Distribution of dividends on preference shares	33	-	-	-	-	-	-	(840)	(840)	-	(840)
v. Internal conversion of shareholders' equity											
1. Conversion of capital reserve into share capital	33	2,137	-	(2,137)	-	-	-	-	-	-	-
<b>III. Balance as at 31 December 2017</b>		<b>12,823</b>	<b>19,978</b>	<b>26,625</b>	<b>(1,152)</b>	<b>11,703</b>	<b>30,055</b>	<b>68,023</b>	<b>168,055</b>	<b>1,443</b>	<b>169,498</b>

The accompanying notes are an integral part of these financial statements

## BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	Share capital instrument	Other equity instrument	Capital reserve	Comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
<b>I. Balance as at 1 January 2018</b>		12,823	19,978	26,624	(1,152)	11,703	29,467	67,258	166,701	
<b>II. Changes during the year</b>										
i. Net profit		-	-	-	-	-	-	20,266	20,266	
ii Other comprehensive income	43	-	-	-	1,777	-	-	-	1,777	
Subtotal of the above i and ii		-	-	-	1,777	-	-	20,266	22,043	
iii. Capital injection by equity holders										
1. Capital injection by equity holders	28	2,564	-	26,667	-	-	-	-	29,231	
iv. Profit distribution										
1. Surplus reserve withdrawn	31	-	-	-	-	1,932	-	(1,932)	-	
2. General risk reserve withdrawn	32	-	-	-	-	-	1,552	(1,552)	-	
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(1,936)	(1,936)	
4. Distribution of dividends on preference shares	33	-	-	-	-	-	-	(840)	(840)	
<b>III. Balance as at 31 December 2018</b>		<b>15,387</b>	<b>19,978</b>	<b>53,291</b>	<b>625</b>	<b>13,635</b>	<b>31,019</b>	<b>81,264</b>	<b>215,199</b>	





## BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
<b>I. Balance as at 1 January 2017</b>		10,686	19,978	28,761	22	9,771	24,269	57,841	151,328
<b>II. Changes during the year</b>									
i. Net profit		-	-	-	-	-	-	19,321	19,321
ii Other comprehensive income	43	-	-	-	(1,174)	-	-	-	(1,174)
Subtotal of the above i and ii		-	-	-	(1,174)	-	-	19,321	18,147
iii. Profit distribution									
1. Surplus reserve withdrawn	31	-	-	-	-	1,982	-	(1,932)	-
2. General risk reserve withdrawn	32	-	-	-	-	-	5,198	(5,198)	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(1,934)	(1,934)
4. Distribution of dividends on preference shares	33	-	-	-	-	-	-	(840)	(840)
iv. Internal conversion of shareholders' equity									
Conversion of capital reserve into share capital	33	2,137	-	(2,137)	-	-	-	-	-
<b>III. Balance as at 31 December 2017</b>		<b>12,823</b>	<b>19,978</b>	<b>26,624</b>	<b>(1,152)</b>	<b>11,703</b>	<b>29,467</b>	<b>67,258</b>	<b>166,701</b>

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018 (In RMB millions, unless otherwise stated)

### I. PROFILE OF THE BANK

Hua Xia Bank Co., Limited (hereinafter “the Bank”), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People’s Bank of China (“PBOC”). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission (“CSRC”) for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission (“CBRC”) (now renamed into “China Banking and Insurance Regulatory Commission”, “the former CBRC” or “CBIRC”), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce (now remained into “Beijing Municipal Administration for Market Supervision and Management”).

On 21 May 2004, the Bank converted the capital reserve of RMB700,000,000 into share capital at a ratio of 2 for 10 shares on the basis of 3.5 billion of shares as at 31 December 2003. After the conversion, the registered capital reached RMB4,200,000,000, which has been specially verified by Beijing Jingdu Certified Public Accountants, with the Capital Verification Report (Beijing Jingdu Y.Z. (2004) No. 0017).

On 15 October 2008, with approval of CSRC, the Bank issued 790,528,316 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation (now named Shougang Group Co., Ltd.), State Grid Corporation (now renamed into State Grid Corporation of China) and DEUTSCHE BANK AKTIENGESELLSCHAFT. After the additional offering, the registered capital was RMB4,990,528,316. The newly increased capital was verified by Beijing Jingdu Certified Public Accountants which issued the Capital Verification Report (Beijing Jingdu Y.Z. (2008) No. 0085).

On 22 April 2011, with approval of CSRC, the Bank issued 1,859,197,460 RMB-denominated ordinary shares in a non-public offering to three designated investors, namely Shougang Corporation (now named Shougang Group Co., Ltd.), Yingda International Holdings Corporation, Ltd. (now named SGCC Yingda International Holdings Corporation, Ltd.) and DEUTSCHE BANK LUXEMBOURG S.A. After the additional offering, the registered capital was RMB6,849,725,776. The newly increased capital was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd. which issued the Capital Verification Report (Jingdu Tinwha Y.Z. (2011) No. 0044).

On 24 July 2013, the Bank converted the capital reserve of RMB2,054,917,733 into share capital at a ratio of 3 for 10 shares on the basis of 6.8 billion of shares as at 31 December 2012. After the conversion, the registered capital reached RMB8,904,643,509. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (13) No. 0577).

On 8 July 2015, the Bank converted the capital reserve of RMB1,780,928,702 into share capital at a ratio of 2 for 10 shares on the basis of 8.9 billion of shares as at 31 December 2014. After the conversion, the registered capital reached RMB10,685,572,211. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (15) No. 1307).

On 23 February 2016, the Bank was approved by CSRC to privately issue up to 200 million domestic preference shares and the par value of each share is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (16) No. 0167).

On 29 June 2017, the Bank converted the capital reserve of RMB2,137,114,442 into share capital at a ratio of 2 for 10 shares on the basis of 10.686 billion of shares as at 31 December 2016. After the conversion, the registered capital reached RMB12,822,686,653. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (17) No. 00366).



On 28 December 2018, with approval of CSRC, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation, SGCC Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd. After the additional offering, the registered capital was RMB15,387,223,983. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (18) No. 00556). The equity transaction completed registration on 8 January 2019.

As at 31 December 2018, in addition to the Head Office, the Bank had established 42 tier-1 branches in Chinese Mainland, with outlets totaling 1,022.

The business scope of the Bank and its subsidiaries (collectively referred to as the “Group”) covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by CBIRC.

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance of PRC (the “MOF”). Besides, the Group also discloses relevant financial information in accordance with the *Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 15 – General Provisions on Financial Report* issued by CSRC.

### Ongoing concern

The Group has assessed its ability to sustain ongoing operation over the 12 months since 31 December 2018, finding no issue or condition that incurs a material ongoing concern. Therefore, the financial statements are drafted on the assumption of ongoing operation.

## III. DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Group truly and fairly represent the financial position of the Bank and the Group as at 31 December 2018, and the operating results and cash flows of the Bank and the Group for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

## IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

### 2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the Group’s operation and the Group takes Renminbi as the bookkeeping base currency. The Group adopts Renminbi in the preparation of these financial statements.

### 3. Basis of accounting and measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

Measured on the basis of historical costs, assets shall be measured at the amount of cash or cash equivalents paid for purchasing them or the fair value of the consideration received. Liabilities shall be measured at the proceeds or assets received upon the assumption of obligations, or the contractual amount received upon the assumption of obligations, or the amount of cash or cash equivalents expected to be paid for debt repayment in daily activities.

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

### 4. Business combination

Business combination not under the same control and goodwill

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The buyer's relevant expenses arising from business combination shall be recorded into current profit or loss upon occurrence.

At the acquisition date, recognizable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value. For the balance between the combination cost and the fair value of recognizable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses. Impairment test shall be conducted for goodwill at the end of each year at least.

The impairment loss on goodwill will be recognized as current profit or loss upon occurrence and will not be reversed in the subsequent accounting periods.

### 5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank. All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" under the item "shareholders' equity" of the financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

Structured entities refer to entities whose controllers are determined without considering the voting power or similar rights. Activities of such entities are usually guided by contractual arrangement or other arrangement methods including wealth management products, and asset-backed securities.



## 6. Recognition of the cash and cash equivalents

Cash refers to the cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

## 7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of available-for-sale monetary items is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value.

## 8. Financial instruments

Corresponding financial assets or financial liabilities shall be recognized when the Group becomes a party to a financial instrument contract.

### (1) Financial assets

Financial assets are classified into four categories at the initial recognition: financial assets measured at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification shall be determined based on the nature and purpose of the financial assets at the initial recognition. Initially recognized financial assets are measured at fair value. For financial assets measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets, the transaction expenses thereof are included in the initially recognized amount. Financial assets traded in a regular manner will be recognized or derecognized in line with the accounting treatment on the transaction date. Buying or selling a financial asset in a regular manner means the financial asset traded is delivered within the time limit specified by market rules or practices.

#### **Financial assets measured at fair value through profit or loss**

Financial assets measured at fair value through profit or loss include held-for-trading financial assets and those financial assets measured at fair value through profit or loss measured at the initial recognition.

Held-for-trading financial assets refer to financial assets meeting any of the following conditions:

- a. the purpose of acquiring such financial assets is mainly for selling in a short term;
- b. they are part of the recognizable financial instrument portfolio under centralized management and there is objective evidence proving that the Group adopts the short-term profit-making method to manage the portfolio in the recent period;
- c. they belong to derivative financial instruments other than those designated as effective hedging instruments, those subordinated to financial guarantee contracts, and those linked with equity instruments that have no quotation in active markets and fair values of which cannot be reliably measured, and settled with the delivery of such equity instruments.

Financial assets meeting any of the following conditions can be designated as financial assets measured at fair value through profit or loss at the initial recognition:

- a. The designation can eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from different measurement bases of financial assets;
- b. The official written documents on risk management or investment strategies of the Group have indicated that the financial assets portfolio or the portfolio of financial assets and liabilities of which the said financial asset is a component will be managed and evaluated on the basis of fair value and be reported to key management personnel;

c. Mixed instruments relating with embedded derivative instruments and eligible for designating as financial assets measured at fair value through profit or loss according to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

#### **Held-to-maturity investments**

Held-to-maturity investments refer to non-derivative financial assets that have a fixed maturity, fixed or determinable recoverable amount and that the Group has clear intent and ability to hold it to maturity.

After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment loss identified. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized. Effective interest method is the method of calculating amortized cost and interest income/expenses for various periods on the basis of the effective interest rate of the financial asset or financial liability (including a portfolio of financial assets or liabilities). Effective interest rate refers to the interest rate used when discounting the future cash flows of the financial assets or financial liabilities within the estimated renewal period or applicable shorter period into the current book value of the financial assets or financial liabilities.

While calculating the effective interest rate, the Group will estimate the future cash flows based on all the contract clauses of the financial assets or financial liabilities (without consideration of future credit losses), and will also consider various fees and transaction costs that are components of effective interest rate and paid or charged among all parties to the contract of financial assets or financial liabilities, as well as discount or premium etc.

#### **Available-for-sale financial assets**

The available-for-sale financial assets refer to the non-derivative financial assets that are defined as available for sale upon the initial recognition, as well as the financial assets other than the financial assets measured at fair value through gain or loss, loans, account receivables and held-to-maturity investments.

Available-for-sale financial assets are measured subsequently at fair value, and gains or losses arising from changes in fair value are recognized as other comprehensive income, which will be transferred out and recorded through current profit or loss when such financial assets are derecognized, except that impairment losses and exchange difference of foreign currency monetary financial assets relating with the amortized cost are recognized through current profit or loss.

Available-for-sale equity instruments that have no quotation in active markets and fair value of which cannot be measured on a reliable basis are measured at cost less any impairment loss identified at the end of the reporting period.

Interest obtained during the holding period of the available-for-sale financial assets and cash dividends announced and issued by the investee are recorded into interest income and investment income respectively.

#### **Loans and receivables**

Loans and receivables refer to non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market. The Group's loans and receivables include balances with central banks, due to banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under agreements to resell, interest receivable, loans and advances to customers and investments classified as receivables, etc., and they are measured at amortized cost using the effective interest rate method, less impairment loss. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized.

### **(2) Impairment of financial assets**

Except financial assets measured at fair value through profit or loss, the Group carries out an inspection on the book value of other financial assets on the balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside.

Objective evidences on impairment of the financial assets include the following observable circumstances:

- a. The issuer or debtor has serious financial difficulties;
- b. The debtor violates provisions of the contract, e.g. default on or overdue payment of interest or principal;
- c. The Group makes compromise to the debtor with financial difficulties due to consideration of economic or legal factors;

- d. The debtor may possibly go bankruptcy or be otherwise restructured financially;
- e. The financial assets cannot be traded in the active market due to material financial difficulties of the issuer;
- f. It is incapable of identifying whether the cash flows of a portfolio of financial assets decrease or not, but after overall assessment based on the public data, it has been found that the estimated future cash flows of the portfolio of financial assets have witnessed measurable decrease since the initial recognition, including the following circumstances:
  - the payment ability of the debtor of the financial assets has gradually worsened;
  - the country or region where the debtor is located encounters economic situations where the portfolio of financial assets may not be paid;
- g. There are material unfavorable changes in the technological, market, economic or legal environments of the issuer of equity instruments, which possibly makes the equity instrument investors fail to recover its investment cost;
- h. The fair value of the equity instrument decreased severely or not temporarily;
- i. Other objective evidences indicating impairment of the financial assets.

#### **Impairment of financial assets measured at amortized cost**

If there is an objective evidence proving a financial asset measured at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future credit losses that haven't incurred) and will be recorded through current profit or loss. If the contract interest rate of the financial asset is a floating rate, then the discounting rate for determining the impairment loss shall be the current effective interest rate specified in the contract.

Whether the collateral is exercised or not, the present value of the future cash flows of financial asset with collateral will be estimated and calculated based on the exercise value of the collateral less the cost for acquiring and selling the collateral.

Firstly, the Group conducts separate impairment test on financial assets with significant single amount. For financial assets with insignificant single amount, it conducts separate impairment test or conducts the test in asset portfolios. For financial assets recognized with no impairment loss by separate test (including financial assets with significant or insignificant single amount), they will be included in the impairment test conducted on financial asset portfolio with similar credit risk features. For financial assets recognized with impairment loss by separate test, they will not be included in the impairment test conducted on financial asset portfolio with similar credit risk features.

The financial assets shall be grouped by the similarity and relevance of their credit risk characteristics for collective assessment on impairment. These credit risk characteristics are generally related to the estimation of future cash flows of the examined assets, which reflects the debtor's ability to repay all due amount in accordance with contract clauses on these assets.

When a financial asset is not recoverable and all necessary procedures are executed and the loss amount determined, the Group will write down corresponding allowance for impairment loss against the financial asset and write it off. Amount recovered after the financial asset is written off shall be written down against the allowance for asset impairment of the current period.

In a subsequent period, if the allowance for impairment loss decreases and the decrease can be objectively related to an event occurring after the allowance is recognized (e.g. upgrading of the borrower's rating), the originally recognized impairment loss shall be reversed. Nevertheless, the reversed book value of the financial asset will not exceed the amortized cost of the financial asset on the date of reverse under the assumption that no allowance for impairment is set aside.

#### **Impairment of the available-for-sale financial assets**

When the available-for-sale financial asset is impaired, the accumulated losses arising from the decline of fair value that have been originally included in other comprehensive income will be transferred out and recorded through current profit or loss. The amount of accumulative losses to be reversed is the balance of initial acquisition cost of the financial asset less the principal recovered and amortized amount, the current fair value and the impairment loss recognized into profit or loss.

After the impairment loss of an available-for sale financial asset is recognized, if, in a subsequent period, there is any objective evidence proving that its value has been recovered, and it is objectively related to the event occurring after such loss is recognized, the impairment loss originally recognized will be reversed. The impairment loss of available-for-sale equity instrument investments will be reversed and recognized as other comprehensive income and that of available-for-sale debt instruments will be reversed and recorded into current profit or loss. The impairment loss of available-for-sale equity instrument investments measured at cost will not be reversed.

### (3) Financial liabilities

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance in stead of the legal form only, with reference to the definition of financial liability and equity instrument.

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

#### **Financial liabilities measured at fair value through profit or loss**

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities and those designated as financial liabilities measured at fair value through profit or loss.

The conditions for classifying financial liabilities into held-for-trading financial liabilities and those measured at fair value through profit or loss designated in the initial recognition are the same with the conditions for classifying financial assets into held-for-trading financial assets and those measured at fair value through profit or loss designated in the initial recognition.

Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value as well as interest expenses relating to such financial liabilities will be recorded through current profit or loss.

#### **Other financial assets**

Financial liabilities other than financial guarantee contracts are subsequently measured at amortized cost based on effective interest rate method, and the gains or losses arising from derecognition or amortization are recorded through current profit or loss.

#### **Financial guarantee contracts**

Financial guarantee contract is the agreement between the guarantor and the creditor, according to which the guarantor shall fulfill the debt or assume responsibility when the debtor fails to fulfill the repayment obligation. For financial guarantee contracts that are not included in the designated financial liabilities measured at fair value through profit or loss, they are initially recognized by the fair value less direct transaction expenses. After the initial recognition, the subsequent measurement will be based on the amount determined according to the *Accounting Standards for Business Enterprises No. 13 – Contingent Matters* or the initially recognized amount less the accumulative amortized amount determined according to the *Accounting Standards for Business Enterprises No. 14 – Income*, whichever is higher.

### (4) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value. Change in fair value of the derivative financial instruments is recognized into current profit or loss.

For mixed instruments with embedded derivative financial instruments, such as financial assets or financial liabilities not designated to be measured at fair value through profit or loss, embedded derivative financial instruments without close relation with the master contract in terms of economic features and risks but with same conditions as the embedded financial derivative instruments, and instrument as an independent unit meeting the definition of derivative financial instruments, the embedded derivative financial instruments shall be split from the mixed instruments and treated as an independent derivative financial instrument.

### (5) Determination method of fair value

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

As for financial assets and financial liabilities continuously measured by fair value, based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, the Group divides the financial instruments into the following three levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1;



Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

As for the financial instruments with active market, the Group adopts the quotation on the active market to determine their fair value.

The quotation for the financial instruments on the active market refers to the price easily accessible from exchanges, industrial associations, pricing service institutions or regulatory institutions on a regular basis, which also represents the frequently executed market trading price in fair transactions. If the above conditions are not met, then it is a non-active market. Signs of a non-active market include: significant bid-ask spread, markedly expanding bid-ask spread or no existence of recent transactions.

As for the financial instruments without active market, the Group adopts valuation techniques to determine their fair value. Valuation techniques include reference to the prices recently used in market transactions between well-informed willing parties, reference to current fair value of financial instruments of the same nature, discounted cash flow method and option pricing model.

## (6) Derecognition

### **Transfer of financial assets**

Where a financial asset meets any of the following conditions, it will be derecognized:

- a. Where the contractual rights for collecting cash flows of the said financial asset are terminated;
- b. Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;
- c. Where the financial asset has been transferred and the Group has given up control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall recognize the financial asset based on the degree of involvement and concurrently recognize the related liabilities. The extent of the Group's continuing involvement is the extent to which the Bank is exposed to changes in the value of the transferred assets.

When the overall financial assets are derecognized, the difference between the book value of the transferred financial assets and the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss.

When the partially transferred financial assets meet the conditions for derecognition, the book value of the transferred financial assets is apportioned at the fair value between the derecognized part and the remaining part, and the difference between the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income and the aforesaid apportioned fair value will be recorded through profit or loss.

### **Derecognition of financial liabilities**

In the case that the current obligations of a financial liability are relieved in full or in part, the financial liability will be derecognized in full or in part. Where the Group (debtor) and creditor sign an agreement to replace the existing financial liability by assuming new financial liability of which contract terms are different from those of existing financial liability in essence, the existing financial liability will be derecognized and the new financial liability will be recognized at the same time.

Where all the financial liability is derecognized, the difference between book value of the financial liability and consideration paid (including non-cash assets or new financial liability assumed) will be recorded through current profit or loss.

## (7) Offset between financial assets and financial liabilities

When the two conditions below are met, the net amount after offset of the financial assets and the financial liabilities will be presented on the balance sheet:

- a. The Group has the legal right to offset the recognized amount, and the right is executable at present;
- b. The Group plans to settle by netting or realize such financial assets and pay off such financial liabilities at the same time.

Otherwise, financial assets and financial liabilities shall be presented on the balance sheet separately, instead of offsetting with each other.

## (8) Equity instrument

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group classifies the financial instruments to be issued as equity instruments when all of the following conditions are met:

- a. The financial instrument shall not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions;
- b. The financial instrument shall or can be settled with the Group's own equity instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity. The Group treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

## 9. Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase

The consideration paid for purchasing securities, bills and other assets that are bought under the reverse repurchase contract and will be sold at a specified future date at a specified price is presented as financial assets purchased under agreements to resell. The securities, bills and other assets that are sold under repurchase agreement and will be repurchased in a specified future date at a specified price are presented by category of financial assets before the sale, and funds collected from counterparties are presented as financial assets sold under agreements to repurchase. The bid-ask spread of reverse repurchase or repurchase business is amortized by the effective interest rate during the transaction period, and gains or losses arising thereof will be recorded through current profit or loss.

## 10. Long-term equity investments

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Joint control refers to the control over a certain arrangement shared by more than one parties as agreed and related activities of this arrangement must be determined upon consent of all participants of the control power. Material impact means an entity has the power to participate in the financial affairs and operating policy of an enterprise but is unable to control or jointly control formulation of these policies together with other parties. At the time of determining whether to control or exert significant influence on the investee, the investee's current convertible corporate bonds and exercisable warrants held by the investor and other parties as well as other potential voting factors are taken into account.

A long-term equity investment is measured initially at cost. For long-term equity investment acquired by business combination not under the same control, the initial investment cost is the combination cost on the acquisition date.

Long-term equity investments acquired by means other than business combination are initially measured at cost. In the case that the investee is under significant influence or joint control but is not controlled, the cost of long-term equity investment is the fair value of originally held equity investment determined according to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments* plus the new investment costs.

### Long-term equity investment by cost accounting

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

### Long-term equity investment accounted by equity method

The Group applies the equity method to investment of associates and joint ventures. Associate refers to an investee that can be significantly influenced by the Group. Joint venture refers to a joint arrangement where the Group only has right over net assets of the arrangement.

