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BANK OF GANSU CO., LTD.*
甘肅銀行股份有限公司*

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

(Stock Code: 2139)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

The board of directors (the “**Board of Directors**” or the “**Board**”) of Bank of Gansu Co., Ltd. (the “**Bank**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Bank and its subsidiary (the “**Group**”) for the year ended December 31, 2018 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

1. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese : 甘肅銀行股份有限公司

Legal Name of the Company in English : Bank of Gansu Co., Ltd.

Legal Representative : Liu Qing

Authorized Representatives : Liu Qing, Ng Wing Yan

Secretary to the Board : Hao Jumei

Company Secretary : Ng Wing Yan

Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu province, the PRC
Principal Office Address	:	Gansu Bank Building, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu province, the PRC
Customer Service Hotline	:	+86-400-869 6666
Telephone	:	+86-931-877 0491
Facsimile	:	+86-931-877 1877
Website of the Bank	:	www.gsbankchina.com
Principal Place of Business in Hong Kong	:	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	www.hkexnews.hk
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited (the " Hong Kong Stock Exchange "), BANK OF GANSU, 2139
H Share Registrar	:	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
PRC Legal Adviser	:	Grandall Law Firm (Shanghai) 23–25/F, Garden Square 968 West Beijing Road Shanghai, the PRC

Hong Kong Legal Adviser	:	Latham & Watkins LLP 18/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Domestic Auditor	:	Shinewing Certified Public Accountants LLP 9/F, Block A, Fu Hua Mansion No. 8 Chao Yang Men Bei Da Jie Dong Cheng District, Beijing, the PRC
International Auditor	:	SHINEWING (HK) CPA Limited 43/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Compliance Advisor	:	Guotai Junan Capital Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Place of Inspection of the Annual Report	:	Office of the Board of the Bank

2. FINANCIAL HIGHLIGHTS

2.1 Financial Data from 2014 to 2018

Five-year financial data

(Expressed in millions of RMB,
unless otherwise stated)

	2018	2017	2016	2015	2014
Results of operations					
Interest income	15,327.1	14,045.8	12,063.0	11,129.0	7,992.7
Interest expense	(8,199.3)	(6,560.8)	(5,392.8)	(5,995.0)	(4,559.7)
Net interest income	7,127.8	7,485.0	6,670.2	5,134.0	3,433.0
Fee and commission income	362.7	462.8	327.4	198.7	166.0
Fee and commission expenses	(196.6)	(86.1)	(71.1)	(57.3)	(27.4)
Net fee and commission income	166.1	376.7	256.3	141.4	138.6
Net trading gains/(losses)	1,089.2	(21.9)	(8.0)	(6.1)	–
Net gains/(losses) arising from investment securities	42.7	116.9	–	(1.0)	–
Net exchange gains/(losses)	388.2	(13.2)	9.9	6.3	(1.2)
Other operating income	58.2	109.0	42.5	28.2	32.0
Operating income	8,872.2	8,052.5	6,970.9	5,302.8	3,602.4
Operating expenses	(2,271.0)	(2,052.2)	(1,903.8)	(1,830.0)	(1,258.6)
Impairment losses on assets	(1,962.4)	(1,523.0)	(2,504.4)	(1,720.5)	(938.0)
Operating profit	4,638.8	4,477.3	2,562.7	1,752.3	1,405.8
Share of profits of associates	(1.0)	1.8	1.9	1.4	2.8
Profit before tax	4,637.8	4,479.1	2,564.6	1,753.7	1,408.6
Income tax expense	(1,198.2)	(1,115.4)	(643.6)	(455.3)	(346.0)
Profit for the year	3,439.6	3,363.7	1,921.0	1,298.4	1,062.6
Profit for the year attributable to:					
– Owners of the Bank	3,435.3	3,358.5	1,917.0	1,295.4	1,060.0
– Non-controlling interests	4.3	5.2	4.0	3.0	2.6
Profit for the year	3,439.6	3,363.7	1,921.0	1,298.4	1,062.6

(Expressed in millions of RMB,
unless otherwise stated)

	2018	2017	2016	2015	2014
Major indicators of assets/ liabilities					
Total assets	328,622.4	271,147.6	245,056.4	211,930.7	165,100.1
Of which: total loans and advances to customers	160,885.3	130,283.6	107,855.1	90,626.7	56,495.5
Total liabilities	303,374.8	254,534.6	231,712.7	199,836.0	154,350.2
Of which: deposits from customers	210,723.3	192,230.6	171,165.3	141,020.6	110,541.6
Total equity	25,247.6	16,613.0	13,343.7	12,094.7	10,749.9
Per share (RMB)					
Net assets per share	2.51	2.21	1.77	1.61	1.51
Basic earnings per share	0.35	0.45	0.25	0.17	0.19
Diluted earnings per share	0.35	0.45	0.25	0.17	0.19
Profitability indicators (%)					
Return on assets ⁽¹⁾	1.15	1.30	0.84	0.69	0.87
Return on equity ⁽²⁾	16.43	22.46	15.10	11.37	12.16
Net interest spread ⁽³⁾	2.07	2.74	2.89	2.79	2.56
Net interest margin ⁽⁴⁾	2.37	2.91	3.08	2.96	2.85
Net fee and commission income to operating income ratio ⁽⁵⁾	1.87	4.68	3.68	2.67	3.85
Cost-to-income ratio ⁽⁶⁾	24.72	24.81	25.16	28.72	29.56
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio ⁽⁷⁾	11.01	8.71	8.58	8.57	9.85
Tier-one capital adequacy ratio ⁽⁸⁾	11.01	8.71	8.58	8.57	9.85
Capital adequacy ratio ⁽⁹⁾	13.55	11.54	11.80	11.42	10.55
Shareholders' equity to total assets ratio	7.68	6.13	5.45	5.71	6.51
Assets quality indicators (%)					
Non-performing loan ratio	2.29	1.74	1.81	1.77	0.39
Provision coverage ratio ⁽¹⁰⁾	169.47	222.00	192.72	150.94	448.83
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	3.89	3.86	3.48	2.67	1.73
Other indicators (%)					
Loan to deposit ratio ⁽¹³⁾	76.35	67.77	63.01	64.26	51.11

Notes:

- (1) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.
- (2) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.
- (3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets.
- (5) Calculated by dividing net fee and commission income by operating income.
- (6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (9) Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.
- (10) Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.
- (11) Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.
- (12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2018.
- (13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.

3. MANAGEMENT DISCUSSION AND ANALYSIS

Environment and Prospect

In 2018, China's economy managed to maintain a steady and improved growth momentum on the whole amidst an intricate and complex international environment as well as arduous and onerous domestic reform, development and stability tasks. China's gross domestic product surpassed RMB90 trillion in 2018, representing an increase of 6.6%; the number of newly-employed workers in the urban areas was 13.61 million; the consumer price index (CPI) registered a moderate increase of 2.1% throughout the year; total imports and exports surpassed RMB30 trillion for the first time, representing a year-on-year increase of 9.7%. The year 2019 marks the 70th anniversary since the founding of the People's Republic of China. It is also a critical year in achieving the first centenary goal of successfully building a moderately prosperous society in all respects. Domestically, China will focus on promoting high-quality growth, deepening supply-side structural reform, securing a victory in the three critical missions, deepening reform and opening-up, and facilitating the development of a strong domestic market; internationally, China will participate in the reform of the global economic governance system and take full advantage of the opportunities arising from a general steady albeit changing and unfavourable economic operation, thereby further transforming external pressures into driving forces for high-quality economic growth.

Gansu Province, where the Bank mainly operates, is at a critical phase of strategic opportunities, shifting of growth drivers and tackling of key tasks. In 2018, the economic operation of Gansu Province was steady and improved, with its gross domestic product reaching RMB824.61 billion, representing a year-on-year increase of 6.3% (2.7 percentage points higher than the growth rate of the previous year). In 2019, while carrying out the dual tasks of improving quality and efficiency and steadily expanding economic output, holding onto the two bottom lines of poverty alleviation and ecological environmental protection, and making concerted efforts to drive economic growth, the People's Government of Gansu Province will ensure economic activities are conducted in accordance with the guidelines of "consolidation, enhancement, improvement and non-impediment" with a focus on six major tasks including strengthening industries, securing new growth drivers, facilitating opening-up, tapping growth potential, improving the environment and safeguarding people's livelihood, thereby ensuring a new round of orderly economic growth.