When the equity method is adopted for accounting, for long-term equity investments with investment cost larger than the shares of the fair value of recognizable net assets of the investee during investment, the investment cost of long-term equity investments is not adjusted; and for long-term equity investments with investment cost smaller than the shares of the fair value of recognizable net assets of the investee during investment, the difference will be recorded through current profit or loss and the investment cost of the long-term equity investments will be adjusted.

When the equity method is adopted for accounting, the investment income and other comprehensive income shall be recognized separately based on the share of net profit or loss and other comprehensive income of the investee to be attributable to the Group, and the book value of long-term equity investments shall be adjusted at the same time. The profit or cash dividend attributable shall be calculated based on that to be distributed by the investee and the book value of long-term equity investments shall be reduced accordingly. Changes in owners' equity other than the investee's net profit or loss, other comprehensive income and profit distribution are recorded into capital reserve and the book value of long-term equity investments shall be adjusted accordingly. The attributable share of the investee's net profit or loss shall be determined based on the fair value of recognizable assets of the investee at the time of acquisition, and recognized after adjustment to the net profit of the investee according to the Group's accounting policies and accounting period. The unrealized profit or loss of internal transactions of the Group with associates and joint ventures attributable to the Group is calculated and offset as per the shareholding proportion, and the investment gains or losses are recognized after the offset. The unrealized loss arising from internal transactions of the Group with the investee that is categorized as impairment loss on transferred assets shall not be offset.

The net loss of the investee to be shared will be to the extent that the book value of long-term equity investment and other long-term equity substantially constituting net investment to the investee are written down to zero. In addition, if the Group has the obligation to assume additional loss of the investee, the projected liabilities will be recognized based on the obligation to be assumed and recorded through current investment loss. If the investee realizes net profit in the following periods, the Group will resume recognition of the attributable income after the income offsets the unrecognized loss.

#### Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss. The disposal of long-term equity investment accounted with equity method applies to the same basis with that used by the investee in directly disposing of relevant assets or liabilities. Accounting treatment will be conducted for the part of investment originally recorded into other comprehensive income by corresponding proportion.

### 11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Usable life	Estimated residual rate	Annual depreciation rate
Houses and buildings	20 – 35 years	5%	2.71% – 4.75%
Office supplies and electronic devices	3 – 5 years	5%	19.00% – 31.67%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

Any subsequent expenditure related to the fixed asset is recognized as cost of the fixed asset and the book value of the replaced part is derecognized in case that the future economic benefits associated with the asset is very likely to flow to the entity and the cost of the asset can be measured reliably. Other subsequent expenditures are recorded through current profit or loss at the time of occurrence.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

The cost of construction-in-process will be determined based on the actual expenditures of the project, including various project expenditures and other relevant expenses incurring during the construction period. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

## 12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

Land use right obtained is generally treated as an intangible asset in accounting. For self-developed houses and buildings, relevant land use right expenditure and the construction cost will be treated as intangible asset and fixed asset in accounting, respectively. For purchased houses and buildings, the cost will be allocated between the land use right and the buildings. If it is hard to realize reasonable allocation, all the cost will be accounted as fixed asset.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

## 13. Repossessed assets

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

## 14. Impairment of non-financial assets

At the end of the reporting period, the Group reviews the book value of long-term equity investments, fixed assets, construction-in-process and intangible assets, to confirm whether there is sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated. The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

Recoverable amount is determined based on the fair value deducting disposal expense of the asset and present value of estimated future cash flows of the asset, whichever is higher. The fair value of assets is determined based on the price specified in the sales agreements of fair transactions; if there is active market but no sales agreement for the asset, its fair value will be determined based on the buyer's offer; if there is neither active market nor sales agreement, the fair value will be estimated based on the best information accessible. Disposal expenses include legal expense, taxes and carriage expense relating with the asset disposal as well as direct expenses for the asset to be available for sale. The present value of the estimated future cash flows of the assets will be determined based on the estimated future cash flows generated from continuous use and final disposal of the assets discounted by an appropriate discounting rate.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

## 15. Staff remuneration and welfare

### Employee Compensation

The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

## Social welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

## Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

## 16. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; (3) The amount of the obligation can be reliably measured.

On the balance sheet date, factors pertaining to a contingency such as risks, uncertainties and time value of money are taken into account, while the contingent liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, the best estimate is determined by discounting the expected future cash flows.

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

## 17. Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured. The specific recognition principles are determined as follows by nature of the revenue:

### Interest income and expenses

The interest income and expenses are calculated by the effective interest rate method based on the amortized cost of relevant financial assets and financial liabilities and recorded into current profit or loss.

### Fee and commission income and expenses

The fee and commission income and expenses will be recognized on an accrual basis at the time of rendering or receiving services.

## 18. Government subsidies

Government subsidies refer to the monetary and non-monetary assets that the Group obtains free-of-charge from the Government. Government subsidies can be confirmed when they meet the attached conditions and can be received.

If such subsidies are monetary assets, they shall be measured at the received or receivable amount. Where the subsidies are non-monetary assets, they shall be measured at fair value; if the fair value cannot be obtained in a reliable way, they shall be measured at the nominal amount. The government subsidies, obtained at the nominal amount, shall be directly accounted through profit or loss. Government subsidies can be divided by the targets explicitly set forth by the related government documents into asset-related subsidies and benefit-related subsidies.

The government subsidies related to assets are determined as deferred income, and accounted into profit or loss after they are amortized averagely according to the service life. The government subsidies related to benefit, after covering the relevant expenses or losses in future periods, are determined as deferred income and accounted into profit or loss after the relevant expenses are recognized. If used for covering the already incurred expenses and losses, they shall be directly accounted through profit or loss.

For relating to the Group's daily activities, the government subsidies shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income and expenditure.

Where an already recognized government subsidy needs to be returned, the book balance of related deferred income shall be written down if there is an outstanding deferred income, and the exceeding part shall be accounted through profit or loss; if not, it shall be accounted through profit or loss directly.

## 19. Income tax

Income tax expense includes the current income tax and the deferred income tax.

### Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

### Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

For taxable temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. In addition, for taxable temporary differences in connection with investments in subsidiaries and associates, if the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future, relevant deferred income tax liabilities will not be recognized. Except the above cases, the Group will recognize all deferred income tax liabilities generated from taxable temporary differences.

For deductible temporary differences relating with the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. Besides, for deductible temporary differences in connection with investments in subsidiaries and associates, if temporary differences are not likely to be reversed in the foreseeable future and taxable income is not likely to be obtained in the future to offset deductible temporary difference, relevant deferred income tax assets shall not be recognized. Except the above case, the Group recognizes the deferred income tax assets arising from other deductible temporary difference up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Except that current income tax and deferred income tax relating with transactions or events recognized into other comprehensive income or directly recorded as shareholders' equity are recognized as other comprehensive income or shareholders' equity, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

### Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

## 20. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

## 21. Leasing

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

### The Group records operating lease as the leaser

The rental income from operating lease is recognized through current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

### The Group records financial lease as the leaser

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances to customers in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

### The Group records operating lease as the lessee

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

## V. MAJOR JUDGMENTS MADE IN ACCOUNTING POLICY APPLICATION AND KEY ASSUMPTIONS AND UNCERTAINTIES ADOPTED IN ACCOUNTING ESTIMATION

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet day, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

### 1. Impairment losses arising from loans and advances to customers and investment receivables

The Group shall recheck the book value of loans and advances to customers and investment receivables on each balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside. The objective evidence for impairment losses includes deteriorated repayment capability of borrowers in the related financial asset portfolio or default of borrowers due to changes in the economic environment of the country or region. Where the individual method is used to assess impairment losses, the Group shall on the sensible and well-established grounds estimate the amount and time of the future cash inflow. If the collective method is used to assess impairment losses, the Group calculates the future cash flows of the portfolio based on the historical experience obtained at the time when assets with similar credit risk features incur losses. The process requires the senior management of the Bank to employ significant judgments and estimations, thus involving fairly great complexity. The Group will regularly review the methods and assumptions used in estimating the amount and time of the future cash flows, to reduce the difference between the estimated impairment losses on loans and the actual losses.

### 2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include model analysis of discounting cash flows, option pricing model and other valuation methods (if applicable). In practical application, the models generally use observable data. The Management needs to evaluate such areas as credit risk, market fluctuation and relevance of the Group and counterparties. These changes in related assumptions will influence the fair value of the financial instruments.

### 3. Held-to-maturity investments

The Group classifies the non-derivative financial assets which have a fixed or determinable recoverable amount and fixed maturity and for which the Group has clear intent and ability to hold to maturity into held-to-maturity investments. Such classification work involves plenty of judgments. During the process of judgment, the Group will assess its willingness and ability to hold such investments to maturity. Except special cases (e.g. selling insignificant amount of investments close to the maturity date), if the Group fails to hold these investments to maturity, all such investments shall be reclassified as available-for-sale financial assets.

### 4. Impairment of the held-to-maturity investment

The Group depends on the judgments of the Management to a great extent for determining whether the held-to-maturity investments are impaired. The objective evidences for impairment include the situation where the financial assets cannot be traded in the active market and the contract can't be fulfilled (e.g. default on the payment of interest or principal) due to the material financial difficulties of the issuer. During the process of judgment, the Group needs to assess the impact of objective evidences for impairment on the estimated future cash flows of the investment.



## 5. Impairment of the available-for-sale financial assets

The Group depends on the judgments of the Management to a great extent for determining whether the available-for-sale financial assets are impaired. During the process of judgment, the Group needs to assess the extent to which and the duration when the fair value of the investment is lower than its cost, as well as the financial position and short-term business outlook of the investee, including industry status, technological reform, credit rating, default rate and counterparty's risks.

## 6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

## 7. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

## 8. Derecognition of financial assets

The Group transfers financial assets in its normal operating activities through various methods such as conventional transactions, asset securitization, and repurchase agreements. While determining whether the transferred financial assets can be derecognized entirely, the Group needs to make significant judgments and estimations.

Where financial assets are transferred to special-purpose entities through structured transactions, the Group shall analyze and assess whether its relations with these entities virtually indicate that it exercises the control power over these entities, thus entailing the combination. The decision on combination will determine whether the analysis for derecognition shall occur on the level of combined entities or single entities from which financial assets are transferred.

The Group needs to analyze the rights and obligations relating to the contracted cash flow arising from the transfer of financial assets, and then confirms whether the conditions for derecognition can be met with reference to the following basis:

(1) Deciding whether to transfer the right to cash flows generated from the related contracts; or whether the cash flows have met the requirements for "pass-through transfer" to an independent third party.

(2) Assessing the risk relating to ownership of financial assets and the extent to which the compensation can be transferred. While assessing the cash flow before and after the transfer as well as other factors that affect risk and extent of compensation transfer, the Group employs significant accounting estimations and judgments.

## **VI. MAJOR CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

### 1. Changes in accounting policies

From the compilation of the 2018 financial statements, the Group started to implement the *Notice on Revising and Issuing the Format of General Corporate Financial Statements for 2018* (C.K. [2018] No.15) (hereinafter referred to as "the No. 15 Document") released by MOF on 15 June 2018. The notice had no material bearing on the Group's financial position, operating results, or cash flow.

## VII. MAJOR ITEMS

### 1. Enterprise income tax

Subjects of taxation of the Group pay the enterprise income tax at 25% of the taxable income pursuant to the *Enterprise Income Tax Law of the People's Republic of China*.

### 2. VAT

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation jointly released the *Notice on Expanding the Pilot Program of Replacing Business Tax with VAT* (C.SH. [2016] No.36), requiring that the pilot program should be implemented across the board and across the country from 1 May 2016. All business taxpayers of construction, real estate, finance, life services and other sectors are included to the pilot scope, thus paying VAT instead of business tax. Since 1 May 2016, the Group has paid VAT instead of business tax.

Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, has been a pilot enterprise for the trial implementation of replacing business tax with VAT in Kunming. As of 1 August 2013, the company has paid VAT for tangible personal property. Since 1 May 2018, it has paid VAT for tangible personal property at the rate of 16% and for advisory services at the rate of 6%.

### 3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of VAT.

### 4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of VAT.

## VIII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries acquired through establishment or investment as at 31 December 2018 are as follows:

Name	Date of establishment	Register place	Registered capital/paid-in capita (RMB millions)	Shareholding percentage (%)	Voting rights percentage (%)	Minority interests (RMB millions)	Business nature
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	2010	Beijing	125	80.00	80.00	26	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	21	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	75	70.00	70.00	32	Bank
Huaxia Financial Leasing Co., Ltd.	2013	Kunming	6,000	82.00	82.00	1,495	Financial leasing

For details on structured entities included in consolidated scope of the Group, please see Note XIV. Structured Entities.



## IX. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

### 1. Cash on hand and balances with central banks

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash on hand	2,223	2,598	2,210	2,587
Statutory reserves with central banks (1)	176,745	203,074	176,548	202,903
Excess reserves with central banks (2)	29,968	17,665	29,502	17,392
Other balances with central banks (3)	1,268	2,500	1,268	2,500
<b>Total</b>	<b>210,204</b>	<b>225,837</b>	<b>209,528</b>	<b>225,382</b>

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2018	31 December 2017
RMB:		
The Bank	12.00%	14.50%
Beijing Daxing Hua Xia Rural Bank Co., Ltd	9.00%	9.00%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	9.00%	9.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	8.00%	8.00%
Foreign currency:	5.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

## 2. Due from banks

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due from domestic banks and other financial institutions	15,074	50,200	15,122	49,161
Due from overseas banks and other financial institutions	6,829	6,710	6,829	6,710
Less: Allowance for impairment losses on due from banks and other financial institutions	(32)	(44)	(32)	(44)
Of Which: Individual assessment	(5)	(5)	(5)	(5)
Collective assessment	(27)	(39)	(27)	(39)
<b>Book value of due from banks and other financial institutions</b>	<b>21,871</b>	<b>56,866</b>	<b>21,919</b>	<b>55,827</b>

## 3. Placements with banks and other financial institutions

	The Group and the Bank	
	31 December 2018	31 December 2017
Placements with domestic banks and other financial institutions	2,762	5,070
Placements with other domestic financial institutions	38,017	10,261
Less: Individual assessment on allowance for impairment losses on placements with banks and other financial institutions	(116)	(111)
<b>Book value of placements with banks and other financial institutions</b>	<b>40,663</b>	<b>15,220</b>

## 4. Financial assets measured at fair value through profit or loss

## Held-for-trading financial assets

	The Group and the Bank	
	31 December 2018	31 December 2017
Bonds of public entities and quasi-governments	202	92
Bonds of financial institutions	533	1
Corporate bonds	3,198	2,573
Funds	8,537	540
<b>Total</b>	<b>12,470</b>	<b>3,206</b>

## 5. Derivative financial instruments

Non-hedging instruments:

<b>The Group and the Bank</b>			
<b>31 December 2018</b>			
	<b>Contractual/ nominal principal</b>	<b>Fair value</b>	
		<b>Assets</b>	<b>Liabilities</b>
Foreign exchange forwards	14,880	159	187
Foreign exchange swaps	971,707	949	851
Interest rate swaps	17,050	11	10
Option contracts	1,236	6	6
Credit risk mitigation certificates	300	5	–
<b>Total</b>		<b>1,130</b>	<b>1,054</b>

<b>The Group and the Bank</b>			
<b>31 December 2017</b>			
	<b>Contractual/ nominal principal</b>	<b>Fair value</b>	
		<b>Assets</b>	<b>Liabilities</b>
Foreign exchange forwards	15,607	261	148
Foreign exchange swaps	692,666	2,986	1,538
Interest rate swaps	19,300	9	10
Option contracts	23	–	–
<b>Total</b>		<b>3,256</b>	<b>1,696</b>

Contractual/nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount.

## 6. Financial assets purchased under agreements to resell

	<b>The Group</b>		<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Bonds	726	39,373	586	39,373
Bills	1,303	830	1,303	830
Less: Collective assessment on allowance for impairment	(306)	–	(306)	–
<b>Book value of financial assets purchased under agreements to resell</b>	<b>1,723</b>	<b>40,203</b>	<b>1,583</b>	<b>40,203</b>

## 7. Interest receivable

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Interest of loans and advances to customers	7,525	6,592	7,487	6,562
Interest of held-to-maturity investment	6,299	5,127	6,298	5,127
Interest of available-for-sale financial assets	1,766	1,275	1,766	1,275
Interest of investments classified as receivables	1,449	1,734	1,448	1,733
Interest of deposits and placements with banks and other financial institutions	282	577	283	576
Interest of financial assets measured at fair value through profit or loss	26	35	26	35
Interest of financial assets purchased under agreements to resell	3	22	3	22
<b>Total</b>	<b>17,350</b>	<b>15,362</b>	<b>17,311</b>	<b>15,330</b>

## 8. Loans and advances to customers

(1) The Loans and advances to customers are distributed to corporate and personal customers as follows:

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Corporate loans and advances to customers	1,181,656	1,070,935	1,106,555	1,015,023
Of which: Loans	1,142,675	1,054,428	1,067,574	998,518
Discounting	38,981	16,507	38,981	16,505
Personal loans and advances to customers	431,860	323,147	431,011	322,393
Of which: Housing mortgage	177,642	150,353	177,608	150,347
Credit Cards	164,841	117,966	164,841	117,966
Others	89,377	54,828	88,562	54,080
Total loans and advances to customers	1,613,516	1,394,082	1,537,566	1,337,416
Less: Allowance for impairment losses on loans and advances to customers	(47,275)	(38,497)	(45,327)	(37,048)
Of Which: Individual assessment	(11,971)	(9,599)	(11,827)	(9,492)
Collective assessment	(35,304)	(28,898)	(33,500)	(27,556)
<b>Total</b>	<b>1,566,241</b>	<b>1,355,585</b>	<b>1,492,239</b>	<b>1,300,368</b>



(2) The loans and advances to customers are presented as follows by assessment method:

	The Group					Percentage of impaired loans and advances to customers identified in total loans and advances to customers
	Impaired loans and advances identified (ii)			Sub-total	Total	
Loans and advances to customers for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment				
31 December 2018						
Total loans and advances to customers	1,583,707	6,068	23,741	29,809	1,613,516	1.85%
Allowance for impairment losses on loans and advances to customers	(30,376)	(4,928)	(11,971)	(16,899)	(47,275)	
<b>Book value of loans and advances to customers</b>	<b>1,553,331</b>	<b>1,140</b>	<b>11,770</b>	<b>12,910</b>	<b>1,566,241</b>	
31 December 2017						
Total loans and advances to customers	1,369,485	4,350	20,247	24,597	1,394,082	1.76%
Allowance for impairment losses on loans and advances to customers	(25,368)	(3,530)	(9,599)	(13,129)	(38,497)	
<b>Book value of loans and advances to customers</b>	<b>1,344,117</b>	<b>820</b>	<b>10,648</b>	<b>11,468</b>	<b>1,355,585</b>	

	The Bank					Percentage of impaired loans and advances to customers identified in total loans and advances to customers
	Impaired loans and advances identified (ii)			Sub-total	Total	
Loans and advances to customers for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment				
31 December 2018						
Total loans and advances to customers	1,507,929	6,068	23,569	29,637	1,537,566	1.93%
Allowance for impairment losses on loans and advances to customers	(28,572)	(4,928)	(11,827)	(16,755)	(45,327)	
<b>Book value of loans and advances to customers</b>	<b>1,479,357</b>	<b>1,140</b>	<b>11,742</b>	<b>12,882</b>	<b>1,492,239</b>	
31 December 2017						
Total loans and advances to customers	1,312,970	4,349	20,097	24,446	1,337,416	1.83%
Allowance for impairment losses on loans and advances to customers	(24,026)	(3,530)	(9,492)	(13,022)	(37,048)	
<b>Book value of loans and advances to customers</b>	<b>1,288,944</b>	<b>819</b>	<b>10,605</b>	<b>11,424</b>	<b>1,300,368</b>	

a. Referring to loans and advances to customers whose impairment is yet to be identified. The allowance will be set aside by collective method.

b. Impaired loans and advances to customers identified include loans whose impairment is objectively evidenced and identified. The allowance for impairment on these loans can be assessed and set aside by individual or collective methods.

## (3) Allowance for impairment losses on loans and advances to customers

	The Group					
	2018			2017		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	9,599	28,898	38,497	8,403	23,896	32,299
Charge for the year	12,301	7,885	20,186	11,163	5,255	16,418
Recovery of written-off loans and advances to customers	143	115	258	228	167	395
Transfer-out due to increase of present value	(599)	(48)	(647)	(896)	(47)	(943)
Write-offs for the year	(9,473)	(1,546)	(11,019)	(9,299)	(373)	(9,672)
<b>Balance at the end of the year</b>	<b>11,971</b>	<b>35,304</b>	<b>47,275</b>	<b>9,599</b>	<b>28,898</b>	<b>38,497</b>

	The Bank					
	2018			2017		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	9,492	27,556	37,048	8,319	22,777	31,096
Charge for the year	12,240	7,424	19,664	11,116	5,032	16,148
Recovery of written-off loans and advances to customers	143	113	256	228	167	395
Transfer-out due to increase of present value	(598)	(47)	(645)	(895)	(47)	(942)
Write-offs for the year	(9,450)	(1,546)	(10,996)	(9,276)	(373)	(9,649)
<b>Balance at the end of the year</b>	<b>11,827</b>	<b>33,500</b>	<b>45,327</b>	<b>9,492</b>	<b>27,556</b>	<b>37,048</b>



## 9. Available-for-sale financial assets

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Debt instruments		
Government bonds	16,666	11,510
Bonds of public entities and quasi-governments	40,618	35,872
Bonds of financial institutions	35,138	17,243
Corporate bonds	15,433	14,993
Certificates of deposit with banks and other financial institutions	5,881	17,601
Less: Impairment of the available-for-sale financial assets assessed in portfolios	(6)	(7)
Subtotal	113,730	97,212
Equity instrument		
At cost	(1) 332	82
Accumulated changes in fair value through equity	791	–
Subtotal	1,123	82
Funds	10,412	13,018
<b>Total</b>	<b>125,265</b>	<b>110,312</b>
Of which,		
Amortized cost of the available-for-sale debt instruments	112,902	98,754
Changes in fair value recorded in other comprehensive income accumulatively	834	(1,535)
Allowance for impairment losses set aside accumulatively	(6)	(7)
<b>Fair value of the available-for-sale debt instruments</b>	<b>113,730</b>	<b>97,212</b>

(1) As the Group's some equity instruments classified as available-for-sale financial assets for accounting have no quotation in the active market and their fair value can't be reliably measured, they are measured at cost.