In 2018, China's banking industry maintained a sound growth momentum, with continued improvement in the quality of assets and operating results of the whole industry. The restructuring and optimization of the banking industry was in line with the trend of implementation of national strategies, high-quality development of the economy and market-oriented reform of interest rates, achieving a positive interaction between the banking industry and the real economy. In 2019, with supply-side structural reform as the main task, the banking industry will secure a victory in the critical mission of preventing and controlling financial risks, promoting comprehensive reform and opening-up within the industry, continue to promote business transformation and service upgrading and enhance Fintech standards. Furthermore, commercial banks are encouraged to take full advantage of perpetual bonds and other capital replenishment channels to optimise their capital structure, enhance their ability to prevent risks and to serve business entities with credit supply; and are encouraged to make reasonable use of diversified debt instruments and enhance their pricing ability so as to promote sound development of the liability business.

In 2019, judging from the main development trends at home and abroad, China remains at an important period of strategic development opportunities and will remain so for a long term. As various countries are interconnected and their futures are interwoven together, win-win cooperation has become an irreversible trend and the progress of economic globalization will not be affected. In light of this, the Bank will follow the trends and further improve its corporate governance structure after the successful listing of its H Shares and build itself into a domestic and overseas financing platform so as to make full use of various advantages in the domestic and international economic environment. In addition, by adhering to the principle of compliance operation and steady development, the Bank will enhance its operating efficiency and ability, capture development opportunities, strictly control risks and maintain quality of assets, so as to comprehensively promote high-quality business development.

Development Strategy

Our vision is committed to building ourselves into a first class listed city commercial bank. To this end, the Bank will adhere to the principle of customer-centric, base business operation on sustainable development, guarantee business safety with risk prevention, drive business growth through capability enhancement and regard serving the real economy as its mission. It will make steady progress while prioritising economic benefits and set off on a path that leads to “differentiated, comprehensive, refined and international” development.

To achieve the aforesaid goals, the Bank plans to: (i) advance internal reforms to optimize organizational structure and enhance the corporate governance standards and fundamental management capability of the Bank; (ii) develop mega retail business system to ensure the implementation of the retail transformation strategy; (iii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iv) quicken its pace of integrated operation by actively applying for various business licenses in order to enhance its ability to provide comprehensive services; (v) promote the application of Fintech and cross-sector cooperation to expand its service coverage; (vi) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; (vii) adapt to new norms for regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (viii) explore new business growth models by leveraging the larger international platform available to the Bank after the listing of its H Shares; and (ix) adhere to talent cultivation with continuous promotion in team cohesion.

Overall Business Review

The Bank recorded a total operating income of RMB8,872.2 million in 2018, representing an increase of 10.2% as compared to RMB8,052.5 million in 2017. The Bank's net profit increased by 2.3% from RMB3,363.7 million in 2017 to RMB3,439.6 million in 2018. The Bank's performance not only delivered sound returns to the Shareholders and investors, but also laid a solid foundation for its sustainable development.

As at December 31, 2018, the Bank's total assets amounted to RMB328,622.4 million, representing a year-on-year increase of 21.2%; total loans and advances to customers amounted to RMB160,885.3 million, representing a year-on-year increase of 23.5%; the non-performing loan ratio remained at a reasonable level of 2.29%; total deposits from customers amounted to RMB210,723.3 million, representing a year-on-year increase of 9.6%.