## 10. Held-to-maturity investments

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	261,820	272,173	261,528	272,173
Bonds of public entities and quasi-governments	59,700	60,621	59,700	60,621
Bonds of financial institutions	62,732	57,952	62,750	58,552
Corporate bonds	31,277	3,091	31,277	3,091
Certificates of deposit with banks and other financial institutions	–	7,671	–	7,671
Less: Collective assessment				
Impairment of the held-to-maturity investment	(5)	(15)	(5)	(15)
<b>Total</b>	<b>415,524</b>	<b>401,493</b>	<b>415,250</b>	<b>402,093</b>

## 11. Investment receivables

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	214	202	214	202
Bonds of financial institutions	100	100	100	100
Corporate bonds	46,995	900	46,095	–
Wealth management products	7,200	14,400	7,200	14,400
Beneficiary rights of assets	3,691	70,376	3,691	70,376
Asset management plan of financial institutions	177,639	166,332	177,639	166,332
Less: Allowance for impairment of investments classified as receivables	(2,077)	(1,995)	(2,064)	(1,982)
Of which: Individual assessment	(626)	(312)	(626)	(312)
Collective assessment	(1,451)	(1,683)	(1,438)	(1,670)
<b>Total</b>	<b>233,762</b>	<b>250,315</b>	<b>232,875</b>	<b>249,428</b>



## 12. Long-term equity investments

	The Bank	
	31 December 2018	31 December 2017
Subsidiaries		
– Hua Xia Financial Lease Co., Limited	4,920	4,920
– Beijing Daxing Hua Xia Rural Bank Co., Ltd.	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
<b>Total</b>	<b>5,090</b>	<b>5,090</b>

As at 31 December 2018 and 31 December 2017, there was no impairment in the Group's long-term equity investments.

## 13. Fixed assets

	The Group				Total
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	
<b>Original value</b>					
1 January 2018	10,905	7,217	140	1,724	19,986
Acquisition in the year	531	585	6	720	1,842
Transfer-in/(transfer-out) of construction-in-process	1,380	–	–	(1,380)	–
Sale/disposal	–	(303)	(5)	–	(308)
<b>31 December 2018</b>	<b>12,816</b>	<b>7,499</b>	<b>141</b>	<b>1,064</b>	<b>21,520</b>
<b>Accumulative depreciation</b>					
1 January 2018	(2,125)	(4,918)	(79)	–	(7,122)
Charge for the year	(330)	(760)	(12)	–	(1,102)
Sale/disposal	–	281	5	–	286
<b>31 December 2018</b>	<b>(2,455)</b>	<b>(5,397)</b>	<b>(86)</b>	<b>–</b>	<b>(7,938)</b>
Allowance for impairment losses					
1 January 2018	–	–	–	–	–
<b>31 December 2018</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net amount</b>					
<b>1 January 2018</b>	<b>8,780</b>	<b>2,299</b>	<b>61</b>	<b>1,724</b>	<b>12,864</b>
<b>31 December 2018</b>	<b>10,361</b>	<b>2,102</b>	<b>55</b>	<b>1,064</b>	<b>13,582</b>

	The Group				Total
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction-in-process	
<b>Original value</b>					
1 January 2018	10,876	7,191	138	1,724	19,929
Acquisition in the year	530	584	6	720	1,840
Transfer-in/(transfer-out) of construction-in-process	1,380	-	-	(1,380)	-
Sale/disposal	-	(300)	(5)	-	(305)
<b>31 December 2018</b>	<b>12,786</b>	<b>7,475</b>	<b>139</b>	<b>1,064</b>	<b>21,464</b>
<b>Accumulative depreciation</b>					
1 January 2018	(2,123)	(4,899)	(78)	-	(7,100)
Charge for the year	(328)	(759)	(11)	-	(1,098)
Sale/disposal	-	279	4	-	283
<b>31 December 2018</b>	<b>(2,451)</b>	<b>(5,379)</b>	<b>(85)</b>	<b>-</b>	<b>(7,915)</b>
<b>Allowance for impairment losses</b>					
1 January 2018	-	-	-	-	-
<b>31 December 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net amount</b>					
<b>1 January 2018</b>	<b>8,753</b>	<b>2,292</b>	<b>60</b>	<b>1,724</b>	<b>12,829</b>
<b>31 December 2018</b>	<b>10,335</b>	<b>2,096</b>	<b>54</b>	<b>1,064</b>	<b>13,549</b>

As at 31 December 2018 and 31 December 2017, the Group has several houses and buildings that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

## 14. Intangible assets

	The Group	The Bank
<b>Original value</b>		
1 January 2018	100	96
Acquisition in the year	1	–
<b>31 December 2018</b>	<b>101</b>	<b>96</b>
<b>Accumulated amortization</b>		
1 January 2018	(17)	(16)
Charge for the year	(3)	(2)
<b>31 December 2018</b>	<b>(20)</b>	<b>(18)</b>
<b>Total book value of intangible assets, net</b>		
1 January 2018	83	80
<b>31 December 2018</b>	<b>81</b>	<b>78</b>

Intangible assets include land use right and use right of computer software systems.

## 15. Deferred taxation

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred income tax assets	7,410	6,533	7,083	6,291

(1) Change in balance of deferred income tax

	The Group		The Bank	
	2018	2017	2018	2017
Balance at the beginning of the year	6,533	5,984	6,291	5,780
Recorded into gain/loss of the year	1,469	158	1,384	120
Recorded into other comprehensive income	(592)	391	(592)	391
<b>Balance at the end of the year</b>	<b>7,410</b>	<b>6,533</b>	<b>7,083</b>	<b>6,291</b>

## (2) Deferred income tax assets and liabilities

	The Group			
	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	21,901	5,475	17,354	4,338
Wages set aside but not paid	5,685	1,421	6,414	1,604
Allowance for impairment losses on other assets	2,966	742	2,383	596
Net fair value changes of available -for-sale financial assets	(834)	(209)	1,535	383
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	(92)	(23)	(1,555)	(388)
Others	17	4	2	-
<b>Subtotal</b>	<b>29,643</b>	<b>7,410</b>	<b>26,133</b>	<b>6,533</b>

	The Bank			
	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	20,713	5,178	16,464	4,116
Wages set aside but not paid	5,614	1,405	6,335	1,584
Allowance for impairment losses on other assets	2,928	732	2,383	596
Net fair value changes of available-for-sale financial assets	(834)	(209)	1,535	383
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	(92)	(23)	(1,555)	(388)
Others	1	-	-	-
<b>Subtotal</b>	<b>28,330</b>	<b>7,083</b>	<b>25,162</b>	<b>6,291</b>

## 16. Other assets

		The Group		The Bank	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Receivables and payment on account	(1)	5,434	5,817	3,850	4,559
Long-term prepaid expenses		1,333	1,402	1,287	1,354
Repossessed assets to be disposed of	(2)	3,840	2,689	3,821	2,689
Funds to be cleared		2,403	1,579	2,403	1,579
Others		294	305	294	305
<b>Total</b>		<b>13,304</b>	<b>11,792</b>	<b>11,655</b>	<b>10,486</b>

(1) Receivables and payment on account presented by aging

Aging	The Group							
	31 December 2018				31 December 2017			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	4,106	65.82	(58)	4,048	5,432	82.17	(104)	5,328
1 – 2 years (inclusive)	1,127	18.06	(79)	1,048	386	5.84	(273)	113
2 – 3 years (inclusive)	332	5.32	(264)	68	147	2.22	(29)	118
More than 3 years	674	10.80	(404)	270	646	9.77	(388)	258
<b>Total</b>	<b>6,239</b>	<b>100.00</b>	<b>(805)</b>	<b>5,434</b>	<b>6,611</b>	<b>100.00</b>	<b>(794)</b>	<b>5,817</b>

Aging	The Bank							
	31 December 2018				31 December 2017			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	2,649	57.17	(58)	2,591	4,287	80.24	(101)	4,186
1 – 2 years (inclusive)	1,028	22.19	(77)	951	341	6.38	(266)	75
2 – 3 years (inclusive)	295	6.37	(248)	47	69	1.29	(29)	40
More than 3 years	661	14.27	(400)	261	646	12.09	(388)	258
<b>Total</b>	<b>4,633</b>	<b>100.00</b>	<b>(783)</b>	<b>3,850</b>	<b>5,343</b>	<b>100.00</b>	<b>(784)</b>	<b>4,559</b>

## (2) Repossessed assets to be disposed of

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Housing properties	2,493	1,726	2,493	1,726
Equity	1,768	1,397	1,746	1,397
Others	53	25	53	25
Less: Allowance for impairment losses on repossessed assets to be disposed of	(474)	(459)	(471)	(459)
<b>Net amount</b>	<b>3,840</b>	<b>2,689</b>	<b>3,821</b>	<b>2,689</b>

## 17. Allowance for impairment losses on assets

	The Group						
	Opening balance	Charge/(reversal) for the year	Transfer-in/(transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	44	(15)	-	-	-	3	32
Placements with banks and other financial institutions	111	-	-	-	-	5	116
Loans and advances to customers	38,497	20,186	(647)	258	(11,019)	-	47,275
Investment receivables	1,995	137	(55)	-	-	-	2,077
Available-for-sale financial assets	7	(2)	-	-	-	1	6
Held-to-maturity investments	15	(11)	-	-	-	1	5
Financial assets purchased under agreements to resell	-	306	-	-	-	-	306
Other assets	1,255	516	(24)	-	(70)	3	1,680
<b>Total</b>	<b>41,924</b>	<b>21,117</b>	<b>(726)</b>	<b>258</b>	<b>(11,089)</b>	<b>13</b>	<b>51,497</b>



The Group							
2017							
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	57	(10)	-	-	-	(3)	44
Placements with banks and other financial institutions	116	-	-	-	-	(5)	111
Loans and advances to customers	32,299	16,418	(943)	395	(9,672)	-	38,497
Investment receivables	1,029	981	(15)	-	-	-	1,995
Available-for-sale financial assets	2	5	-	-	-	-	7
Held-to-maturity investments	-	15	-	-	-	-	15
Other assets	1,174	180	(40)	-	(55)	(4)	1,255
<b>Total</b>	<b>34,677</b>	<b>17,589</b>	<b>(998)</b>	<b>395</b>	<b>(9,727)</b>	<b>(12)</b>	<b>41,924</b>

The Bank							
2018							
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	44	(15)	-	-	-	3	32
Placements with banks and other financial institutions	111	-	-	-	-	5	116
Loans and advances to customers	37,048	19,664	(645)	256	(10,996)	-	45,327
Investment receivables	1,982	137	(55)	-	-	-	2,064
Available-for-sale financial assets	7	(2)	-	-	-	1	6
Held-to-maturity investments	15	(11)	-	-	-	1	5
Financial assets purchased under agreements to resell	-	306	-	-	-	-	306
Other assets	1,245	501	(24)	-	(70)	3	1,655
<b>Total</b>	<b>40,452</b>	<b>20,580</b>	<b>(724)</b>	<b>256</b>	<b>(11,066)</b>	<b>13</b>	<b>49,511</b>

	The Bank						Ending balance
	Opening balance	Charge/(reversal) for the year	Transfer-in/(transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	
Due from banks	57	(10)	-	-	-	(3)	44
Placements with banks and other financial institutions	116	-	-	-	-	(5)	111
Loans and advances to customers	31,096	16,148	(942)	395	(9,649)	-	37,048
Investment receivables	1,029	968	(15)	-	-	-	1,982
Available-for-sale financial assets	2	5	-	-	-	-	7
Held-to-maturity investments	-	15	-	-	-	-	15
Other assets	1,167	176	(40)	-	(55)	(3)	1,245
<b>Total</b>	<b>33,467</b>	<b>17,302</b>	<b>(997)</b>	<b>395</b>	<b>(9,704)</b>	<b>(11)</b>	<b>40,452</b>

## 18. Due to central banks

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Mid-term credit facility	171,000	116,000	171,000	116,000
Others	64	19	-	-
<b>Total</b>	<b>171,064</b>	<b>116,019</b>	<b>171,000</b>	<b>116,000</b>

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. At the end of 2018, the Bank held mid-term credit facilities for twelve months at the interest rate of 3.25% – 3.30% which was pledged with its bonds worth of RMB187,524 million. At the end of 2017, the Bank held mid-term credit facilities for twelve months at the interest rate of 3.10% – 3.25% which was pledged with its bonds worth of RMB129,086 million.

## 19. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due to domestic banks	82,286	60,209	82,704	60,695
Due to overseas banks	–	1,001	–	1,001
Due to other domestic financial institutions	210,786	170,146	210,786	170,478
<b>Total</b>	<b>293,072</b>	<b>231,356</b>	<b>293,490</b>	<b>232,174</b>

## 20. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Placements from domestic banks	76,262	62,067	19,472	20,699
Placements from overseas banks	399	1,978	399	1,978
Placements from other domestic financial institutions	450	1,000	–	–
<b>Total</b>	<b>77,111</b>	<b>65,045</b>	<b>19,871</b>	<b>22,677</b>

## 21. Financial assets sold under agreements to repurchase

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds	11,141	69,946	10,889	69,946
Bills	3,237	56	3,237	56
<b>Total</b>	<b>14,378</b>	<b>70,002</b>	<b>14,126</b>	<b>70,002</b>

For details on the Group's assets taken as collateral for repurchase, please see Note XII-6 Collateral.

## 22. Deposits taken

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Demand deposits				
Corporate deposits	615,009	625,894	614,089	628,049
Personal deposits	106,523	114,978	106,318	114,790
Time deposits				
Corporate deposits	409,205	393,647	408,691	393,192
Personal deposits	114,321	132,356	113,696	131,763
Security deposit received (1)	142,006	127,459	141,880	127,327
Structured deposits	101,905	34,502	101,905	34,502
Outward remittances and remittances outstanding	3,514	5,045	3,504	5,034
Others	9	26	9	26
<b>Total</b>	<b>1,492,492</b>	<b>1,433,907</b>	<b>1,490,092</b>	<b>1,434,683</b>

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Security deposit for bank	105,549	98,300	105,488	98,236
Security deposit for L/C issuance	16,868	13,669	16,868	13,669
Security deposit for L/G issuance and guarantee	4,642	3,914	4,638	3,909
Other security deposits	14,947	11,576	14,886	11,513
<b>Total</b>	<b>142,006</b>	<b>127,459</b>	<b>141,880</b>	<b>127,327</b>



## 23. Accrued payroll

<b>The Group</b>				
<b>2018</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	6,414	9,686	(10,415)	5,685
Employee welfare	–	403	(403)	–
Social insurance	49	2,250	(2,245)	54
Housing provident fund	13	796	(799)	10
Labor union funds and employee education expense	53	290	(295)	48
Others	6	776	(780)	2
<b>Total</b>	<b>6,535</b>	<b>14,201</b>	<b>(14,937)</b>	<b>5,799</b>

<b>The Group</b>				
<b>2017</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	8,002	8,080	(9,668)	6,414
Employee welfare	–	373	(373)	–
Social insurance	59	1,976	(1,986)	49
Housing provident fund	13	770	(770)	13
Labor union funds and employee education expense	77	253	(277)	53
Others	6	746	(746)	6
<b>Total</b>	<b>8,157</b>	<b>12,198</b>	<b>(13,820)</b>	<b>6,535</b>

<b>The Bank</b>				
<b>2018</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	6,335	9,548	(10,269)	5,614
Employee welfare	-	399	(399)	-
Social insurance	42	2,226	(2,221)	47
Housing provident fund	13	789	(793)	9
Labor union funds and employee education expense	44	287	(293)	38
Others	-	774	(774)	-
<b>Total</b>	<b>6,434</b>	<b>14,023</b>	<b>(14,749)</b>	<b>5,708</b>

<b>The Bank</b>				
<b>2017</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	7,920	7,954	(9,539)	6,335
Employee welfare	-	369	(369)	-
Social insurance	49	1,959	(1,966)	42
Housing provident fund	13	763	(763)	13
Labor union funds and employee education expense	70	248	(274)	44
Others	-	744	(744)	-
<b>Total</b>	<b>8,052</b>	<b>12,037</b>	<b>(13,655)</b>	<b>6,434</b>

The Group joins in the endowment insurance and unemployment insurance programs set up by the Government and also establishes the enterprise annuity scheme. According to these plans, it makes contributions to each of them monthly at a designated ratio of employee salary. On top of the monthly contribution, the Group takes no further payment obligations. The corresponding expenditures are accounted through profit or loss at the time of actual occurrence.

## 24. Taxes and dues payable

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Enterprise income tax	5,637	4,535	5,514	4,463
VAT	1,203	990	1,189	980
Others	327	354	318	348
<b>Total</b>	<b>7,167</b>	<b>5,879</b>	<b>7,021</b>	<b>5,791</b>

## 25. Interest payable

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Interest of deposits from customers	11,022	10,277	10,888	10,123
Interest of debt obligations payable	3,038	2,494	3,020	2,494
Interest of due to central banks	2,988	1,559	2,988	1,559
Interest of due from banks and other financial institutions	1,667	1,093	1,667	1,097
Interest of placements from banks and other financial institutions	419	343	158	56
Interest of financial assets sold under agreements to repurchase	17	117	16	117
<b>Total</b>	<b>19,151</b>	<b>15,883</b>	<b>18,737</b>	<b>15,446</b>

## 26. Debt obligations payable

		The Group		The Bank	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds payable					
Financial bonds	(1)	82,500	62,000	80,000	62,000
Tier-2 capital bonds	(2)	40,000	40,000	40,000	40,000
Subtotal		122,500	102,000	120,000	102,000
Certificates of deposit with banks and other financial institutions	(3)	237,969	267,689	237,969	267,689
<b>Total</b>		<b>360,469</b>	<b>369,689</b>	<b>357,969</b>	<b>369,689</b>

### (1) Financial bonds

a. As approved by the former CBRC and PBOC, the Bank issued the financial bonds of Hua Xia Bank Co., Ltd. for 2016 from 3 to 7 March 2016 and the issuance volume was RMB40 billion. This issue of bonds has two types. The type one bonds have an issuance volume of RMB15 billion with a term of three years. The coupon rate is fixed at 3.03%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2019. The type two bonds have an issuance volume of RMB25 billion with a term of five years. The coupon rate is fixed at 3.25%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2021.

b. As approved by the former CBRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2017 from 1 to 5 September 2017 and the issuance volume was RMB22 billion. The bonds have a term of three years, the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 5 September 2017 and the maturity date is 5 September 2020.

c. As approved by CBIRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2018 from 20 to 24 April 2018 and the issuance volume was RMB18 billion. The bonds have a term of three years, the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 4 April 2018 and the maturity date is 24 April 2021.

As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the phase 1 financial bonds for 2018 from 25 to 29 October 2018 and the issuance volume was RMB2.5 billion. The bonds have a term of three years, the coupon rate is fixed at 4.15% and the interest will be paid annually. The value date is 29 October 2018 and the maturity date is 29 October 2021.

### (2) Tier-2 capital bonds

a. As approved by the former CBRC and PBOC, the Bank issued the tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2014 from 24 to 25 July 2014 and the issuance volume was RMB10 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value.

The coupon rate is fixed at 6.14% and the interest will be paid annually. The value date is 25 July 2014 and the maturity date is 25 July 2024. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 25 July 2014 and 24 July 2024. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 25 July 2014 and 24 July 2019.

b. As approved by the former CBRC and PBOC, the Bank issued the first tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2017 on 26 May 2017, and the issuance volume was RMB30 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value.

The coupon rate is fixed at 4.80% and the interest will be paid annually. The value date is 26 May 2017. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 26 May 2017 and 25 May 2027. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 26 May 2017 and 25 May 2022.

### (3) Certificates of deposit with banks and other financial institutions

As at 31 December 2018, there were 153 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB241,710 million and terms of 1 month to 3 years. Except one certificate of deposit with banks and other financial institutions, that is issued at floating rates and paid with interest quarterly, others are issued in discount.



## 27. Other liabilities

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Agency collection for asset securitization business	5,611	8,568	5,611	8,568
Security deposit for financial lease	4,226	3,829	–	–
Deferred income	2,543	2,294	715	712
On-lending	2,132	1,869	2,132	1,869
Funds to be settled and cleared payable	1,902	1,078	1,902	1,078
Others	3,694	5,780	3,061	1,881
<b>Total</b>	<b>20,108</b>	<b>23,418</b>	<b>13,421</b>	<b>14,108</b>

## 28. Share capital

	31 December 2018		31 December 2017	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	15,387	15,387	12,823	12,823

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

In 2018, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to Shougang Corporation, SGCC Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd., raising funds in RMB29,235,725,562.00. With the issuing cost deducted, the funds were booked into share capital in RMB2,564,537,330.00, and the funds were booked into capital reserve in RMB26,667,582,830.32. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (18) No. 00556). All subscribers of the non-publicly issued shares cannot transfer their shares within five years since the date of acquisition (there were no shares subject to restrictions on sales at the Bank on 31 December 2017).

As at 31 December 2018, the Bank's paid-in capital had amounted to RMB15,387 million (RMB12,823 million on 31 December 2017), with the par value of each share being RMB1.

## 29. Other equity instruments

On 23 February 2016, the Bank was approved by CSRC to privately issue up to 200 million domestic preference shares and the par value of each share is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership).

Information on outstanding preference shares at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Dividend rate	Issuing price (RMB/share)	Number (Million shares)	Amount (RMB millions)	Maturity date	Share conversion condition	Conversion
Preference shares	March 2016	Equity instrument	Note 1	100	200	20,000	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is an interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the Shareholders' General Meeting after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc. by way of inquiry. The coupon dividend rate of preference shares was no higher than the annual ROE of the Bank in the latest two accounting years. The coupon dividend rate consists of benchmark interest rate and fixed premium. The benchmark interest rate is the arithmetic mean (rounded to 0.01%) of the five-year treasury bonds' yield rate in yield rate curve of the Chinese interbank fixed rate treasury bonds published by ChinaBond.com (or other website recognized by the China Government Securities Depository Trust & Clearing Co., Ltd.) for 20 trading days before the deadline for payment of these preference shares (28 March 2016) or the adjustment day of benchmark interest rate (i.e. the day when five years passes after the payment deadline, 28 March) (excluding the day), and it will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted. If the five-year treasury bonds' yield rate is not accessible in the future on the adjustment day of benchmark interest rate, the benchmark interest rate or its determination principle will be determined upon negotiation between the company and preference shareholders as required by the regulator.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to above 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

(2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier-2 capital instruments is the earlier one in: (1) CBIRC determines that the Bank will not survive if it does not conduct share conversion or write-down and (2) the relevant authorities determine that the Bank will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

### Main provisions:

The Bank will pay the dividend of the preference shares with cash. The dividends of preference shares issued this time will not be accumulated, i.e. the dividends which are not distributed in full to their shareholders will not be accumulated to those which will be distributed for the next interest period, and such act will not constitute breach of contract. The shareholders of the preference shares issued this time will not participate in the distribution of residue profits along with ordinary shareholders after being paid the dividends as per the coupon dividend rate.

Subject to ensuring the capital adequacy ratio satisfy the regulatory requirements, the Bank may distribute dividends to preference shareholders if there are after-tax profit after it replenish losses and appropriates legal reserve and general risk reserve. The dividends of preference shares will be distributed later than that of ordinary shares, and their payment is not linked to the rating of the Bank, and will not be adjusted along with the changes in rating. With approval of the Shareholders' General Meeting, the Bank is entitled to cancel the dividend distribution of the preference shares issued this time in whole or in part under any circumstances, and such act does not constitute breach of contract. The Bank may repay other matured debts with the profit which is canceled to pay dividends at its own discretion. Canceling dividend distribution will not restrict the Bank from any acts except distributing dividends to ordinary shareholders. When exercising the above rights, the Bank will fully consider the rights and interests of preference shareholders. If the Bank decides to cancel the payment of dividends to preference shareholders, it will notify them at least ten working days before the dividend payment day. If it decides to cancel the dividend payment of these preference shares in whole or in part, the Bank will not distribute dividends to ordinary shareholders before the declaration and distribution of dividends of the preference shares.



The redemption right of these preference shares is vested in the Bank. The approval of CBIRC is the prerequisite to the exercising of this right. The preference shareholders have no right to request the Bank to buy back the preference shares, and should not hold the expectation that the preference shares may be bought back by the Bank. These preference shares are not subject to a put-back provision, i.e. the preference shareholders have no right to sell their preference shares back to the Bank.

The price of initial forced conversion is the average trading price of ordinary shares of the Bank 20 trading days before the day of announcement on the resolution of the Board of Directors which reviews the issuance of the preference shares issued this time (17 April 2015), i.e. RMB14.00/share. Since the day when the Bank's Board of Directors approves the plan on the issuance of the preference shares, if any changes in the Bank's shares take place as a result of the Bank's distribution of stock dividends, conversion into share capital, issuance of new shares (excluding the share capital increase due to conversion of financing instruments with provision for the possibility of conversion into ordinary shares, such as preference shares, convertible bank bonds, etc.), allotment of shares, the price of forced share conversion will be adjusted one by one, and relevant information disclosure will be conducted as required.

On 28 December 2018, with approval of CSRC, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors. Calculated by the mandatory conversion price adjustment formula as set out in the related articles of the *Prospectus for Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited*, the mandatory conversion price of preference shares was adjusted into RMB10.58/share upon the completion of the non-public offer of ordinary shares.

Preference shareholders of the Bank take precedence over ordinary shareholders to be distributed the residual properties of the Bank. That is, when the Bank liquidates, the total carrying amount of preference shares that have been issued and are still in existence as well as dividends that have been announced to distributed but not been paid for the period shall be paid firstly to preference shareholders; if not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

As of 31 December 2018, the net funds of RMB19,978 million raised by the Bank were all used for replenishing tier-1 capital.

Information on outstanding preference shares:

	1 January 2018		Increase over the year		Decrease over the year		31 December 2018	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	(Million shares)	(RMB millions)	(Million shares)	(RMB millions)	(Million shares)	(RMB millions)	(Million shares)	(RMB millions)
Preference share	200	20,000	-	-	-	-	200	20,000
Issuing cost		(22)						(22)
<b>Total other equity instruments</b>	<b>200</b>	<b>19,978</b>					<b>200</b>	<b>19,978</b>

Information

	31 December 2018	31 December 2017
	(RMB millions)	(RMB millions)
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	197,163	148,077
Equity attributable to other shareholders of parent company	19,978	19,978
Of which: Net profit	840	840
Distributed profit for the period	(840)	(840)
Equity attributable to minority shareholders	1,574	1,443
<b>Total shareholders' equity</b>	<b>218,715</b>	<b>169,498</b>

## 30. Capital reserve

The Group 2018				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	26,624	26,667	-	53,291
Investment by minority shareholders at premium	1	-	-	1
<b>Total</b>	<b>26,625</b>	<b>26,667</b>	<b>-</b>	<b>53,292</b>

The Group 2017				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	28,761	-	(2,137)	26,624
Investment by minority shareholders at premium	1	-	-	1
<b>Total</b>	<b>28,762</b>	<b>-</b>	<b>(2,137)</b>	<b>26,625</b>

The Bank 2018				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	26,624	26,667	-	53,291

The Bank 2017				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Share premium	28,761	-	(2,137)	26,624

Capital reserve increase in the year is the premium of the ordinary shares the Bank issued to designated investors in a non-public offering in 2018. Reasons for the changes to capital reserve can be seen in Note IX – 28 in detail.



### 31. Surplus reserve

	The Group and the Bank	
	31 December 2018	31 December 2017
Statutory surplus reserve	13,524	11,592
Discretionary surplus reserve	111	111
<b>Total</b>	<b>13,635</b>	<b>11,703</b>

(1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the Shareholders' General Meeting.

(2) As at 31 December 2018, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the statutory surplus reserve in excess of 50% shall be subject to approval by the Shareholders' General Meeting.

(3) For details on surplus reserve, please refer to Note IX – 33 Retained Profit.

### 32. General risk reserve

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
General risk reserve	31,788	30,055	31,019	29,467

(1) As of 1 July 2012, the Bank has set aside general risk reserve in accordance with the *Administrative Measures for Reserve Provisioning of Financial Enterprises* (C.J. [2012] No. 20). The general risk reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle.

(2) For details on surplus reserve, please refer to Note IX-33 Retained Profit.

(3) According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general risk reserve. Such general risk reserve is treated as profit distribution.

### 33. Retained profit

#### (1) Profit distribution for 2018

The profit distribution plan for 2018 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 17 April 2019 is as follows:

a. Set aside statutory surplus reserve of RMB2,027 million based on the Bank's net profit for 2018 which is RMB20,266 million;

b. Set aside general risk reserve of RMB2,734 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2018;

c. Distribute dividends to all ordinary shareholders at the rate of RMB1.74 (pre-tax) per 10 shares, totaling RMB2,677 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2018.

The above profit distribution plan is subject to approval by the Bank's Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution;

d. The interest accrual period for preference shares issued in 2016 is from 28 March 2018 and 27 March 2019 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 28 February 2019.

#### (2) Profit distribution for 2017

The Bank has implemented the profit distribution plan for 2017 that was approved by the Shareholders' General Meeting on 24 May 2018. Particulars are as follows:

a. Set aside statutory surplus reserve of RMB1,932 million based on the Bank's net profit for 2017 which is RMB19,321 million; such statutory surplus is recorded in the balance sheet of the Bank and the Group dated 31 December 2018 as a subsequent event;

b. Set aside general risk reserve of RMB1,552 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2017; such general risk reserve has been recorded in the balance sheet of the Bank and the Group dated 31 December 2018;

c. Distribute dividends to all ordinary shareholders at the rate of RMB1.51 (pre-tax) per 10 shares, totaling RMB1,936 million, based on the Bank's total ordinary share capital of 12,822,686,653 shares at the end of 2017. The aforesaid dividends have been distributed in 2018;

d. The interest accrual period for preference shares issued in 2016 is from 28 March 2017 and 27 March 2018 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2018.

#### (3) Profit distribution for 2016

The Bank has implemented the profit distribution plan for 2016 that was approved by the Shareholders' General Meeting on 24 May 2017 and announced by the Bank on 23 June 2017. Particulars are as follows:

a. Set aside statutory surplus reserve of RMB1,932 million based on the Bank's net profit for 2016 which is RMB19,323 million; such statutory surplus is recorded in the balance sheet of the Bank and the Group dated 31 December 2017 as a subsequent event;

b. Set aside general risk reserve of RMB5,198 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2016; such general risk reserve has been recorded in the balance sheet of the Bank and the Group dated 31 December 2017;

c. Distribute dividends to all ordinary shareholders at the rate of RMB1.81 (pre-tax) per 10 shares, totaling RMB1,934 million, based on the Bank's total ordinary share capital of 10,685,572,211 shares at the end of 2016. The aforesaid dividends have been distributed in 2017;

d. Convert the share capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 10,685,572,211 shares at 31 December 2016, which increases the registered capital by RMB2,137,114,442. Afterwards, the total ordinary share capital records 12,822,686,653, equivalent to RMB12,822,686,653; such conversion is recorded in the balance sheet of the Bank and the Group dated 31 December 2017;



e. The interest accrual period for preference shares issued in 2016 is from 28 March 2016 and 27 March 2017 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2017.

### 34. Net interest income

	The Group		The Bank	
	2018	2017	2018	2017
Interest income				
Loans and advances to customers	74,305	62,506	71,052	60,150
Of which: Corporate loans and advances to customers	58,032	50,631	54,833	48,320
Personal loans and advances to customers	15,523	11,658	15,469	11,613
Discounted bills	750	217	750	217
Held-to-maturity investments	15,454	13,380	15,447	13,380
Investment receivables	12,150	12,026	12,099	11,975
Available-for-sale financial assets	4,252	3,615	4,252	3,615
Balances with central banks	3,163	3,383	3,160	3,380
Placements with banks and other financial institutions	2,895	1,275	2,898	1,260
Financial assets purchased under agreements to resell	2,597	1,687	2,595	1,687
Due from banks	1,010	2,160	996	2,150
Financial assets measured at fair value through profit or loss	210	200	210	200
<b>Subtotal</b>	<b>116,036</b>	<b>100,232</b>	<b>112,709</b>	<b>97,797</b>
Interest expense				
Deposits taken	(24,544)	(20,725)	(24,514)	(20,698)
Debt obligations payable	(15,222)	(13,960)	(15,204)	(13,960)
Due to banks and other financial institutions	(13,368)	(10,157)	(13,388)	(10,195)
Due to central banks	(5,067)	(3,347)	(5,066)	(3,346)
Placements from banks and other financial institutions	(3,705)	(2,374)	(1,554)	(773)
Financial assets sold under agreements to repurchase	(1,910)	(1,782)	(1,906)	(1,782)
Others	(682)	(569)	(649)	(550)
<b>Subtotal</b>	<b>(64,498)</b>	<b>(52,914)</b>	<b>(62,281)</b>	<b>(51,304)</b>
<b>Net interest income</b>	<b>51,538</b>	<b>47,318</b>	<b>50,428</b>	<b>46,493</b>
Of which,				
Interest income from impaired financial assets identified	702	958	700	957

## 35. Net fee and commission income

	The Group		The Bank	
	2018	2017	2018	2017
Fee and commission income				
Bank card business	11,238	8,229	11,238	8,229
Wealth management service	3,178	6,981	3,178	6,981
Credit commitments	2,003	1,734	2,003	1,734
Agency business	1,470	1,544	1,469	1,544
Custody and other fiduciary services	973	969	973	969
Leasing service	619	522	-	-
Other business	648	468	648	468
<b>Subtotal</b>	<b>20,129</b>	<b>20,447</b>	<b>19,509</b>	<b>19,925</b>
Fee and commission expenses				
Fee expense	(2,371)	(2,040)	(2,340)	(2,027)
<b>Net fee and commission income</b>	<b>17,758</b>	<b>18,407</b>	<b>17,169</b>	<b>17,898</b>

Fee and commission expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

## 36. Investment gains/(losses)

	The Group		The Bank	
	2018	2017	2018	2017
Financial assets measured at fair value through profit or loss	11	10	11	10
Available-for-sale financial assets	199	4	202	7
Held-to-maturity investments	2,091	18	2,091	18
Derivative financial instruments	1,931	(1,520)	1,931	(1,520)
Others	(164)	(39)	(164)	(39)
<b>Subtotal</b>	<b>4,068</b>	<b>(1,527)</b>	<b>4,071</b>	<b>(1,524)</b>





### 37. Gains/(losses) from the changes in fair value

	The Group and the Bank	
	2018	2017
Financial assets measured at fair value through profit or loss	22	(14)
Derivative financial instruments	(1,486)	1,850
Others	1	–
<b>Total</b>	<b>(1,463)</b>	<b>1,836</b>

### 38. Exchange gains

Foreign exchange gains mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities.

### 39. Tax and surcharges

	The Group		The Bank	
	2018	2017	2018	2017
Urban maintenance and construction tax	377	347	369	342
Education fee and surcharges	270	248	264	244
Others	220	159	211	150
<b>Total</b>	<b>867</b>	<b>754</b>	<b>844</b>	<b>736</b>

### 40. General and administrative expenses

		The Group		The Bank	
		2018	2017	2018	2017
Staff remuneration and welfare	(1)	14,201	12,198	14,023	12,037
Business expenses		6,122	6,573	6,093	6,537
Depreciation and amortization		3,210	3,107	3,176	3,081
<b>Total</b>		<b>23,533</b>	<b>21,878</b>	<b>23,292</b>	<b>21,655</b>

## (1) Staff remuneration and welfare

	The Group		The Bank	
	2018	2017	2018	2017
Salaries and bonuses	9,686	8,080	9,548	7,954
Employee welfare	403	373	399	369
Social insurance	2,250	1,976	2,226	1,959
Housing provident fund	796	770	789	763
Labor union funds and employee education expense	290	253	287	248
Others	776	746	774	744
<b>Total</b>	<b>14,201</b>	<b>12,198</b>	<b>14,023</b>	<b>12,037</b>

## 41. Impairment losses on assets

	The Group		The Bank	
	2018	2017	2018	2017
Loans and advances to customers	20,186	16,418	19,664	16,148
Financial assets purchased under agreements to resell	306	-	306	-
Investment receivables	137	981	137	968
Due from banks	(15)	(10)	(15)	(10)
Held-to-maturity investments	(11)	15	(11)	15
Available-for-sale financial assets	(2)	5	(2)	5
Others	516	180	501	176
<b>Total</b>	<b>21,117</b>	<b>17,589</b>	<b>20,580</b>	<b>17,302</b>

## 42. Income tax expense

	The Group		The Bank	
	2018	2017	2018	2017
Current income tax expense	7,266	6,478	6,941	6,239
Deferred income tax expense	(1,469)	(158)	(1,384)	(120)
<b>Total</b>	<b>5,797</b>	<b>6,320</b>	<b>5,557</b>	<b>6,119</b>

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2018	2017	2018	2017
Pre-tax profit	26,783	26,253	25,823	25,440
Income tax at statutory tax rate of 25%	6,696	6,563	6,456	6,360
Tax effect of non-deductible expense	1,395	1,419	1,395	1,419
Tax effect of tax-exempt income	(2,294)	(1,662)	(2,294)	(1,660)
<b>Total</b>	<b>5,797</b>	<b>6,320</b>	<b>5,557</b>	<b>6,119</b>

#### 43. Other comprehensive income

Other comprehensive income to be classified as profit/loss

	The Group and the Bank				
	2018				
	Changes in other comprehensive income for the year				
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	(1,535)	2,369	–	2,369	834
Impact of changes in fair value of available-for-sale financial assets on income tax	383	(592)	–	(592)	(209)
<b>Total</b>	<b>(1,152)</b>	<b>1,777</b>	<b>–</b>	<b>1,777</b>	<b>625</b>

	The Group and the Bank				
	2017				
	Changes in other comprehensive income for the year				
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	30	–	(1,565)	(1,565)	(1,535)
Impact of changes in fair value of available-for-sale financial assets on income tax	(8)	–	391	391	383
<b>Total</b>	<b>22</b>	<b>–</b>	<b>(1,174)</b>	<b>(1,174)</b>	<b>(1,152)</b>

Other comprehensive income items abovementioned will be reclassified as profit/loss in the subsequent accounting periods when the specified conditions are met. Except those mentioned above, the Bank has no other comprehensive income items that can't be reclassified as profit/loss in the subsequent accounting periods.

#### 44. Earnings per share

	2018	2017
Net profit attributable to shareholders of the parent company in the year	20,854	19,819
Net profit attributable to ordinary shareholders of the parent company	20,014	18,979
Weighted average ordinary shares in issue (million shares)	12,823	12,823
Basic earnings per share (RMB yuan)	1.56	1.48

The offering of domestic preference shares in RMB20 billion approved in February 2016 was wrapped up in March 2016. While calculating the earnings per share, the net profit attributable to ordinary shareholders of the Bank in the year was deducted with the dividends for preference shares that had been declared for distribution in the year. Besides, it didn't impact the basic earnings per share and the diluted earnings per share in 2018 and 2017.

At the end of 2018, the Company had no potential diluted ordinary shares.

#### 45. Cash and cash equivalents

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash on hand	2,223	2,598	2,210	2,587
Balances with central banks	29,968	17,665	29,502	17,392
Due from banks, placements with banks and other financial institutions and financial assets purchased under agreements to resell with the original term less than three months	34,013	89,928	33,802	88,740
<b>Total</b>	<b>66,204</b>	<b>110,191</b>	<b>65,514</b>	<b>108,719</b>

## 46. Supplementary information on the statement of cash flows

	The Group		The Bank	
	2018	2017	2018	2017
Net profit adjusted into cash flows from operating activities:				
Net profit	20,986	19,933	20,266	19,321
Plus: Impairment losses on assets	21,117	17,589	20,580	17,302
Fixed assets	1,102	1,103	1,098	1,099
Amortization of intangible assets	3	3	2	3
Amortization on long-term prepaid expenses	2,105	2,001	2,076	1,979
Interest income from securities investment	(32,066)	(29,221)	(32,008)	(29,170)
Net gains on disposal of fixed assets, intangible assets and other long-term assets	14	(5)	14	(5)
Loss/(gain) on changes in fair value	1,463	(1,836)	1,463	(1,836)
Investment loss/(gain)	(4,068)	1,527	(4,071)	1,524
Exchange loss	542	(602)	542	(602)
Deferred income tax	(1,469)	(158)	(1,384)	(120)
Interest income from impaired financial assets identified	(702)	(958)	(700)	(957)
Interest expense on bonds issued	4,820	3,178	4,801	3,178
Increase of operating receivables	(216,806)	(187,874)	(197,052)	(176,666)
Increase of operating payables	102,024	87,492	85,896	79,912
<b>Net cash flows from operating activities</b>	<b>(100,935)</b>	<b>(87,828)</b>	<b>(98,477)</b>	<b>(85,038)</b>
<b>Net change of cash and cash equivalents:</b>				
Closing balance of cash and cash equivalents	66,204	110,191	65,514	108,719
Less: Opening balance of cash and cash equivalents	(110,191)	(259,405)	(108,719)	(258,780)
<b>Net change of cash and cash equivalents</b>	<b>(43,987)</b>	<b>(149,214)</b>	<b>(43,205)</b>	<b>(150,061)</b>

## X. SEGMENT REPORT

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include Northern and Northeastern China, Eastern China, Southern and Central China and Western China. Particularly speaking:

(1) Northern and Northeastern China: Beijing, Tianjin, Hebei, Shandong, Liaoning, Inner Mongolia, Jilin and Heilongjiang;

(2) Eastern China: Jiangsu, Shanghai, Zhejiang and Anhui;

(3) Southern and Central China: Guangdong, Guangxi, Hubei, Hunan, Shanxi, Fujian, Henan, Jiangxi and Hainan; and

(4) Western China: Shaanxi, Xinjiang, Sichuan, Chongqing, Yunnan, Ningxia, Guizhou, Gansu and Qinghai.

Accounting policies of the operating segments maintain the same with the major accounting policies of the Group.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2018	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Offset among segments	Total
Operating income	37,193	14,093	12,518	8,426	(3)	72,227
Net interest income	19,254	13,075	11,822	7,387	-	51,538
Of which,						
Net external interest income	19,522	13,739	10,157	8,120	-	51,538
Segmental net interest income	(268)	(664)	1,665	(733)	-	-
Net fee and commission income	15,267	882	657	952	-	17,758
Other net operating income	2,672	136	39	87	(3)	2,931
Operating expenses	(23,840)	(8,708)	(7,852)	(5,139)	-	(45,539)
Operating profit	13,353	5,385	4,666	3,287	(3)	26,688
Net non-operating income	24	19	27	25	-	95
Gross profit	13,377	5,404	4,693	3,312	(3)	26,783
Supplementary information						
1. Depreciation and amortization expenses	1,558	646	599	407	-	3,210
2. Capital expenditures	1,823	550	625	881	-	3,879
3. Impairment losses on assets	11,777	3,819	2,873	2,648	-	21,117
31 December 2018						
Segment assets	2,067,791	636,847	595,943	396,703	(1,024,114)	2,673,170
Undistributed assets						7,410
Total assets						2,680,580
Segment liabilities	1,875,440	632,132	591,880	386,527	(1,024,114)	2,461,865
Undistributed liabilities						-
Total liabilities						2,461,865



2017	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Offset among segments	Total
Operating income	35,268	12,811	10,995	7,313	(3)	66,384
Net interest income	18,711	11,889	10,285	6,433	-	47,318
Of which,						
Net external interest income	19,531	12,493	8,195	7,099	-	47,318
Segmental net interest income	(820)	(604)	2,090	(666)	-	-
Net fee and commission income	16,179	795	614	819	-	18,407
Other net operating income	378	127	96	61	(3)	659
Operating expenses	(19,361)	(8,102)	(7,793)	(5,011)	-	(40,267)
Operating profit	15,907	4,709	3,202	2,302	(3)	26,117
Net non-operating income	8	59	53	16	-	136
Gross profit	15,915	4,768	3,255	2,318	(3)	26,253
Supplementary information						
1. Depreciation and amortization expenses	1,571	619	550	367	-	3,107
2. Capital expenditures	1,571	835	1,721	556	-	4,683
3. Impairment losses on assets	8,343	3,574	3,234	2,438	-	17,589
31 December 2017						
Segment assets	2,296,839	619,412	624,949	379,675	(1,418,481)	2,502,394
Undistributed assets						6,533
Total assets						2,508,927
Segment liabilities	2,149,362	615,310	622,271	370,967	(1,418,481)	2,339,429
Undistributed liabilities						-
Total liabilities						2,339,429

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank by the end of 2018

On 28 December 2018, with approval of CSRC, the Bank issued 2,564,537,330 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation, SGCC Yingda International Holdings Corporation, Ltd., and Beijing Infrastructure Investment Co., Ltd. The equity transaction completed registration on 8 January 2019.