(a) Analysis of the Consolidated Statements of Profit or Loss

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018	2017	Increase or decrease	Percentage change (%)
Interest income	15,327.1	14,045.8	1,281.3	9.1
Interest expense	(8,199.3)	(6,560.8)	(1,638.5)	25.0
Net interest income	7,127.8	7,485.0	(357.2)	(4.8)
Fee and commission income	362.7	462.8	(100.1)	(21.6)
Fee and commission expenses	(196.6)	(86.1)	(110.5)	128.3
Net fee and commission income	166.1	376.7	(210.6)	(55.9)
Net trading gains/(losses)	1,089.2	(21.9)	1,111.1	–
Net gains/(losses) arising from investment securities	42.7	116.9	(74.2)	(63.5)
Net exchange gains/ (losses)	388.2	(13.2)	401.4	–
Other operating income	58.2	109.0	(50.8)	(46.6)
Operating income	8,872.2	8,052.5	819.7	10.2
Operating expenses	(2,271.0)	(2,052.2)	(218.8)	10.7
Impairment losses on assets	(1,962.4)	(1,523.0)	(439.4)	28.9
Operating profit	4,638.8	4,477.3	161.5	3.6
Share of profits of associates	(1.0)	1.8	(2.8)	(155.6)
Profit before tax	4,637.8	4,479.1	158.7	3.5
Income tax expense	(1,198.2)	(1,115.4)	(82.8)	7.4
Profit for the year	3,439.6	3,363.7	75.9	2.3
Profit for the year attributable to:				
– Owners of the Bank	3,435.3	3,358.5	76.8	2.3
– Non-controlling interests	4.3	5.2	(0.9)	(17.3)
Profit for the year	3,439.6	3,363.7	75.9	2.3

In 2018, the Bank's profit before tax was RMB4,637.8 million, representing a year-on-year increase of 3.5%; profit for the year was RMB3,439.6 million, representing a year-on-year increase of 2.3%, mainly attributable to the stable growth of total interest-earning assets resulting in increase in operating income of RMB819.7 million or 10.2% as compared to the previous year.

(i) *Net interest income*

The net interest income was the largest component of the Bank's operating revenue, accounting for 93.0% and 80.3% of the operating income in 2017 and 2018 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018	2017	Increase or decrease	Percentage change (%)
Interest income	15,327.1	14,045.8	1,281.3	9.1
Interest expense	(8,199.3)	(6,560.8)	(1,638.5)	25.0
Net interest income	<u>7,127.8</u>	<u>7,485.0</u>	<u>(357.2)</u>	<u>(4.8)</u>

The table below sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield of related assets or average cost of related liabilities of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)
Interest-earning assets						
Loans and advances to customers	147,267.4	9,971.4	6.77	116,311.5	7,744.8	6.66
Investment securities and other financial assets ⁽³⁾	92,171.5	3,812.3	4.14	82,720.9	4,687.8	5.67
Deposits with banks	20,051.6	692.6	3.45	26,615.8	974.5	3.66
Financial assets held under resale agreements and placements with banks and other financial institutions	13,486.8	416.4	3.09	6,692.5	251.3	3.75
Deposits with the central bank ⁽⁴⁾	28,153.5	434.4	1.54	24,974.1	387.4	1.55
Total interest-earning assets	<u>301,130.8</u>	<u>15,327.1</u>	<u>5.09</u>	<u>257,314.8</u>	<u>14,045.8</u>	<u>5.46</u>

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance ⁽¹⁾	Interest expense	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest expense	Average yield ⁽²⁾ (%)
Interest-bearing liabilities						
Deposits from customers	196,727.2	4,923.3	2.50	177,607.9	3,532.7	1.99
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	12,823.5	431.1	3.36	7,899.0	239.1	3.03
Debt securities issued ⁽⁵⁾	32,958.1	1,566.3	4.75	20,126.6	946.0	4.70
Deposits from banks and other financial institutions	21,964.5	1,017.5	4.63	31,807.2	1,712.5	5.38
Borrowings from the central bank	7,034.1	261.1	3.71	3,939.4	130.5	3.31
Total interest-bearing liabilities	271,507.4	8,199.3	3.02	241,380.1	6,560.8	2.72
Net interest income		7,127.8			7,485.0	
Net interest spread⁽⁶⁾			2.07			2.74
Net interest margin⁽⁷⁾			2.37			2.91

Notes:

- (1) The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts.
- (2) Calculated by dividing interest income/expense by average balance.
- (3) Primarily includes investments classified as receivables, available-for-sale financial assets, held-to-maturity investments, and financial assets at fair value through profit or loss.
- (4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.
- (5) Primarily includes interbank certificates and tier-two capital bonds.
- (6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the daily average balance of interest-earning assets.