Based on the description of related parties in the *Administrative Measures for the Disclosure of Information of Listed Companies*, the legal person holding more than 5% of the listed company or the persons acting in concert in the previous 12 months or in the future 12 months as per relevant agreement are the related legal persons of the listed company. Therefore, Beijing Infrastructure Investment Co., Ltd. is a related party.

Before the completion of the non-public offering:

Name of related shareholder	Register place	Legal representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Group Co., Ltd.	Beijing	Zhang Gongyan	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technologic service, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB28,755 million	20.28	20.28
PICC Property and Casualty Company Limited	Beijing	Miao Jianmin	RMB and foreign currency issuance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB14,829 million	19.99	19.99
SGCC Yingda International Holdings Corporation, Ltd.	Beijing	Li Ronghua	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19.9 billion	18.24	18.24



After the completion of the non-public offering:

Name of related shareholder	Register place	Legal representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Group Co., Ltd.	Beijing	Zhang Gongyan	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technologic service, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB28,755 million	20.28	20.28
SGCC Yingda International Holdings Corporation, Ltd.	Beijing	Li Ronghua	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19.9 billion	19.99	19.99
PICC Property and Casualty Company Limited	Beijing	Miao Jianmin	RMB and foreign currency issuance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB14,829 million	16.66	16.66
Beijing Infrastructure Investment Co., Ltd.	Beijing	Zhang Yanyou	Manufacturing of metro vehicles and equipment; investment and investment management; planning, construction and operation management of metro lines; proprietary and agent import & export business of various commodities and technologies; design and repair of metro vehicles; design and installation of metro equipment; project supervision; property management; real estate development; and design and production of metro ads	RMB135,671 million	8.5	8.5

## (2) Subsidiaries of the Bank

Please refer to Note VIII Business Combination and Consolidated Financial Statements.

## (3) Other related parties

Other related parties include:

- a. key management personnel (directors, supervisors and senior executives), or their close family members;
- b. enterprises controlled or jointly controlled by key management personnel and their close family members;
- c. companies, their subsidiaries and related companies which directors, supervisors and senior executives of the Bank control, serve and can exert significant influence on;
- d. State Grid Corporation of China (parent company of SGCC Yingda International Holdings Corporation, Ltd., the related shareholder of the Bank) and its subsidiaries; PICC Insurance Group Company Limited (parent company of PICC Property and Casualty Company Limited, the related shareholder of the Bank) and its subsidiaries.

## 2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2018		31 December 2017	
	Transaction balance	Percentage (%) <sup>(1)</sup>	Transaction balance	Percentage (%) <sup>(1)</sup>
<b>Assets</b>				
Loans and advances to customers	9,672	0.60	9,076	0.65
Placements with banks and other financial institutions	400	0.98	–	–
Interest receivable	133	0.77	95	0.62
<b>Liabilities</b>				
Deposits taken	8,164	0.55	7,682	0.54
Due to banks and other financial institutions	316	0.11	1,273	0.55
Interest payable	181	0.95	202	1.27
<b>Off-balance-sheet items</b>				
L/Gs issued	215	0.92	2	0.01
L/Cs issued	888	0.91	863	1.14
Bank acceptance drafts	619	0.22	1,787	0.75
Non-principal-guaranteed wealth management products issued by the Bank	5,200	1.11	4,000	0.57

	2018		2017	
	Transaction balance	Percentage (%) <sup>(1)</sup>	Transaction balance	Percentage (%) <sup>(1)</sup>
Interest income	593	0.51	612	0.61
Interest expense	506	0.78	736	1.39
Fee and commission income	13	0.06	12	0.06
General and administrative expenses	2	0.01	1	–

a. Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.



## (2) Related party transactions with other related parties

	31 December 2018		31 December 2017	
	Transaction balance	Percentage (%) <sup>(a)</sup>	Transaction balance	Percentage (%) <sup>(a)</sup>
<b>Assets</b>				
Loans and advances to customers	992	0.06	764	0.05
Financial assets measured at fair value through profit or loss	–	–	60	1.87
Held-to-maturity investments	500	0.12	500	0.12
Available-for-sale financial assets	950	0.76	1,000	0.91
Investment receivables	100	0.04	100	0.04
Interest receivable	123	0.71	116	0.76
<b>Liabilities</b>				
Deposits taken	10,581	0.71	2,310	0.16
Due to banks and other financial institutions	15	0.01	–	–
Interest payable	172	0.90	10	0.06
<b>Off-balance-sheet items</b>				
L/Gs issued	1	–	–	–
Bank acceptance drafts	316	0.11	420	0.18
Non-principal-guaranteed wealth management products issued by the Bank	3,055	0.65	1,050	0.15

	2018		2017	
	Transaction balance	Percentage (%) <sup>(a)</sup>	Transaction balance	Percentage (%) <sup>(a)</sup>
Interest income	263	0.23	209	0.21
Interest expense	397	0.62	98	0.19
Fee and commission income	11	0.05	4	0.02
General and administrative expenses	232	0.99	219	1.00

a. Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

### (3) Remuneration of key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2018	2017
Remunerations	13	11

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee representative supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2018.

### (4) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Group and general banking businesses, the Group has no related party transactions in 2018 and 2017.

## XII. CONTINGENCIES AND COMMITMENTS

### 1. Pending legal proceedings

As at 31 December 2018, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB1,957 million (RMB621 million as at 31 December 2017). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

### 2. Capital expenditure commitments

	The Group and the Bank		
	Note	31 December 2018	31 December 2017
Capital commitments signed but not confirmed in the financial statements			
Commitment to purchase long-term assets	(1)	40	101

(1) Commitment to purchase long-term assets is the unpaid account estimated in construction in-process of the Bank.

### 3. Credit commitments

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bank acceptance drafts	275,971	237,638	275,886	238,637
L/Cs issued	97,495	75,807	97,495	75,807
L/Gs issued	23,490	21,889	23,486	21,883
Irrevocable loan commitments	2,630	2,609	571	681
Unused credit card limit	176,098	143,380	176,098	143,380
<b>Total</b>	<b>575,684</b>	<b>481,323</b>	<b>573,536</b>	<b>480,388</b>

### 4. Financial lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable financial lease contracts signed by the Group as the leaser is as follows:

	The Group	
	31 December 2018	31 December 2017
Within 1 year	2,059	1,928

### 5. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the lessee is as follows:

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Within 1 year	1,802	1,679	1,778	1,657
1 – 2 years	1,466	1,458	1,447	1,439
2 – 3 years	1,210	1,191	1,202	1,173
3 – 5 years	1,635	1,705	1,626	1,694
More than 5 years	1,211	1,475	1,194	1,459
<b>Total</b>	<b>7,324</b>	<b>7,508</b>	<b>7,247</b>	<b>7,422</b>

## 6. Collateral

### (1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds	11,250	71,098	10,990	71,098
Bills	3,266	56	3,266	56
<b>Total</b>	<b>14,516</b>	<b>71,154</b>	<b>14,256</b>	<b>71,154</b>

On 31 December 2018, the book value of financial assets sold under agreements to repurchase of the Group was RMB14,378 million, and the book value of financial assets sold under agreements to repurchase of the Bank was RMB14,126 million (RMB70,002 million of the Group and the Bank as at 31 December 2017).

In addition, partial bond investment of the Group is used as collateral for on-lending, third-party lending, time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2018, the book value of the above collaterals was RMB226,828 million (RMB171,883 million on 31 December 2017).

### (2) Collateral received

The Group accepts such pledge as securities in relevant business of purchase under agreements to resell. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2018 and 31 December 2017, the Group and the Bank held neither the pledged assets available for sale in the absence of counterparty's default nor the assets available for re-pledge in other transactions.

## 7. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance (MOF), the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2018, the Group is obliged to redeem the savings government bond principal of RMB9,014 million (31 December 2017: RMB9,228 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

The MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

## 8. Entrusted transaction

### (1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Entrusted loans	296,567	386,763	295,395	385,692
Entrusted loan funds	296,567	386,763	295,395	385,692

### (2) Entrusted investments

	The Group and the Bank	
	31 December 2018	31 December 2017
Entrusted investments	469,317	702,935

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

## XIII. TRANSFER OF FINANCIAL ASSETS

### Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors. The Group decides whether to combine the special-purpose trusts by taking into the following into full account: whether exercising power over such trusts, whether being entitled to variable returns by participating in the activities relating to such trusts; and whether being able to influence its returns by wielding its power over such trusts.

The Group transferred the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors, so the Group derecognized such financial assets. As at the transfer date, the book value of the above securitized/structured financial assets of the Group for 2018 totaled RMB3,445 million (2017: RMB35,554 million). At the same time, the Group subscribed a certain ratio of asset-backed securities. As at 31 December 2018, the above securities held by the Group amounted to RMB168 million (31 December 2017: RMB207 million).

Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT, while the above financial assets are being transferred. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Group according to law, assets under the SPT shall not be subject to the liquidation. As the issuance consideration equaled to the book value of the transferred financial assets, the Group did not recognize any gains or losses from the transfer of such assets. The Group will charge certain fees as financial assets service provider subsequently.

During the process of credit asset securitization, the Group may possess part of subordinated asset-backed securities and thus continue involvement of transferred credit assets, which has been recognized on the balance sheet by the Group in accordance with the extent of the its continuing involvement. The rest has been derecognized. In 2018, the Group didn't possess any securitized transactions which required continuing involvement (2017: RMB2,201 million). On 31 December 2018, the continuing involved assets and liabilities recognized by the Group according to the extent of its continuing involvement reached RMB239 million (31 December 2017: RMB239 million).

Apart from the above asset-backed securities transactions, as at 31 December 2018, the book value of financial assets that hadn't been derecognized by the Group was RMB644 million (31 December 2017: RMB2,517 million). The Group didn't transfer the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors. So it didn't derecognize such financial assets. Instead, it recognized the received consideration with the part subscribed by itself as a financial liability in the form of net value.

## Repurchase agreements

The Group conducted transactions under repurchase agreements with counterparties. On 31 December 2018, the book value of bond assets and bill assets sold by the Group under repurchase agreements totaled RMB14,516 million (31 December 2017: RMB71,154 million). At the same time, it undertook that it would repurchase such bonds or bills at the agreed-upon price on a preset future date. The sales income of the above bonds and bills was presented as financial assets sold under agreements to repurchase, which was RMB14,378 million for the Group and RMB14,126 million for the Bank (31 December 2017: RMB70,002 million for the Group and the Bank). According to the repurchase agreements, the legal ownership of the bonds and bills is not transferred during the transaction period. In addition, the Group shall not sell or mortgage such bonds and bills during the transaction period, without consent of both parties. Therefore, the Group deems that almost all the risks and compensations relating with such bonds and bills are retained within the Group. Consequently, the Group did not derecognize these bonds and bills from the consolidated financial statements; instead, it deemed them as collaterals for pledged loans acquired from counterparties. Claim of the counterparties is not limited to such transferred assets.

## Credit assets transfers

In 2018, the Group disposed of loans with a book value of RMB9,927 million via transfer to third parties (2017: RMB6,498 million). The Group has transferred almost all the risk and compensation relating to the ownership of the above loans, and therefore they have been derecognized.

## XIV. STRUCTURED ENTITIES

### 1. Interests and rights enjoyed in structured entities sponsored excluded from the consolidated financial statements

#### 1.1 Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include non-principal-guaranteed wealth management products and asset-backed securities issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

#### The Group

	31 December 2018				
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	469,317	N/A	N/A	3,178	Fee income
Asset-backed securities	3,445	168	168	93	Fee income and interest income
<b>Total</b>	<b>472,762</b>	<b>168</b>	<b>168</b>	<b>3,271</b>	



31 December 2017						
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type	
Non-principal-guaranteed wealth management products	702,935	N/A	N/A	6,981	Fee income	
Asset-backed securities	35,554	207	207	202	Fee income and interest income	
<b>Total</b>	<b>738,489</b>	<b>207</b>	<b>207</b>	<b>7,183</b>		

As at 31 December 2018 and 31 December 2017, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

## 1.2 Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments. These structured entities mainly include beneficiary rights of assets and asset-backed securities whose nature and purpose are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

		The Group	
Items of the balance sheet		31 December 2018	31 December 2017
Beneficiary rights of assets	Investment receivables	3,459	70,091
Wealth management products	Investment receivables	7,200	14,400
Asset management plan of financial institutions	Investment receivables	175,807	164,636
Asset-backed securities	Held-to-maturity investments	4,134	6,329
Asset-backed securities	Available-for-sale financial assets	20,196	9,416
<b>Total</b>		<b>210,796</b>	<b>264,872</b>

## 2. Consolidated structured entities

Consolidated structured entities of the Group were principal-guaranteed wealth management products issued by the Group.

## XV. RISK MANAGEMENT

### 1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risks.

### 2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

### 3. Credit risk

#### 3.1 Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances to customers, placements with banks and other financial institutions, inter-bank lending, bond investments, bill acceptance, L/C, and L/G. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval procedure, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collaterals and warranty. As for the off-balance-sheet credit commitment, the Group will charge security deposit to reduce the credit risk in general.

The Group classifies loans and advances to customers into five categories, namely pass, special-mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group sets aside allowance for loan impairment by collective assessment or individual assessment.

The Group assesses the impairment of the loans and advances to customers at the end of the reporting period according to the accounting policies specified in Note IV. In addition, at the end of the reporting period, the Group will analyze the contract amount of loans and advances to customers and report it to the Management for assessing credit risk.

According to the guidelines of CBIRC on loan risk classification, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- Pass: The borrower is able to perform the loan clauses and there is no reason for doubting the timely and full-amount repayment of loan principal and interest.
- Special-mention: Though the borrower is capable of repaying the loans at present, there are factors that are likely to adversely influence the repayment.
- Substandard: The repayment ability of the borrower is obviously doubtful and its normal operating income can't be fully relied on to repay the principal and interest. Even if guarantee or mortgage measures are taken, there still might be certain loss.
- Doubtful: The borrower can't repay the principal and interest in full amount. Even if guarantee or mortgage measures are taken, there must be material loss.
- Loss: The principal or interest can't be recovered or only a small portion can be recovered after the Group takes all possible measures and resorts to all necessary legal proceedings.

The accounting standards used by the Group to assess the impairment loss of financial assets are specified in Note IV – 8(2) Impairment of Financial Assets.

### 3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Balances with central banks	207,981	223,239
Due from and placements with banks and other financial institutions	62,534	72,086
Financial assets measured at fair value through profit or loss	3,933	2,666
Derivative financial assets	1,130	3,256
Financial assets purchased under agreements to resell	1,723	40,203
Loans and advances to customers	1,566,241	1,355,585
Available-for-sale financial assets	113,730	97,212
Held-to-maturity investments	415,524	401,493
Investment receivables	233,762	250,315
Other financial assets	25,229	22,811
On-balance-sheet credit risk exposure	2,631,787	2,468,866
Off-balance-sheet credit risk exposure	575,684	481,323
<b>Maximum credit risk exposure</b>	<b>3,207,471</b>	<b>2,950,189</b>

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Balances with central banks	207,318	222,795
Due from and placements with banks and other financial institutions	62,582	71,047
Financial assets measured at fair value through profit or loss	3,933	2,666
Derivative financial assets	1,130	3,256
Financial assets purchased under agreements to resell	1,583	40,203
Loans and advances to customers	1,492,239	1,300,368
Available-for-sale financial assets	113,730	97,212
Held-to-maturity investments	415,250	402,093
Investment receivables	232,875	249,428
Other financial assets	23,606	21,521
On-balance-sheet credit risk exposure	2,554,246	2,410,589
Off-balance-sheet credit risk exposure	573,536	480,388
<b>Maximum credit risk exposure</b>	<b>3,127,782</b>	<b>2,890,977</b>

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guideline and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

- a. Reverse repurchase transactions: bills, bonds, etc.;
- b. Corporate loans: house property, machinery equipments, land use rights, certificate of deposits and equity, etc.; and
- c. Personal loans: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

### 3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

### 3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance bills, L/Cs and L/Gs, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/Gs and other high-risk off-balance-sheet businesses.

### 3.5 Credit quality of various assets with credit risk

	31 December 2018 (the Group)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	207,981	–	–	–	207,981
Due from and placements with banks and other financial institutions	62,561	–	121	(148)	62,534
Financial assets measured at fair value through profit or loss	3,933	–	–	–	3,933
Derivative financial assets	1,130	–	–	–	1,130
Financial assets purchased under agreements to resell	1,723	–	306	(306)	1,723
Loans and advances to customers	1,556,970	26,737	29,809	(47,275)	1,566,241
Available-for-sale financial assets	113,736	–	–	(6)	113,730
Held-to-maturity investments	415,529	–	–	(5)	415,524
Investment receivables	234,458	26	1,355	(2,077)	233,762
Other financial assets	23,615	–	2,820	(1,206)	25,229
<b>Total</b>	<b>2,621,636</b>	<b>26,763</b>	<b>34,411</b>	<b>(51,023)</b>	<b>2,631,787</b>

31 December 2017 (the Group)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	223,239	–	–	–	223,239
Due from and placements with banks and other financial institutions	72,125	–	116	(155)	72,086
Financial assets measured at fair value through profit or loss	2,665	1	–	–	2,666
Derivative financial assets	3,256	–	–	–	3,256
Financial assets purchased under agreements to resell	39,897	306	–	–	40,203
Loans and advances to customers	1,337,818	31,667	24,597	(38,497)	1,355,585
Available-for-sale financial assets	97,219	–	–	(7)	97,212
Held-to-maturity investments	401,508	–	–	(15)	401,493
Investment receivables	250,928	–	1,382	(1,995)	250,315
Other financial assets	22,734	–	873	(796)	22,811
<b>Total</b>	<b>2,451,389</b>	<b>31,974</b>	<b>26,968</b>	<b>(41,465)</b>	<b>2,468,866</b>

31 December 2018 (the Bank)					
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	207,318	–	–	–	207,318
Due from and placements with banks and other financial institutions	62,609	–	121	(148)	62,582
Financial assets measured at fair value through profit or loss	3,933	–	–	–	3,933
Derivative financial assets	1,130	–	–	–	1,130
Financial assets purchased under agreements to resell	1,583	–	306	(306)	1,583
Loans and advances to customers	1,481,278	26,651	29,637	(45,327)	1,492,239
Available-for-sale financial assets	113,736	–	–	(6)	113,730
Held-to-maturity investments	415,255	–	–	(5)	415,250
Investment receivables	233,558	26	1,355	(2,064)	232,875
Other financial assets	21,972	–	2,818	(1,184)	23,606
<b>Total</b>	<b>2,542,372</b>	<b>26,677</b>	<b>34,237</b>	<b>(49,040)</b>	<b>2,554,246</b>

	31 December 2017 (the Bank)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	222,795	–	–	–	222,795
Due from and placements with banks and other financial institutions	71,086	–	116	(155)	71,047
Financial assets measured at fair value through profit or loss	2,665	1	–	–	2,666
Derivative financial assets	3,256	–	–	–	3,256
Financial assets purchased under agreements to resell	39,897	306	–	–	40,203
Loans and advances to customers	1,281,342	31,628	24,446	(37,048)	1,300,368
Available-for-sale financial assets	97,219	–	–	(7)	97,212
Held-to-maturity investments	402,108	–	–	(15)	402,093
Investment receivables	250,028	–	1,382	(1,982)	249,428
Other financial assets	21,434	–	873	(786)	21,521
<b>Total</b>	<b>2,391,830</b>	<b>31,935</b>	<b>26,817</b>	<b>(39,993)</b>	<b>2,410,589</b>

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

### 3.6 Loans and advances to customers

#### (1) The Loans and advances to customers are distributed by industry as follows:

Industry	The Group			
	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	239,616	14.85	204,205	14.65
Manufacturing	209,176	12.96	215,681	15.47
Wholesale and retail	161,666	10.02	169,086	12.13
Real estate	119,204	7.39	95,548	6.85
Water conservancy, environment and public facilities management	98,011	6.07	85,981	6.17
Construction industry	96,175	5.96	89,946	6.45
Electric power, heat, gas and water production and supply industry	55,373	3.43	42,876	3.08
Transportation, warehousing and post industry	51,110	3.17	48,268	3.46
Mining industry	26,959	1.67	32,208	2.31
Other corporate industries	85,385	5.29	70,629	5.07
Discounted bills	38,981	2.42	16,507	1.18
Personal loan	431,860	26.77	323,147	23.18
<b>Total loans and advances to customers</b>	<b>1,613,516</b>	<b>100.00</b>	<b>1,394,082</b>	<b>100.00</b>

Industry	The Bank			
	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	237,161	15.42	203,760	15.24
Manufacturing	204,223	13.28	209,613	15.67
Wholesale and retail	161,252	10.49	168,754	12.62
Real estate	119,204	7.75	95,543	7.14
Construction industry	95,470	6.21	89,337	6.68
Water conservancy, environment and public facilities management	73,362	4.77	66,410	4.97
Transportation, warehousing and post industry	37,606	2.45	38,934	2.91
Electric power, heat, gas and water production and supply industry	31,387	2.04	26,805	2.00
Mining industry	25,164	1.64	29,550	2.21
Other corporate industries	82,745	5.38	69,812	5.22
Discounted bills	38,981	2.54	16,505	1.23
Personal loan	431,011	28.03	322,393	24.11
<b>Total loans and advances to customers</b>	<b>1,537,566</b>	<b>100.00</b>	<b>1,337,416</b>	<b>100.00</b>

(2) The loans and advances to customers are distributed by region as follows:

Regions	The Group			
	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	615,296	38.13	525,878	37.72
Eastern China	425,328	26.36	382,613	27.45
Central and Southern China	368,529	22.84	305,926	21.94
Western China	204,363	12.67	179,665	12.89
<b>Total loans and advances to customers</b>	<b>1,613,516</b>	<b>100.00</b>	<b>1,394,082</b>	<b>100.00</b>

Regions	The Bank			
	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	595,010	38.70	510,271	38.15
Eastern China	402,840	26.20	362,603	27.11
Central and Southern China	356,239	23.17	298,069	22.29
Western China	183,477	11.93	166,473	12.45
<b>Total loans and advances to customers</b>	<b>1,537,566</b>	<b>100.00</b>	<b>1,337,416</b>	<b>100.00</b>

**(3) The loans and advances to customers are distributed by collateral as follows:**

	The Group		The Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Unsecured loans	343,055	268,629	324,553	254,403
Guaranteed loans	574,133	524,552	523,764	485,875
Collateral loans	696,328	600,901	689,249	597,138
Of which: Mortgage loans	529,378	463,463	525,478	462,187
Pledged loans	166,950	137,438	163,771	134,951
<b>Total loans and advances to customers</b>	<b>1,613,516</b>	<b>1,394,082</b>	<b>1,537,566</b>	<b>1,337,416</b>

**(4) Overdue loans**

	The Group				
	31 December 2018				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,376	3,151	1,244	225	6,996
Guaranteed loans	5,636	5,836	12,682	5,019	29,173
Mortgage loans	2,801	2,442	5,380	3,281	13,904
Pledged loans	449	1,204	1,917	1,474	5,044
<b>Total</b>	<b>11,262</b>	<b>12,633</b>	<b>21,223</b>	<b>9,999</b>	<b>55,117</b>

	The Group				
	31 December 2017				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,138	1,137	1,310	56	3,641
Guaranteed loans	3,978	7,242	16,113	1,954	29,287
Mortgage loans	2,575	4,126	8,383	1,581	16,665
Pledged loans	1,009	1,227	2,543	1,294	6,073
<b>Total</b>	<b>8,700</b>	<b>13,732</b>	<b>28,349</b>	<b>4,885</b>	<b>55,666</b>





<b>The Bank</b>					
<b>31 December 2018</b>					
	<b>Overdue for 1 to 90 days (inclusive)</b>	<b>Overdue for 91 to 360 days (inclusive)</b>	<b>Overdue for 361 days to 3 years (inclusive)</b>	<b>Overdue for more than 3 years</b>	<b>Total</b>
Unsecured loans	2,376	3,151	1,244	225	6,996
Guaranteed loans	5,571	5,824	12,566	5,019	28,980
Mortgage loans	2,781	2,432	5,370	3,281	13,864
Pledged loans	449	1,204	1,917	1,473	5,043
<b>Total</b>	<b>11,177</b>	<b>12,611</b>	<b>21,097</b>	<b>9,998</b>	<b>54,883</b>

<b>The Bank</b>					
<b>31 December 2017</b>					
	<b>Overdue for 1 to 90 days (inclusive)</b>	<b>Overdue for 91 to 360 days (inclusive)</b>	<b>Overdue for 361 days to 3 years (inclusive)</b>	<b>Overdue for more than 3 years</b>	<b>Total</b>
Unsecured loans	1,138	1,137	1,310	56	3,641
Guaranteed loans	3,945	7,228	15,998	1,954	29,125
Mortgage loans	2,570	4,119	8,370	1,581	16,640
Pledged loans	1,009	1,227	2,541	1,294	6,071
<b>Total</b>	<b>8,662</b>	<b>13,711</b>	<b>28,219</b>	<b>4,885</b>	<b>55,477</b>

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

#### **(5) Credit quality of loans and advances to customers**

<b>The Group</b>			
	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Neither overdue nor impaired	(i)	1,556,970	1,337,818
Overdue but not impaired	(ii)	26,737	31,667
Impaired	(iii)	29,809	24,597
<b>Total loans and advances to customers</b>		<b>1,613,516</b>	<b>1,394,082</b>

	Note	The Bank	
		31 December 2018	31 December 2017
Neither overdue nor impaired	(i)	1,481,278	1,281,342
Overdue but not impaired	(ii)	26,651	31,628
Impaired	(iii)	29,637	24,446
<b>Total loans and advances to customers</b>		<b>1,537,566</b>	<b>1,337,416</b>

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

a. Loans and advances to customers neither overdue nor impaired

	Total loans and advances to customers	The Group	
		31 December 2018	31 December 2017
		Allowance for impairment losses on loans and advances to customers	Book value
Corporate loans and advances to customers	1,134,260	(20,338)	1,113,922
Personal loans and advances to customers	422,710	(5,346)	417,364
<b>Total</b>	<b>1,556,970</b>	<b>(25,684)</b>	<b>1,531,286</b>

	Total loans and advances to customers	The Group	
		31 December 2018	31 December 2017
		Allowance for impairment losses on loans and advances to customers	Book value
Corporate loans and advances to customers	1,021,373	(17,275)	1,004,098
Personal loans and advances to customers	316,445	(3,994)	312,451
<b>Total</b>	<b>1,337,818</b>	<b>(21,269)</b>	<b>1,316,549</b>

	Total loans and advances to customers	The Bank	
		31 December 2018	31 December 2017
		Allowance for impairment losses on loans and advances to customers	Book value
Corporate loans and advances to customers	1,059,407	(18,556)	1,040,851
Personal loans and advances to customers	421,871	(5,326)	416,545
<b>Total</b>	<b>1,481,278</b>	<b>(23,882)</b>	<b>1,457,396</b>

<b>The Bank</b>			
<b>31 December 2017</b>			
	<b>Total loans and advances to customers</b>	<b>Allowance for impairment losses on loans and advances to customers</b>	<b>Book value</b>
Corporate loans and advances to customers	965,649	(15,953)	949,696
Personal loans and advances to customers	315,693	(3,975)	311,718
<b>Total</b>	<b>1,281,342</b>	<b>(19,928)</b>	<b>1,261,414</b>

b. Loans and advances to customers overdue but not impaired

Analysis on term of overdue but unimpaired loans and advances to customers is as follows:

<b>31 December 2018 (the Group)</b>						
	<b>Overdue for no more than 30 days</b>	<b>Overdue for 31 to 60 days (inclusive)</b>	<b>Overdue for 61 to 90 days (inclusive)</b>	<b>Overdue for more than 90 days</b>	<b>Total</b>	<b>Fair value of collaterals</b>
Corporate loans and advances	4,747	1,721	1,980	15,207	23,655	19,781
Personal loans and advances	1,153	671	584	674	3,082	5,575
<b>Total</b>	<b>5,900</b>	<b>2,392</b>	<b>2,564</b>	<b>15,881</b>	<b>26,737</b>	<b>25,356</b>

<b>31 December 2017 (the Group)</b>						
	<b>Overdue for no more than 30 days</b>	<b>Overdue for 31 to 60 days (inclusive)</b>	<b>Overdue for 61 to 90 days (inclusive)</b>	<b>Overdue for more than 90 days</b>	<b>Total</b>	<b>Fair value of collaterals</b>
Corporate loans and advances to customers	3,114	1,657	2,275	22,267	29,313	27,109
Personal loans and advances to customers	808	350	301	895	2,354	2,425
<b>Total</b>	<b>3,922</b>	<b>2,007</b>	<b>2,576</b>	<b>23,162</b>	<b>31,667</b>	<b>29,534</b>

<b>31 December 2018 (the Bank)</b>						
	<b>Overdue for no more than 30 days</b>	<b>Overdue for 31 to 60 days (inclusive)</b>	<b>Overdue for 61 to 90 days (inclusive)</b>	<b>Overdue for more than 90 days</b>	<b>Total</b>	<b>Fair value of collaterals</b>
Corporate loans and advances to customers	4,698	1,717	1,957	15,207	23,579	19,766
Personal loans and advances to customers	1,151	668	579	674	3,072	5,564
<b>Total</b>	<b>5,849</b>	<b>2,385</b>	<b>2,536</b>	<b>15,881</b>	<b>26,651</b>	<b>25,330</b>

	31 December 2017 (the Bank)				Total	Fair value of collaterals
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days		
Corporate loans and advances to customers	3,098	1,640	2,271	22,267	29,276	27,107
Personal loans and advances to customers	808	348	301	895	2,352	2,425
<b>Total</b>	<b>3,906</b>	<b>1,988</b>	<b>2,572</b>	<b>23,162</b>	<b>31,628</b>	<b>29,532</b>

## c. Impaired loans and advances to customers

	The Group 31 December 2018		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Individual assessment	23,741	(11,971)	11,770
Collective assessment	6,068	(4,928)	1,140
<b>Total</b>	<b>29,809</b>	<b>(16,899)</b>	<b>12,910</b>

	The Group 31 December 2017		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances to customers	Book value
Individual assessment	20,247	(9,599)	10,648
Collective assessment	4,350	(3,530)	820
<b>Total</b>	<b>24,597</b>	<b>(13,129)</b>	<b>11,468</b>

Of which,

	The Group	
	31 December 2018	31 December 2017
Impaired loans assessed individually	23,741	20,247
Impaired loans assessed individually		
Percentage of impaired loans assessed individually in total loans and advances to customers	1.47%	1.45%
<b>Fair value of collateral</b>	<b>19,960</b>	<b>19,691</b>



<b>The Bank</b>			
<b>31 December 2018</b>			
	<b>Total loans and advances to customers</b>	<b>Allowance for impairment losses on loans and advances to customers</b>	<b>Book value</b>
Individual assessment	23,569	(11,827)	11,742
Collective assessment	6,068	(4,928)	1,140
<b>Total</b>	<b>29,637</b>	<b>(16,755)</b>	<b>12,882</b>

<b>The Bank</b>			
<b>31 December 2017</b>			
	<b>Total loans and advances to customers</b>	<b>Allowance for impairment losses on loans and advances to customers</b>	<b>Book value</b>
Individual assessment	20,097	(9,492)	10,605
Collective assessment	4,349	(3,530)	819
<b>Total</b>	<b>24,446</b>	<b>(13,022)</b>	<b>11,424</b>

Of which,

<b>The Bank</b>		
	<b>31 December 2018</b>	<b>31 December 2017</b>
Impaired loans assessed individually	23,569	20,097
Impaired loans assessed individually		
Percentage of impaired loans assessed individually in total loans and advances to customers	1.53%	1.50%
<b>Fair value of collateral</b>	<b>19,928</b>	<b>19,621</b>

## 3.7 Credit quality of debt instruments

	The Group		
	Note	31 December 2018	31 December 2017
Neither overdue nor impaired	(1)	767,656	752,320
Overdue but not impaired	(2)	26	1
Impaired	(3)	1,355	1,382
Total amount of debt instruments		769,037	753,703
Less: Allowance for impairment losses of debt instruments		(2,088)	(2,017)
Individual assessment		(626)	(312)
Collective assessment		(1,462)	(1,705)
<b>Book value of debt instruments</b>		<b>766,949</b>	<b>751,686</b>

	The Bank		
	Note	31 December 2018	31 December 2017
Neither overdue nor impaired	(1)	766,482	752,020
Overdue but not impaired	(2)	26	1
Impaired	(3)	1,355	1,382
Total amount of debt instruments		767,863	753,403
Less: Allowance for impairment losses of debt instruments		(2,075)	(2,004)
Individual assessment		(626)	(312)
Collective assessment		(1,449)	(1,692)
<b>Book value of debt instruments</b>		<b>765,788</b>	<b>751,399</b>

**(1) Neither overdue nor impaired debt instruments**

<b>The Group</b>					
<b>31 December 2018</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Government bonds	–	16,666	261,820	214	278,700
Bonds of public entities and quasi-governments	202	40,618	59,700	–	100,520
Bonds of financial institutions	533	35,138	62,732	100	98,503
Corporate bonds	3,198	15,433	31,277	46,995	96,903
Certificates of deposit with banks and other financial institutions	–	5,881	–	–	5,881
Wealth management products	–	–	–	7,200	7,200
Beneficiary rights of assets	–	–	–	3,309	3,309
Asset management plan of financial institutions	–	–	–	176,640	176,640
<b>Total</b>	<b>3,933</b>	<b>113,736</b>	<b>415,529</b>	<b>234,458</b>	<b>767,656</b>

<b>The Group</b>					
<b>31 December 2017</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Government bonds	–	11,510	272,173	202	283,885
Bonds of public entities and quasi-governments	92	35,872	60,621	–	96,585
Bonds of financial institutions	–	17,243	57,952	100	75,295
Corporate bonds	2,573	14,993	3,091	900	21,557
Certificates of deposit with banks and other financial institutions	–	17,601	7,671	–	25,272
Wealth management products	–	–	–	14,400	14,400
Beneficiary rights of assets	–	–	–	69,993	69,993
Asset management plan of financial institutions	–	–	–	165,333	165,333
<b>Total</b>	<b>2,665</b>	<b>97,219</b>	<b>401,508</b>	<b>250,928</b>	<b>752,320</b>

<b>The Bank</b>					
<b>31 December 2018</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Government bonds	–	16,666	261,528	214	278,408
Bonds of public entities and quasi-governments	202	40,618	59,700	–	100,520
Bonds of financial institutions	533	35,138	62,750	100	98,521
Corporate bonds	3,198	15,433	31,277	46,095	96,003
Certificates of deposit with banks and other financial institutions	–	5,881	–	–	5,881
Wealth management products	–	–	–	7,200	7,200
Beneficiary rights of assets	–	–	–	3,309	3,309
Asset management plan of financial institutions	–	–	–	176,640	176,640
<b>Total</b>	<b>3,933</b>	<b>113,736</b>	<b>415,255</b>	<b>233,558</b>	<b>766,482</b>

<b>The Bank</b>					
<b>31 December 2017</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Government bonds	–	11,510	272,173	202	283,885
Bonds of public entities and quasi-governments	92	35,872	60,621	–	96,585
Bonds of financial institutions	–	17,243	58,552	100	75,895
Corporate bonds	2,573	14,993	3,091	–	20,657
Certificates of deposit with banks and other financial institutions	–	17,601	7,671	–	25,272
Wealth management products	–	–	–	14,400	14,400
Beneficiary rights of assets	–	–	–	69,993	69,993
Asset management plan of financial institutions	–	–	–	165,333	165,333
<b>Total</b>	<b>2,665</b>	<b>97,219</b>	<b>402,108</b>	<b>250,028</b>	<b>752,020</b>



**(2) Debt instruments overdue but not impaired**

<b>The Group and the Bank</b>					
<b>31 December 2018</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Beneficiary rights of assets	-	-	-	26	26
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>26</b>

<b>The Group and the Bank</b>					
<b>31 December 2017</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Bonds of financial institutions	1	-	-	-	1
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

**(3) Impaired debt instruments**

<b>The Group and the Bank</b>					
<b>31 December 2018</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Beneficiary rights of assets	-	-	-	356	356
Asset management plan of financial institutions	-	-	-	999	999
Less: Allowance for impairment losses	-	-	-	(626)	(626)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>729</b>	<b>729</b>

<b>The Group and the Bank</b>					
<b>31 December 2017</b>					
<b>Type of debt instruments</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity investments</b>	<b>Investments classified as receivables</b>	<b>Total</b>
Beneficiary rights of assets	-	-	-	383	383
Asset management plan of financial institutions	-	-	-	999	999
Less: Allowance for impairment losses	-	-	-	(312)	(312)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,070</b>	<b>1,070</b>

**(4) The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market**

<b>The Group</b>						
<b>31 December 2018</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Lower than A</b>	<b>Total</b>
Government bonds	233,009	45,691	-	-	-	278,700
Bonds of public entities and quasi-governments	95,524	4,996	-	-	-	100,520
Bonds of financial institutions	3,222	94,172	1,109	-	-	98,503
Corporate bonds	61,709	19,685	15,509	-	-	96,903
Certificates of deposit with banks and other financial institutions	5,881	-	-	-	-	5,881
Wealth management products	7,200	-	-	-	-	7,200
Beneficiary rights of assets	3,691	-	-	-	-	3,691
Asset management plan of financial institutions	177,639	-	-	-	-	177,639
<b>Total</b>	<b>587,875</b>	<b>164,544</b>	<b>16,618</b>	<b>-</b>	<b>-</b>	<b>769,037</b>

<b>The Group</b>						
<b>31 December 2017</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Lower than A</b>	<b>Total</b>
Government bonds	248,756	35,129	–	–	–	283,885
Bonds of public entities and quasi-governments	91,540	5,045	–	–	–	96,585
Bonds of financial institutions	3,225	71,080	991	–	–	75,296
Corporate bonds	9,077	8,879	3,601	–	–	21,557
Certificates of deposit with banks and other financial institutions	25,272	–	–	–	–	25,272
Wealth management products	14,400	–	–	–	–	14,400
Beneficiary rights of assets	70,376	–	–	–	–	70,376
Asset management plan of financial institutions	166,332	–	–	–	–	166,332
<b>Total</b>	<b>628,978</b>	<b>120,133</b>	<b>4,592</b>	<b>–</b>	<b>–</b>	<b>753,703</b>

<b>The Bank</b>						
<b>31 December 2018</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Lower than A</b>	<b>Total</b>
Government bonds	232,717	45,691	–	–	–	278,408
Bonds of public entities and quasi-governments	95,524	4,996	–	–	–	100,520
Bonds of financial institutions	3,223	94,189	1,109	–	–	98,521
Corporate bonds	60,809	19,685	15,509	–	–	96,003
Certificates of deposit with banks and other financial institutions	5,881	–	–	–	–	5,881
Wealth management products	7,200	–	–	–	–	7,200
Beneficiary rights of assets	3,691	–	–	–	–	3,691
Asset management plan of financial institutions	177,639	–	–	–	–	177,639
<b>Total</b>	<b>586,684</b>	<b>164,561</b>	<b>16,618</b>	<b>–</b>	<b>–</b>	<b>767,863</b>

<b>The Bank</b>						
<b>31 December 2017</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Lower than A</b>	<b>Total</b>
Government bonds	248,756	35,129	-	-	-	283,885
Bonds of public entities and quasi-governments	91,540	5,045	-	-	-	96,585
Bonds of financial institutions	3,225	71,680	991	-	-	75,896
Corporate bonds	8,177	8,879	3,601	-	-	20,657
Certificates of deposit with banks and other financial institutions	25,272	-	-	-	-	25,272
Wealth management products	14,400	-	-	-	-	14,400
Beneficiary rights of assets	70,376	-	-	-	-	70,376
Asset management plan of financial institutions	166,332	-	-	-	-	166,332
<b>Total</b>	<b>628,078</b>	<b>120,733</b>	<b>4,592</b>	<b>-</b>	<b>-</b>	<b>753,403</b>

### 3.8 Renegotiated financial assets

The carrying amount of the financial assets which were identified as overdue or impaired and have been subject to concession arrangement with borrowers or changed guarantee conditions is as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans and advances to customers	273	237

## 4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

## 4.1 Liquidity analysis

### (1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group							
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	176,745	33,051	–	–	408	–	–	210,204
Due from banks	–	10,512	2,326	4,762	4,271	–	–	21,871
Placements with banks and other financial institutions	–	–	20,063	1,650	18,950	–	–	40,663
Financial assets measured at fair value through profit or loss	–	8,537	1,471	31	1,552	762	117	12,470
Derivative financial assets	–	–	178	131	590	231	–	1,130
Financial assets purchased under agreements to resell	–	–	726	997	–	–	–	1,723
Loans and advances to customers	33,904	–	170,536	110,120	482,248	510,168	259,265	1,566,241
Available-for-sale financial assets	1,123	10,412	2,559	6,860	18,549	61,347	24,415	125,265
Held-to-maturity investments	–	–	4,523	5,725	39,680	253,497	112,099	415,524
Investment receivables	755	18,829	5,628	1,366	41,199	118,774	47,211	233,762
Other financial assets	2,405	7,774	5,612	2,653	6,506	250	29	25,229
<b>Total financial assets</b>	<b>214,932</b>	<b>89,115</b>	<b>213,622</b>	<b>134,295</b>	<b>613,953</b>	<b>945,029</b>	<b>443,136</b>	<b>2,654,082</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	10,000	29,041	132,023	–	–	171,064
Due to banks and other financial institutions	–	44,484	118,136	92,127	108,928	6,508	–	370,183
Derivative financial assets	–	–	155	105	598	196	–	1,054
Financial assets sold under agreements to repurchase	–	–	11,546	1,212	1,620	–	–	14,378
Deposits taken	–	833,853	89,860	127,620	313,746	127,413	–	1,492,492
Debt obligations payable	–	–	14,729	93,545	154,695	97,500	–	360,469
Other financial assets	–	14,221	2,752	3,242	7,975	9,316	1,753	39,259
<b>Total financial liabilities</b>	<b>–</b>	<b>892,558</b>	<b>247,178</b>	<b>346,892</b>	<b>719,585</b>	<b>240,933</b>	<b>1,753</b>	<b>2,448,899</b>
<b>Net position</b>	<b>214,932</b>	<b>(803,443)</b>	<b>(33,556)</b>	<b>(212,597)</b>	<b>(105,632)</b>	<b>704,096</b>	<b>441,383</b>	<b>205,183</b>

	The Group							Total
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	
<b>Financial assets</b>								
Cash on hand and balances with central banks	203,074	20,926	–	–	1,837	–	–	225,837
Due from banks	–	11,919	26,969	8,879	9,099	–	–	56,866
Placements with banks and other financial institutions	–	–	13,011	2,059	150	–	–	15,220
Financial assets measured at fair value through profit or loss	1	540	41	221	1,157	1,135	111	3,206
Derivative financial assets	–	–	365	285	2,265	341	–	3,256
Financial assets purchased under agreements to resell	306	–	39,897	–	–	–	–	40,203
Loans and advances to customers	38,626	–	128,770	104,011	410,391	460,776	213,011	1,355,585
Available-for-sale financial assets	82	13,018	3,833	5,918	30,409	46,931	10,121	110,312
Held-to-maturity investments	–	–	5,958	8,326	49,289	217,637	120,283	401,493
Investment receivables	1,070	–	7,292	8,072	66,482	105,758	61,641	250,315
Other financial assets	2,541	7,324	5,088	2,669	4,606	574	9	22,811
<b>Total financial assets</b>	<b>245,700</b>	<b>53,727</b>	<b>231,224</b>	<b>140,440</b>	<b>575,685</b>	<b>833,152</b>	<b>405,176</b>	<b>2,485,104</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	5,000	5,000	106,019	–	–	116,019
Due to banks and other financial institutions	–	16,681	125,552	102,234	45,817	6,117	–	296,401
Derivative financial assets	–	–	186	411	956	143	–	1,696
Financial assets sold under agreements to repurchase	–	–	69,592	410	–	–	–	70,002
Deposits taken	–	907,840	75,897	124,372	246,034	79,764	–	1,433,907
Debt obligations payable	–	–	60,049	103,092	103,348	103,200	–	369,689
Other financial assets	–	18,434	2,531	2,663	5,857	8,797	1,019	39,301
<b>Total financial liabilities</b>	<b>–</b>	<b>942,955</b>	<b>338,807</b>	<b>338,182</b>	<b>508,031</b>	<b>198,021</b>	<b>1,019</b>	<b>2,327,015</b>
<b>Net position</b>	<b>245,700</b>	<b>(889,228)</b>	<b>(107,583)</b>	<b>(197,742)</b>	<b>67,654</b>	<b>635,131</b>	<b>404,157</b>	<b>158,089</b>