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate for the periods indicated. Changes in amount are measured by changes in average balances, and changes in interest rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2018 vs 2017		
	Increase/(decrease) due to		
	Amount ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	2,095.7	127.9	2,226.6
Investment securities and other financial assets	391.3	(1,265.6)	(875.5)
Deposits with banks	(226.5)	(55.9)	(281.9)
Financial assets held under resale agreements and placements with banks and other financial institutions	209.9	(44.2)	165.1
Deposits with the central bank	49.0	(2.5)	47.0
Change in interest income	2,230.2	(952.1)	1,281.3
Interest-bearing liabilities			
Deposits from customers	478.0	905.8	1,390.6
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	165.5	26.1	192.0
Debt securities issued	609.5	10.1	620.3
Deposits from banks and other financial institutions	(455.7)	(238.6)	(695.0)
Borrowings from the central bank	114.8	15.8	130.6
Change in interest expense	909.8	724.1	1,638.5
Change in net interest income	1,320.4	(1,676.2)	(357.2)

Notes:

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

(ii) Interest income

The table below sets forth the principal components of interest income of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
Loans and advances to customers	9,971.4	65.1	7,744.8	55.1
Investment securities and other financial assets	3,812.3	24.9	4,687.8	33.4
Deposits with banks	692.6	4.5	974.5	6.9
Financial assets held under resale agreements and placements with banks and other financial institutions	416.4	2.7	251.3	1.8
Deposits with the central bank	434.4	2.8	387.4	2.8
Total	15,327.1	100.0	14,045.8	100.0

Interest income increased by 9.1% from RMB14,045.8 million in 2017 to RMB15,327.1 million in 2018, primarily due to a 17.0% increase in the average balance of interest-earning assets, from RMB257,314.8 million in 2017 to RMB301,130.8 million in 2018, partially offset by a decrease in the average yield of interest-earning assets from 5.46% in 2017 to 5.09% in 2018. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to a decrease in the average yield of investment securities and other financial assets, the reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon adoption of new financial instrument standards, lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields.

Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 55.1% and 65.1% of total interest income in 2017 and 2018, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Average balance ⁽¹⁾	Year ended December 31,				
		2018				2017
		Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	106,076.8	7,194.3	6.78	88,204.1	5,918.5	6.71
Retail loans	22,678.2	1,757.7	7.75	10,223.8	945.1	9.24
Discounted bills	18,512.4	1,019.4	5.51	17,883.6	881.2	4.93
Total loans and advances to customers	147,267.4	9,971.4	6.77	116,311.5	7,744.8	6.66

Note:

- ⁽¹⁾ Represents the average of daily balances based on our unaudited management accounts.

(A) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets decreased by 18.7% from RMB4,687.8 million in 2017 to RMB3,812.3 million in 2018, primarily due to a 11.4% increase in the average balance of investment securities and other financial assets, from RMB82,720.9 million in 2017 to RMB92,171.5 million in 2018, offset by a decrease in the average yield of investment securities and other financial assets, from 5.67% in 2017 to 4.14% in 2018. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets; (ii) our increased investments in debt securities with high liquidity and lower yields; and (iii) reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon adoption of new financial instrument standards..

Interest income from deposits with banks

Interest income from deposits with banks decreased by 28.9% from RMB974.5 million in 2017 to RMB692.6 million in 2018, primarily due to a 24.7% decrease in the average balance of deposits with banks, from RMB26,615.8 million in 2017 to RMB20,051.6 million in 2018, and a decrease in the average yield of deposits with banks, from 3.66% in 2017 to 3.45% in 2018. The decrease in average balance was due to our decreased investments in deposits with banks based on changes in interbank money market interest rates. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease in returns from deposits with banks.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 65.7% from RMB251.3 million in 2017 to RMB416.4 million in 2018, which was primarily due to a 101.5% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB6,692.5 million in 2017 to RMB13,486.8 million in 2018; a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.75% in 2017 to 3.09% in 2018, was offset, which in turn resulted in an increase in returns from reverse repurchase transactions.