<b>The Bank</b>								
<b>31 December 2018</b>								
	<b>Overdue/ unlimited duration</b>	<b>Repayment on demand</b>	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>								
Cash on hand and balances with central banks	176,548	32,572	–	–	408	–	–	209,528
Due from banks	–	10,500	2,386	4,762	4,271	–	–	21,919
Placements with banks and other financial institutions	–	–	20,063	1,650	18,950	–	–	40,663
Financial assets measured at fair value through profit or loss	–	8,537	1,471	31	1,552	762	117	12,470
Derivative financial assets	–	–	178	131	590	231	–	1,130
Financial assets purchased under agreements to resell	–	–	586	997	–	–	–	1,583
Loans and advances to customers	33,834	–	168,652	106,910	467,597	465,651	249,595	1,492,239
Available-for-sale financial assets	1,123	10,412	2,559	6,860	18,548	61,348	24,415	125,265
Held-to-maturity investments	–	–	4,539	5,725	39,680	253,497	111,809	415,250
Investment receivables	755	18,829	5,628	1,366	41,199	118,773	46,325	232,875
Other financial assets	2,405	6,188	5,576	2,653	6,505	250	29	23,606
<b>Total financial assets</b>	<b>214,665</b>	<b>87,038</b>	<b>211,638</b>	<b>131,085</b>	<b>599,300</b>	<b>900,512</b>	<b>432,290</b>	<b>2,576,528</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	10,000	29,000	132,000	–	–	171,000
Due to banks and other financial institutions	–	44,901	113,386	81,482	73,592	–	–	313,361
Derivative financial assets	–	–	155	105	598	196	–	1,054
Financial assets sold under agreements to repurchase	–	–	11,546	960	1,620	–	–	14,126
Deposits taken	–	832,664	89,473	127,449	313,321	127,185	–	1,490,092
Debt obligations payable	–	–	14,729	93,545	154,695	95,000	–	357,969
Other financial assets	–	13,586	2,531	3,062	6,995	5,874	110	32,158
<b>Total financial liabilities</b>	<b>–</b>	<b>891,151</b>	<b>241,820</b>	<b>335,603</b>	<b>682,821</b>	<b>228,255</b>	<b>110</b>	<b>2,379,760</b>
<b>Net position</b>	<b>214,665</b>	<b>(804,113)</b>	<b>(30,182)</b>	<b>(204,518)</b>	<b>(83,521)</b>	<b>672,257</b>	<b>432,180</b>	<b>196,768</b>

	The Bank							
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	202,903	20,642	–	–	1,837	–	–	225,382
Due from banks	–	11,858	25,940	8,810	9,219	–	–	55,827
Placements with banks and other financial institutions	–	–	13,011	2,059	150	–	–	15,220
Financial assets measured at fair value through profit or loss	1	540	41	221	1,157	1,135	111	3,206
Derivative financial assets	–	–	365	285	2,265	341	–	3,256
Financial assets purchased under agreements to resell	306	–	39,897	–	–	–	–	40,203
Loans and advances to customers	38,545	–	126,587	101,085	398,945	427,120	208,086	1,300,368
Available-for-sale financial assets	82	13,018	3,833	5,918	30,409	46,931	10,121	110,312
Held-to-maturity investments	–	–	5,958	8,326	49,289	218,237	120,283	402,093
Investment receivables	1,070	–	7,293	8,072	66,482	105,757	60,754	249,428
Other financial assets	2,541	6,065	5,054	2,672	4,606	574	9	21,521
<b>Total financial assets</b>	<b>245,448</b>	<b>52,123</b>	<b>227,979</b>	<b>137,448</b>	<b>564,359</b>	<b>800,095</b>	<b>399,364</b>	<b>2,426,816</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	5,000	5,000	106,000	–	–	116,000
Due to banks and other financial institutions	–	17,117	123,950	95,417	18,367	–	–	254,851
Derivative financial assets	–	–	186	411	956	143	–	1,696
Financial assets sold under agreements to repurchase	–	–	69,592	410	–	–	–	70,002
Deposits taken	–	909,745	75,531	124,229	245,569	79,609	–	1,434,683
Debt obligations payable	–	–	60,049	103,092	103,348	103,200	–	369,689
Other financial assets	–	14,536	2,143	2,453	4,903	5,443	76	29,554
<b>Total financial liabilities</b>	<b>–</b>	<b>941,398</b>	<b>336,451</b>	<b>331,012</b>	<b>479,143</b>	<b>188,395</b>	<b>76</b>	<b>2,276,475</b>
<b>Net position</b>	<b>245,448</b>	<b>(889,275)</b>	<b>(108,472)</b>	<b>(193,564)</b>	<b>85,216</b>	<b>611,700</b>	<b>399,288</b>	<b>150,341</b>



**(2) Undiscounted contract cash flows classified by expiry date of contract**

The table below presents the undiscounted cash flows of non-derivative financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

	The Group							Total
	31 December 2018							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	
<b>Financial assets</b>								
Cash on hand and balances with central banks	176,745	33,051	–	–	408	–	–	210,204
Due from banks	–	10,513	2,421	4,888	4,426	–	–	22,248
Placements with banks and other financial institutions	–	–	20,189	1,867	19,323	–	–	41,379
Financial assets measured at fair value through profit or loss	–	8,537	1,506	41	1,653	827	124	12,688
Financial assets purchased under agreements to resell	–	–	727	1,003	–	–	–	1,730
Loans and advances to customers	36,357	–	177,691	121,419	526,494	609,242	354,345	1,825,548
Available-for-sale financial assets	1,123	10,412	3,114	7,475	21,734	71,900	27,285	143,043
Held-to-maturity investments	–	–	5,226	7,782	52,913	293,018	146,614	505,553
Investment receivables	759	18,829	6,402	3,341	50,207	144,071	52,931	276,540
Other financial assets	107	7,773	–	–	–	–	–	7,880
<b>Total financial assets</b>	<b>215,091</b>	<b>89,115</b>	<b>217,276</b>	<b>147,816</b>	<b>677,158</b>	<b>1,119,058</b>	<b>581,299</b>	<b>3,046,813</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	10,330	29,959	136,432	–	–	176,721
Due to banks and other financial institutions	–	44,576	119,337	93,510	112,189	6,947	–	376,559
Financial assets sold under agreements to repurchase	–	–	11,561	1,222	1,635	–	–	14,418
Deposits taken	–	834,249	92,488	131,204	323,835	144,909	–	1,526,685
Debt obligations payable	–	–	14,771	95,733	165,114	106,147	–	381,765
Other financial assets	–	13,733	167	111	993	3,351	1,753	20,108
<b>Total financial liabilities</b>	<b>–</b>	<b>892,558</b>	<b>248,654</b>	<b>351,739</b>	<b>740,198</b>	<b>261,354</b>	<b>1,753</b>	<b>2,496,256</b>
<b>Net position</b>	<b>215,091</b>	<b>(803,443)</b>	<b>(31,378)</b>	<b>(203,923)</b>	<b>(63,040)</b>	<b>857,704</b>	<b>579,546</b>	<b>550,557</b>

	The Group							Total
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	
<b>Financial assets</b>								
Cash on hand and balances with central banks	203,074	20,926	–	–	1,837	–	–	225,837
Due from banks	–	11,919	27,184	8,997	9,393	–	–	57,493
Placements with banks and other financial institutions	–	–	13,021	2,085	154	–	–	15,260
Financial assets measured at fair value through profit or loss	1	540	43	242	1,256	1,245	124	3,451
Financial assets purchased under agreements to resell	307	–	39,931	–	–	–	–	40,238
Loans and advances to customers	40,819	–	134,714	113,774	447,551	546,503	286,177	1,569,538
Available-for-sale financial assets	82	13,018	4,305	6,429	32,618	53,037	12,371	121,860
Held-to-maturity investments	–	–	6,667	10,175	61,186	255,578	173,319	506,925
Investment receivables	1,070	–	8,302	10,242	75,104	130,975	70,287	295,980
Other financial assets	115	7,324	–	–	–	10	–	7,449
<b>Total financial assets</b>	<b>245,468</b>	<b>53,727</b>	<b>234,167</b>	<b>151,944</b>	<b>629,099</b>	<b>987,348</b>	<b>542,278</b>	<b>2,844,031</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	5,158	5,158	109,463	–	–	119,779
Due to banks and other financial institutions	–	16,712	126,844	103,805	47,558	6,915	–	301,834
Financial assets sold under agreements to repurchase	–	–	69,740	412	–	–	–	70,152
Deposits taken	–	908,330	78,377	128,369	255,524	93,505	–	1,464,105
Debt obligations payable	–	–	60,160	105,251	108,541	114,390	–	388,342
Other financial assets	–	17,914	355	127	724	3,282	1,019	23,421
<b>Total financial liabilities</b>	<b>–</b>	<b>942,956</b>	<b>340,634</b>	<b>343,122</b>	<b>521,810</b>	<b>218,092</b>	<b>1,019</b>	<b>2,367,633</b>
<b>Net position</b>	<b>245,468</b>	<b>(889,229)</b>	<b>(106,467)</b>	<b>(191,178)</b>	<b>107,289</b>	<b>769,256</b>	<b>541,259</b>	<b>476,398</b>



<b>The Bank</b>								
<b>31 December 2018</b>								
	<b>Overdue/ unlimited duration</b>	<b>Repayment on demand</b>	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>								
Cash on hand and balances with central banks	176,548	32,572	–	–	408	–	–	209,528
Due from banks	–	10,500	2,482	4,888	4,426	–	–	22,296
Placements with banks and other financial institutions	–	–	20,189	1,867	19,323	–	–	41,379
Financial assets measured at fair value through profit or loss	–	8,537	1,506	41	1,653	827	124	12,688
Financial assets purchased under agreements to resell	–	–	586	1,003	–	–	–	1,589
Loans and advances to customers	36,287	–	175,459	117,553	508,835	557,401	343,553	1,739,088
Available-for-sale financial assets	1,123	10,412	3,114	7,475	21,734	71,900	27,285	143,043
Held-to-maturity investments	–	–	5,243	7,782	52,903	292,977	146,614	505,519
Investment receivables	759	18,829	6,402	3,341	50,153	143,855	51,612	274,951
Other financial assets	107	6,188	–	–	–	–	–	6,295
<b>Total financial assets</b>	<b>214,824</b>	<b>87,038</b>	<b>214,981</b>	<b>143,950</b>	<b>659,435</b>	<b>1,066,960</b>	<b>569,188</b>	<b>2,956,376</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	10,330	29,958	136,430	–	–	176,718
Due to banks and other financial institutions	–	44,995	114,430	82,425	75,591	–	–	317,441
Financial assets sold under agreements to repurchase	–	–	11,561	968	1,635	–	–	14,164
Deposits taken	–	833,061	92,081	131,029	323,392	144,553	–	1,524,116
Debt obligations payable	–	–	14,771	95,733	165,010	103,439	–	378,953
Other financial assets	–	13,099	15	30	139	28	110	13,421
<b>Total financial liabilities</b>	<b>–</b>	<b>891,155</b>	<b>243,188</b>	<b>340,143</b>	<b>702,197</b>	<b>248,020</b>	<b>110</b>	<b>2,424,813</b>
<b>Net position</b>	<b>214,824</b>	<b>(804,117)</b>	<b>(28,207)</b>	<b>(196,193)</b>	<b>(42,762)</b>	<b>818,940</b>	<b>569,078</b>	<b>531,563</b>

	The Bank							
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	202,903	20,642	–	–	1,837	–	–	225,382
Due from banks	–	11,859	26,154	8,929	9,516	–	–	56,458
Placements with banks and other financial institutions	–	–	13,021	2,085	154	–	–	15,260
Financial assets measured at fair value through profit or loss	1	540	43	242	1,256	1,245	124	3,451
Financial assets purchased under agreements to resell	307	–	39,931	–	–	–	–	40,238
Loans and advances to customers	40,738	–	132,230	110,255	433,670	505,945	278,312	1,501,150
Available-for-sale financial assets	82	13,018	4,305	6,429	32,618	53,037	12,371	121,860
Held-to-maturity investments	–	–	6,674	10,175	61,208	256,185	173,319	507,561
Investment receivables	1,070	–	8,302	10,242	75,050	130,759	68,914	294,337
Other financial assets	115	6,065	–	–	–	10	–	6,190
<b>Total financial assets</b>	<b>245,216</b>	<b>52,124</b>	<b>230,660</b>	<b>148,357</b>	<b>615,309</b>	<b>947,181</b>	<b>533,040</b>	<b>2,771,887</b>
<b>Financial liabilities</b>								
Due to central banks	–	–	5,158	5,158	109,462	–	–	119,778
Due to banks and other financial institutions	–	17,149	125,133	96,700	18,821	–	–	257,803
Financial assets sold under agreements to repurchase	–	–	69,740	412	–	–	–	70,152
Deposits taken	–	910,227	77,999	128,208	255,021	93,252	–	1,464,707
Debt obligations payable	–	–	60,160	105,251	108,541	114,390	–	388,342
Other financial assets	–	14,014	–	1	4	13	76	14,108
<b>Total financial liabilities</b>	<b>–</b>	<b>941,390</b>	<b>338,190</b>	<b>335,730</b>	<b>491,849</b>	<b>207,655</b>	<b>76</b>	<b>2,314,890</b>
<b>Net position</b>	<b>245,216</b>	<b>(889,266)</b>	<b>(107,530)</b>	<b>(187,373)</b>	<b>123,460</b>	<b>739,526</b>	<b>532,964</b>	<b>456,997</b>

Assets that can be used for repaying all liabilities and fulfilling outstanding loan commitment include cash on hand and balance with central banks, due from and placements with banks and other financial institutions and financial assets measured at fair value through profit or loss, etc. In normal operation, most due deposits are still retained within the Group instead of withdrawn immediately on the maturity date. Besides, available-for-sale financial assets can be disposed of when necessary to repay matured debts.

## 4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance bills, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

	The Group			
	31 December 2018			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	275,971	–	–	275,971
L/Cs issued	96,850	645	–	97,495
L/Gs issued	14,857	8,462	171	23,490
Irrevocable loan commitments	2,430	200	–	2,630
Unused credit card limit	176,098	–	–	176,098
<b>Total</b>	<b>566,206</b>	<b>9,307</b>	<b>171</b>	<b>575,684</b>

	The Group			
	31 December 2017			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	237,638	–	–	237,638
L/Cs issued	74,890	917	–	75,807
L/Gs issued	12,522	9,343	24	21,889
Irrevocable loan commitments	2,409	200	–	2,609
Unused credit card limit	143,380	–	–	143,380
<b>Total</b>	<b>470,839</b>	<b>10,460</b>	<b>24</b>	<b>481,323</b>

	The Bank			
	31 December 2018			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	275,886	–	–	275,886
L/Cs issued	96,850	645	–	97,495
L/Gs issued	14,854	8,461	171	23,486
Irrevocable loan commitments	371	200	–	571
Unused credit card limit	176,098	–	–	176,098
<b>Total</b>	<b>564,059</b>	<b>9,306</b>	<b>171</b>	<b>573,536</b>

	<b>The Bank</b>			
	<b>31 December 2017</b>			
	<b>No more than 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Bank acceptance drafts	238,637	–	–	238,637
L/Cs issued	74,890	917	–	75,807
L/Gs issued	12,516	9,343	24	21,883
Irrevocable loan commitments	481	200	–	681
Unused credit card limit	143,380	–	–	143,380
<b>Total</b>	<b>469,904</b>	<b>10,460</b>	<b>24</b>	<b>480,388</b>

## 5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

### 5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

	<b>The Group</b>				
	<b>31 December 2018</b>				
	<b>RMB</b>	<b>USD (RMB equivalent)</b>	<b>HKD (RMB equivalent)</b>	<b>Other currency (RMB equivalent)</b>	<b>Total</b>
Cash on hand and balances with central banks	189,098	21,035	32	39	210,204
Due from banks	9,618	10,444	196	1,613	21,871
Placements with banks and other financial institutions	37,912	2,751	–	–	40,663
Financial assets measured at fair value through profit or loss	12,470	–	–	–	12,470
Derivative financial assets	16	1,086	6	22	1,130
Financial assets purchased under agreements to resell	1,723	–	–	–	1,723
Loans and advances to customers	1,542,759	21,802	41	1,639	1,566,241
Available-for-sale financial assets	123,613	1,652	–	–	125,265
Held-to-maturity investments	399,348	16,020	–	156	415,524
Investment receivables	233,762	–	–	–	233,762
Other financial assets	24,560	588	78	3	25,229
<b>Total financial assets</b>	<b>2,574,879</b>	<b>75,378</b>	<b>353</b>	<b>3,472</b>	<b>2,654,082</b>
Due to central banks	171,064	–	–	–	171,064
Due to banks and other financial institutions	351,290	17,791	43	1,059	370,183
Derivative financial assets	10	1,009	6	29	1,054
Financial assets sold under agreements to repurchase	14,378	–	–	–	14,378
Deposits taken	1,450,805	39,519	329	1,839	1,492,492
Debt obligations payable	360,469	–	–	–	360,469
Other financial liabilities	36,426	1,345	3	1,485	39,259
<b>Total financial liabilities</b>	<b>2,384,442</b>	<b>59,664</b>	<b>381</b>	<b>4,412</b>	<b>2,448,899</b>
<b>Net exposure</b>	<b>190,437</b>	<b>15,714</b>	<b>(28)</b>	<b>(940)</b>	<b>205,183</b>

<b>The Group</b>					
<b>31 December 2017</b>					
	<b>RMB</b>	<b>USD (RMB equivalent)</b>	<b>HKD (RMB equivalent)</b>	<b>Other currency (RMB equivalent)</b>	<b>Total</b>
Cash on hand and balances with central banks	205,232	20,512	47	46	225,837
Due from banks	43,377	11,518	356	1,615	56,866
Placements with banks and other financial institutions	15,161	59	–	–	15,220
Financial assets measured at fair value through profit or loss	3,205	1	–	–	3,206
Derivative financial assets	9	3,234	–	13	3,256
Financial assets purchased under agreements to resell	40,203	–	–	–	40,203
Loans and advances to customers	1,332,863	20,591	32	2,099	1,355,585
Available-for-sale financial assets	108,654	1,658	–	–	110,312
Held-to-maturity investments	399,137	2,356	–	–	401,493
Investment receivables	250,230	85	–	–	250,315
Other financial assets	22,478	333	–	–	22,811
<b>Total financial assets</b>	<b>2,420,549</b>	<b>60,347</b>	<b>435</b>	<b>3,773</b>	<b>2,485,104</b>
Due to central banks	116,019	–	–	–	116,019
Due to banks and other financial institutions	281,981	13,287	33	1,100	296,401
Derivative financial assets	10	1,677	–	9	1,696
Financial assets sold under agreements to repurchase	70,002	–	–	–	70,002
Deposits taken	1,401,554	30,202	384	1,767	1,433,907
Debt obligations payable	369,689	–	–	–	369,689
Other financial liabilities	36,972	1,094	5	1,230	39,301
<b>Total financial liabilities</b>	<b>2,276,227</b>	<b>46,260</b>	<b>422</b>	<b>4,106</b>	<b>2,327,015</b>
<b>Net exposure</b>	<b>144,322</b>	<b>14,087</b>	<b>13</b>	<b>(333)</b>	<b>158,089</b>





<b>The Bank</b>					
<b>31 December 2018</b>					
	<b>RMB</b>	<b>USD (RMB equivalent)</b>	<b>HKD (RMB equivalent)</b>	<b>Other currency (RMB equivalent)</b>	<b>Total</b>
Cash on hand and balances with central banks	188,422	21,035	32	39	209,528
Due from banks	9,666	10,444	196	1,613	21,919
Placements with banks and other financial institutions	37,912	2,751	–	–	40,663
Financial assets measured at fair value through profit or loss	12,470	–	–	–	12,470
Derivative financial assets	16	1,086	6	22	1,130
Financial assets purchased under agreements to resell	1,583	–	–	–	1,583
Loans and advances to customers	1,468,757	21,802	41	1,639	1,492,239
Available-for-sale financial assets	123,613	1,652	–	–	125,265
Held-to-maturity investments	399,074	16,020	–	156	415,250
Investment receivables	232,875	–	–	–	232,875
Other financial assets	22,937	588	78	3	23,606
<b>Total financial assets</b>	<b>2,497,325</b>	<b>75,378</b>	<b>353</b>	<b>3,472</b>	<b>2,576,528</b>
Due to central banks	171,000	–	–	–	171,000
Due to banks and other financial institutions	294,468	17,791	43	1,059	313,361
Derivative financial assets	10	1,009	6	29	1,054
Financial assets sold under agreements to repurchase	14,126	–	–	–	14,126
Deposits taken	1,448,405	39,519	329	1,839	1,490,092
Debt obligations payable	357,969	–	–	–	357,969
Other financial liabilities	29,325	1,345	3	1,485	32,158
<b>Total financial liabilities</b>	<b>2,315,303</b>	<b>59,664</b>	<b>381</b>	<b>4,412</b>	<b>2,379,760</b>
<b>Net exposure</b>	<b>182,022</b>	<b>15,714</b>	<b>(28)</b>	<b>(940)</b>	<b>196,768</b>

<b>The Bank</b>					
<b>31 December 2017</b>					
	<b>RMB</b>	<b>USD (RMB equivalent)</b>	<b>HKD (RMB equivalent)</b>	<b>Other currency (RMB equivalent)</b>	<b>Total</b>
Cash on hand and balances with central banks	204,777	20,512	47	46	225,382
Due from banks	42,338	11,518	356	1,615	55,827
Placements with banks and other financial institutions	15,161	59	-	-	15,220
Financial assets measured at fair value through profit or loss	3,205	1	-	-	3,206
Derivative financial assets	9	3,234	-	13	3,256
Financial assets purchased under agreements to resell	40,203	-	-	-	40,203
Loans and advances to customers	1,277,646	20,591	32	2,099	1,300,368
Available-for-sale financial assets	108,654	1,658	-	-	110,312
Held-to-maturity investments	399,737	2,356	-	-	402,093
Investment receivables	249,343	85	-	-	249,428
Other financial assets	21,186	333	-	2	21,521
<b>Total financial assets</b>	<b>2,362,259</b>	<b>60,347</b>	<b>435</b>	<b>3,775</b>	<b>2,426,816</b>
Due to central banks	116,000	-	-	-	116,000
Due to banks and other financial institutions	240,431	13,287	33	1,100	254,851
Derivative financial assets	10	1,677	-	9	1,696
Financial assets sold under agreements to repurchase	70,002	-	-	-	70,002
Deposits taken	1,402,330	30,202	384	1,767	1,434,683
Debt obligations payable	369,689	-	-	-	369,689
Other financial liabilities	27,225	1,094	5	1,230	29,554
<b>Total financial liabilities</b>	<b>2,225,687</b>	<b>46,260</b>	<b>422</b>	<b>4,106</b>	<b>2,276,475</b>
<b>Net exposure</b>	<b>136,572</b>	<b>14,087</b>	<b>13</b>	<b>(331)</b>	<b>150,341</b>

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

<b>The Group and the Bank</b>				
	<b>2018</b>		<b>2017</b>	
	<b>Pre-tax profit</b>	<b>Equity</b>	<b>Pre-tax profit</b>	<b>Equity</b>
Appreciation by 5%	172	172	171	171
Depreciation by 5%	(172)	(172)	(171)	(171)

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

## 5.2 Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

<b>The Group</b>							
<b>31 December 2018</b>							
	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Overdue/ non- interest generating</b>	<b>Total</b>
Cash on hand and balances with central banks	204,444	–	–	–	–	5,760	210,204
Due from banks	12,824	4,762	4,265	–	–	20	21,871
Placements with banks and other financial institutions	20,063	1,650	18,950	–	–	–	40,663
Financial assets measured at fair value through profit or loss	10,008	31	1,552	762	117	–	12,470
Derivative financial assets	–	–	–	–	–	1,130	1,130
Financial assets purchased under agreements to resell	726	997	–	–	–	–	1,723
Loans and advances to customers	864,271	244,944	186,670	117,238	19,504	133,614	1,566,241
Available-for-sale financial assets	33,025	9,380	17,019	50,097	14,621	1,123	125,265
Held-to-maturity investments	8,527	6,241	39,605	252,834	108,317	–	415,524
Investment receivables	51,364	59,451	36,156	73,494	12,542	755	233,762
Other financial assets	856	–	–	–	–	24,373	25,229
<b>Total financial assets</b>	<b>1,206,108</b>	<b>327,456</b>	<b>304,217</b>	<b>494,425</b>	<b>155,101</b>	<b>166,775</b>	<b>2,654,082</b>
Due to central banks	10,000	29,041	132,023	–	–	–	171,064
Due to banks and other financial institutions	162,873	96,399	109,211	1,700	–	–	370,183
Derivative financial assets	–	–	–	–	–	1,054	1,054
Financial assets sold under agreements to repurchase	11,546	1,212	1,620	–	–	–	14,378
Deposits taken	922,803	127,619	313,747	127,413	–	910	1,492,492
Debt obligations payable	14,729	93,545	154,695	97,500	–	–	360,469
Other financial liabilities	2,131	–	–	–	–	37,128	39,259
<b>Total financial liabilities</b>	<b>1,124,082</b>	<b>347,816</b>	<b>711,296</b>	<b>226,613</b>	<b>–</b>	<b>39,092</b>	<b>2,448,899</b>
<b>Net position</b>	<b>82,026</b>	<b>(20,360)</b>	<b>(407,079)</b>	<b>267,812</b>	<b>155,101</b>	<b>127,683</b>	<b>205,183</b>

<b>The Group</b>							
<b>31 December 2017</b>							
	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Overdue/ non- interest generating</b>	<b>Total</b>
Cash on hand and balances with central banks	219,431	–	–	–	–	6,406	225,837
Due from banks	38,888	8,879	9,099	–	–	–	56,866
Placements with banks and other financial institutions	13,011	2,059	150	–	–	–	15,220
Financial assets measured at fair value through profit or loss	581	221	1,157	1,135	111	1	3,206
Derivative financial assets	–	–	–	–	–	3,256	3,256
Financial assets purchased under agreements to resell	39,897	–	–	–	–	306	40,203
Loans and advances to customers	648,405	221,408	190,459	163,986	19,839	111,488	1,355,585
Available-for-sale financial assets	24,826	9,089	29,029	39,941	7,345	82	110,312
Held-to-maturity investments	11,697	14,829	42,531	216,218	116,218	–	401,493
Investment receivables	26,977	55,776	62,746	74,760	28,986	1,070	250,315
Other financial assets	770	–	–	–	–	22,041	22,811
<b>Total financial assets</b>	<b>1,024,483</b>	<b>312,261</b>	<b>335,171</b>	<b>496,040</b>	<b>172,499</b>	<b>144,650</b>	<b>2,485,104</b>
Due to central banks	5,000	5,000	106,019	–	–	–	116,019
Due to banks and other financial institutions	142,402	104,489	48,510	1,000	–	–	296,401
Derivative financial assets	–	–	–	–	–	1,696	1,696
Financial assets sold under agreements to repurchase	69,592	410	–	–	–	–	70,002
Deposits taken	982,789	124,372	243,627	79,764	–	3,355	1,433,907
Debt obligations payable	60,049	110,292	97,348	102,000	–	–	369,689
Other financial liabilities	1,868	–	–	–	–	37,433	39,301
<b>Total financial liabilities</b>	<b>1,261,700</b>	<b>344,563</b>	<b>495,504</b>	<b>182,764</b>	<b>–</b>	<b>42,484</b>	<b>2,327,015</b>
<b>Net position</b>	<b>(237,217)</b>	<b>(32,302)</b>	<b>(160,333)</b>	<b>313,276</b>	<b>172,499</b>	<b>102,166</b>	<b>158,089</b>

<b>The Bank</b>							
<b>31 December 2018</b>							
	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Overdue/ non- interest generating</b>	<b>Total</b>
Cash on hand and balances with central banks	203,780	–	–	–	–	5,748	209,528
Due from banks	12,872	4,762	4,265	–	–	20	21,919
Placements with banks and other financial institutions	20,063	1,650	18,950	–	–	–	40,663
Financial assets measured at fair value through profit or loss	10,008	31	1,552	762	117	–	12,470
Derivative financial assets	–	–	–	–	–	1,130	1,130
Financial assets purchased under agreements to resell	586	997	–	–	–	–	1,583
Loans and advances to customers	849,086	217,848	167,356	105,037	19,368	133,544	1,492,239
Available-for-sale financial assets	33,025	9,380	17,019	50,097	14,621	1,123	125,265
Held-to-maturity investments	8,543	6,241	39,605	252,834	108,027	–	415,250
Investment receivables	51,364	59,451	35,269	73,494	12,542	755	232,875
Other financial assets	856	–	–	–	–	22,750	23,606
<b>Total financial assets</b>	<b>1,190,183</b>	<b>300,360</b>	<b>284,016</b>	<b>482,224</b>	<b>154,675</b>	<b>165,070</b>	<b>2,576,528</b>
Due to central banks	10,000	29,000	132,000	–	–	–	171,000
Due to banks and other financial institutions	158,287	82,482	72,592	–	–	–	313,361
Derivative financial assets	–	–	–	–	–	1,054	1,054
Financial assets sold under agreements to repurchase	11,546	960	1,620	–	–	–	14,126
Deposits taken	921,228	127,448	313,321	127,185	–	910	1,490,092
Debt obligations payable	14,729	93,545	154,695	95,000	–	–	357,969
Other financial liabilities	2,135	–	–	–	–	30,023	32,158
<b>Total financial liabilities</b>	<b>1,117,925</b>	<b>333,435</b>	<b>674,228</b>	<b>222,185</b>	<b>–</b>	<b>31,987</b>	<b>2,379,760</b>
<b>Net position</b>	<b>72,258</b>	<b>(33,075)</b>	<b>(390,212)</b>	<b>260,039</b>	<b>154,675</b>	<b>133,083</b>	<b>196,768</b>

<b>The Bank</b>							
<b>31 December 2017</b>							
	<b>No more than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Overdue/ non- interest generating</b>	<b>Total</b>
Cash on hand and balances with central banks	218,987	–	–	–	–	6,395	225,382
Due from banks	37,798	8,810	9,219	–	–	–	55,827
Placements with banks and other financial institutions	13,011	2,059	150	–	–	–	15,220
Financial assets measured at fair value through profit or loss	581	221	1,157	1,135	111	1	3,206
Derivative financial assets	–	–	–	–	–	3,256	3,256
Financial assets purchased under agreements to resell	39,897	–	–	–	–	306	40,203
Loans and advances to customers	637,924	204,271	178,936	148,064	19,766	111,407	1,300,368
Available-for-sale financial assets	24,826	9,089	29,029	39,941	7,345	82	110,312
Held-to-maturity investments	11,697	14,829	42,531	216,818	116,218	–	402,093
Investment receivables	26,977	55,776	61,859	74,760	28,986	1,070	249,428
Other financial assets	771	–	–	–	–	20,750	21,521
<b>Total financial assets</b>	<b>1,012,469</b>	<b>295,055</b>	<b>322,881</b>	<b>480,718</b>	<b>172,426</b>	<b>143,267</b>	<b>2,426,816</b>
Due to central banks	5,000	5,000	106,000	–	–	–	116,000
Due to banks and other financial institutions	141,067	95,417	18,367	–	–	–	254,851
Derivative financial assets	–	–	–	–	–	1,696	1,696
Financial assets sold under agreements to repurchase	69,592	410	–	–	–	–	70,002
Deposits taken	984,330	124,228	243,161	79,609	–	3,355	1,434,683
Debt obligations payable	60,049	110,292	97,348	102,000	–	–	369,689
Other financial liabilities	1,869	–	–	–	–	27,685	29,554
<b>Total financial liabilities</b>	<b>1,261,907</b>	<b>335,347</b>	<b>464,876</b>	<b>181,609</b>	<b>–</b>	<b>32,736</b>	<b>2,276,475</b>
<b>Net position</b>	<b>(249,438)</b>	<b>(40,292)</b>	<b>(141,995)</b>	<b>299,109</b>	<b>172,426</b>	<b>110,531</b>	<b>150,341</b>

The table below presents the potential impact on net interest income and shareholders' equity in consideration of structure of the Group's interest-generating assets and interest-bearing liabilities at the end of the reporting period, in the case that the yield curves of all financial instruments go up or down in a parallel manner by 100 basis points.

	The Group			
	2018		2017	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(910)	(3,137)	(3,144)	(2,658)
Down 100 basis points	910	3,322	3,144	2,935

	The Bank			
	2018		2017	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(1,046)	(3,137)	(3,259)	(2,658)
Down 100 basis points	1,046	3,322	3,259	2,935

The sensitivity analysis on net interest income is conducted based on the reasonably possible changes in interest rates, with the assumption that the structure of financial assets and liabilities held at the end of the period remains unchanged.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate available-for-sale financial assets held on balance sheet dates after revaluation.

The above assumptions do not reflect the Group's policies on fund use and interest rate risk management. Therefore, the above analysis may deviate from the actualities to some extent.

In addition, the above analysis on impact of interest rate changes is only used as an example to demonstrate the estimated changes in net interest income and equity at various predicted yield levels and amidst the Group's current interest rate risk profile. Yet, it does not take into account the possible risk management measures the Management may take to reduce interest rate risk.

## 6. Capital management

Since 2013, the Group has managed capital in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from other equity instruments and minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)*.

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guideline of the Basel Committee and regulatory requirements of CBIRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expanded the capital supplementary channel to promote the capital strength, reasonably controlled the growth rate of risk assets, vigorously optimized the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculated the net capital at all levels and the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. Particulars are as follows:

	31 December 2018	31 December 2017
Net core tier-1 core capital	198,197	148,848
Net tier-1 core capital	218,313	168,929
Net capital	276,056	223,035
Core tier-1 capital adequacy ratio	9.47%	8.26%
Tier-1 capital adequacy ratio	10.43%	9.37%
Capital adequacy ratio	13.19%	12.37%

## 7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements. The Group measures and discloses the fair value of financial instruments on the following levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1. Most bond investments classified on Level 2 are RMB bonds. The fair value of these bonds is determined on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd. Also on the level are most OTC derivatives. Valuation techniques include forward pricing, swap modeling and option pricing & modeling. The entered parameters come from the observable open markets such as Bloomberg, Wind and Reuters trading systems.

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

### 7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

	<b>The Group and the Bank</b>			
	<b>31 December 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss	8,537	3,933	-	12,470
Derivative financial assets	-	1,130	-	1,130
Available-for-sale financial assets	10,412	113,730	791	124,933
Others	-	42	-	42
<b>Financial liabilities</b>				
Derivative financial assets	-	1,054	-	1,054



<b>The Group and the Bank</b>				
<b>31 December 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss	540	2,666	–	3,206
Derivative financial assets	–	3,256	–	3,256
Available-for-sale financial assets	13,018	97,212	–	110,230
Others	–	53	–	53
<b>Financial liabilities</b>				
Derivative financial assets	–	1,696	–	1,696

Fair value measurement of financial assets and financial liabilities of the Group neither shifted between Level 1 and Level 2 nor between Level 2 and Level 3 in the year and the previous year. For financial assets and liabilities stipulated by standard articles and traded on the active market, their fair value shall be determined separately with reference to the buy-in and sell-out prices available on the market. When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments. Parameters used by the cash flow discounting model mainly include recent transaction prices, related yield curve, exchange rate, prepayment rate and credit spread of counterparties while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and fluctuation level, etc.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

## 7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under agreements to resell, borrowings from the central bank, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under agreements to repurchase, etc.

<b>The Group</b>				
<b>Financial assets</b>	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Loans and advances to customers	1,566,241	1,566,723	1,355,585	1,356,398
Held-to-maturity investments	415,524	421,699	401,493	392,575
Investment receivables	233,762	233,797	250,315	250,432
	<b>2,215,527</b>	<b>2,222,219</b>	<b>2,007,393</b>	<b>1,999,405</b>

Financial liabilities	The Group			
	31 December 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value
Deposits taken	1,492,492	1,501,713	1,433,907	1,447,344
Debt obligations payable	360,469	361,352	369,689	366,147
	<b>1,852,961</b>	<b>1,863,065</b>	<b>1,803,596</b>	<b>1,813,491</b>

Financial assets	The Bank			
	31 December 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value
Loans and advances to customers	1,492,239	1,492,720	1,300,368	1,301,181
Held-to-maturity investments	415,250	421,419	402,093	393,174
Investment receivables	232,875	232,910	249,428	249,545
	<b>2,140,364</b>	<b>2,147,049</b>	<b>1,951,889</b>	<b>1,943,900</b>

Financial liabilities	The Bank			
	31 December 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value
Deposits taken	1,490,092	1,499,294	1,434,683	1,445,106
Debt obligations payable	357,969	358,840	369,689	366,147
	<b>1,848,061</b>	<b>1,858,134</b>	<b>1,804,372</b>	<b>1,811,253</b>

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

Financial assets	The Group			
	31 December 2018			
	Level 1	Level 2	Level 3	Total
Loans and advances to customers	–	–	1,566,723	1,566,723
Held-to-maturity investments	–	421,699	–	421,699
Investment receivables	–	289	233,508	233,797
Financial liabilities				
Deposits taken	–	1,501,713	–	1,501,713
Debt obligations payable	–	361,352	–	361,352



<b>The Group</b>				
<b>31 December 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Loans and advances to customers	–	–	1,356,398	1,356,398
Held-to-maturity investments	–	392,575	–	392,575
Investment receivables	–	312	250,120	250,432
<b>Financial liabilities</b>				
Deposits taken	–	1,447,344	–	1,447,344
Debt obligations payable	–	366,147	–	366,147

<b>The Bank</b>				
<b>31 December 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Loans and advances to customers	–	–	1,492,720	1,492,720
Held-to-maturity investments	–	421,419	–	421,419
Investment receivables	–	289	232,621	232,910
<b>Financial liabilities</b>				
Deposits taken	–	1,499,294	–	1,499,294
Debt obligations payable	–	358,840	–	358,840

<b>The Bank</b>				
<b>31 December 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Loans and advances to customers	–	–	1,301,181	1,301,181
Held-to-maturity investments	–	393,174	–	393,174
Investment receivables	–	312	249,233	249,545
<b>Financial liabilities</b>				
Deposits taken	–	1,445,106	–	1,445,106
Debt obligations payable	–	366,147	–	366,147

As for the beneficiary right of loans and advances to customers and investments classified as receivables, its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

## XVI. OTHER SIGNIFICANT EVENTS

### 1. Assets and liabilities measured at fair value

The Group and the Bank					
2018					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets measured at fair value through profit or loss	3,206	22	-	-	12,470
Derivative financial assets	3,256	(2,128)	-	-	1,130
Available-for-sale financial assets	110,230	-	625	(2)	124,933
Others	53	1	-	-	42
<b>Total financial assets</b>	<b>116,745</b>	<b>(2,105)</b>	<b>625</b>	<b>(2)</b>	<b>138,575</b>
<b>Derivative financial assets</b>	<b>1,696</b>	<b>642</b>	<b>-</b>	<b>-</b>	<b>1,054</b>

The Group and the Bank					
2017					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets measured at fair value through profit or loss	4,939	(14)	-	-	3,206
Derivative financial assets	803	2,453	-	-	3,256
Available-for-sale financial assets	92,170	-	(1,152)	5	110,230
Others	4	-	-	-	53
<b>Total financial assets</b>	<b>97,916</b>	<b>2,439</b>	<b>(1,152)</b>	<b>5</b>	<b>116,745</b>
<b>Derivative financial assets</b>	<b>1,093</b>	<b>(603)</b>	<b>-</b>	<b>-</b>	<b>1,696</b>

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.



## 2. Foreign-currency financial assets and financial liabilities

The Group and the Bank					
2018					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	20,605	-	-	-	21,106
Due from banks	13,489	-	-	(15)	12,253
Placements with banks and other financial institutions	59	-	-	-	2,751
Financial assets measured at fair value through profit or loss	1	-	-	-	-
Derivative financial assets	3,247	(2,133)	-	-	1,114
Loans and advances to customers	22,722	-	-	571	23,482
Available-for-sale financial assets	1,658	-	-	(2)	1,652
Held-to-maturity investments	2,356	-	-	(14)	16,176
Investment receivables	85	-	-	-	-
Other financial assets	333	-	-	(1)	669
<b>Total financial assets</b>	<b>64,555</b>	<b>(2,133)</b>	<b>-</b>	<b>539</b>	<b>79,203</b>
<b>Financial liabilities</b>	<b>50,788</b>	<b>642</b>	<b>-</b>	<b>-</b>	<b>64,457</b>

The Group and the Bank					
2017					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	21,837	-	-	-	20,605
Due from banks	11,435	-	-	(10)	13,489
Placements with banks and other financial institutions	148	-	-	-	59
Financial assets measured at fair value through profit or loss	1	1	-	-	1
Derivative financial assets	788	2,458	-	1	3,247
Loans and advances to customers	17,782	-	-	378	22,722
Available-for-sale financial assets	352	-	(1)	5	1,658
Held-to-maturity investments	14	-	-	15	2,356
Investment receivables	-	-	-	-	85
Other financial assets	420	-	-	(4)	333
<b>Total financial assets</b>	<b>52,777</b>	<b>2,459</b>	<b>(1)</b>	<b>385</b>	<b>64,555</b>
<b>Financial liabilities</b>	<b>33,352</b>	<b>(608)</b>	<b>-</b>	<b>-</b>	<b>50,788</b>

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

## XVII. POST BALANCE SHEET DATE EVENTS

### Profit Distribution Plan

The Bank held a meeting of the Board of Directors on 28 February 2018, approving to distribute cash dividend of RMB4.2 (pre-tax) per share to preference shareholders. The dividends above totaled RMB840 million, and were distributed on 28 March 2019.

The Bank held a meeting of the Board of Directors on 17 April 2019, approving to distribute dividend of RMB1.74 (pre-tax) per 10 shares after setting aside statutory surplus reserve and general risk reserve. Calculated based on the shares issued by the Bank as at 31 December 2018, the total dividends distributed totaled about RMB2,677 million. The above profit distribution plan is subject to approval by the Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

### Equity Transfer Plan

The Bank convened a meeting of the Board of Directors on 28 February 2019, considering and adopting the *Proposal on Transferring All Equities Held in Three Rural Banks*. Through the proposal, it planned to transfer the equities held in three rural banks (holding).

### Impact brought by the new accounting standards

In 2017, MOF released the revised version of the following accounting standards: *Accounting Standard for Business Enterprises No.22-Recognition and Measurement of Financial Instruments*, *Accounting Standard for Business Enterprises No.23-Transfer of Financial Assets*, *Accounting Standard for Business Enterprises No.24-Hedging*, and *Accounting Standard for Business Enterprises No.37-Presentation of Financial Instruments* (hereinafter referred to as "the new financial instrument accounting standards" collectively). These new standards have raised new requirements for the classification and measurement of financial assets and liabilities, hedging and impairment of financial assets.

According to the provisions for transition to these new standards, the Group doesn't need to restate the comparative data in previous periods. The difference arising from the adoption of the new standards on the first day shall be adjusted and booked into the opening retained income or other comprehensive income. From the accounting year started on 1 January 2019, the Group shall adopt the new financial instrument accounting standards. After that, as assessed by the Group, the total owner's equity on 1 January 2019 will decrease by no more than 4% over that on 31 December 2018.

Except for the above, the Group didn't have any significant post balance sheet date event that required disclosure as at the date when the Financial Statements were approved.

## XVIII. COMPARATIVE DATA

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

## XIX. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors of the Bank on 17 April 2019.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2018 (In RMB millions, unless otherwise stated)

### 1. Detail list of extraordinary profit or loss

The table below is prepared in accordance with the *SIC No.1 on Information Disclosure of the Companies with Public Offering – Extraordinary Profit or Loss (2008)* issued by CSRC.

	2018	2017
(Profit)/loss from the disposal of fixed assets	(14)	(9)
Other net operating income and expenses	95	136
Income tax influence of extraordinary profit or loss	(30)	(44)
Less: Extraordinary profit or loss attributable to minority shareholders	(4)	(1)
Total extraordinary profit or loss attributable to ordinary shareholders of the parent company	47	82

Extraordinary profit or loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

### 2. Return on equity and earnings per share

The table below is prepared in accordance with the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (Revision 2010)* issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2018	2017
Net profit attributable to ordinary shareholders of the parent company	20,014	18,979
Weighted average return on equity (%)	12.67	13.54
Basic earnings per share (RMB yuan/share)	1.56	1.48
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit or loss	19,967	18,897
Weighted average return on equity (%)	12.64	13.48
Basic earnings per share (RMB yuan/share)	1.56	1.47

The Group has no potential diluted ordinary share.







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