Interest income from deposits with the central bank

Interest income from deposits with the central bank increased by 12.1% from RMB387.4 million in 2017 to RMB434.4 million in 2018, primarily due to a 12.7% increase in the average balance of deposits with the central bank, from RMB24,974.1 million in 2017 to RMB28,153.5 million in 2018. The increase in average balance was primarily due to increased statutory deposit reserves resulting from the continued growth in deposits from customers.

Interest expense

The table below sets forth the principal components of interest expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
Deposits from customers	4,923.3	60.0	3,532.7	53.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	431.1	5.3	239.1	3.6
Debt securities issued	1,566.3	19.1	946.0	14.4
Deposits from banks and other financial institutions	1,017.5	12.4	1,712.5	26.1
Borrowings from the central bank	261.1	3.2	130.5	2.0
Total	8,199.3	100.0	6,560.8	100.0

Interest expense increased by 25.0% from RMB6,560.8 million in 2017 to RMB8,199.3 million in 2018, primarily due to a 12.5% increase in the average balance of interest-bearing liabilities, from RMB241,380.1 million in 2017 to RMB271,507.4 million in 2018, and an increase in the average cost of interest-bearing liabilities, from 2.72% in 2017 to 3.02% in 2018. The increase in the average balance of interest-bearing liabilities was primarily due to the increases in customer deposits and repurchase transactions and our issuance of debt securities and borrowings from the central bank. The increase in the average cost of interest-bearing liabilities was primarily due to higher market interest rates.

(B) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 39.4% from RMB3,532.7 million in 2017 to RMB4,923.3 million in 2018, primarily due to a 10.8% increase in the average balance of deposits from customers, from RMB177,607.9 million in 2017 to RMB196,727.2 million in 2018, and an increase in the average cost of deposits from customers, from 1.99% in 2017 to 2.50% in 2018. The increase in the average cost of deposits from customers was primarily due to higher interest rates in deposit market.

(C) Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 80.3% from RMB239.1 million in 2017 to RMB431.1 million in 2018, primarily due to a 62.3% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB7,899.0 million in 2017 to RMB12,823.5 million in 2018, and an increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 3.03% in 2017 to 3.36% in 2018. The increase in average balance was primarily because we entered into more repurchase transactions to diversify our financing channels. The increase in average cost was primarily due to higher market interest rates, which in turn led to an increase in the cost of repurchase transactions.

(D) Interest expense on debt securities issued

Interest expense on debt securities issued increased by 65.6% from RMB946.0 million in 2017 to RMB1,566.3 million in 2018, primarily due to a 63.8% increase in the average balance of debt securities issued, from RMB20,126.6 million in 2017 to RMB32,958.1 million in 2018 and an increase in the average cost of debt securities issued, from 4.70% in 2017 to 4.75% in 2018. The increase in average balance was primarily due to our issuance of financial bonds in an aggregate principal amount of RMB1,500.0 million and interbank certificates in an aggregate principal amount of RMB45,090.0 million. The increase in average cost was primarily due to our issuance of mid and long-term financial bonds which had relatively higher interest rates, and an increase in the interest rates of interbank certificates reflecting higher market interest rates.

(E) Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 40.6% from RMB1,712.5 million in 2017 to RMB1,017.5 million in 2018, primarily due to a 30.9% decrease in the average balance of deposits from banks and other financial institutions, from RMB31,807.2 million in 2017 to RMB21,964.5 million in 2018, primarily because fund raising through deposits from banks and other financial institutions were reduced as a result of increased deposits from customers and our issuance of interbank certificates and financial bonds. In 2017 and 2018, the average cost of deposits from banks and other financial institutions decreased from 5.38% to 4.63%.

(F) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank increased by 100.1% from RMB130.5 million in 2017 to RMB261.1 million in 2018, primarily due to a 78.6% increase in the average balance of borrowings from the central bank, from RMB3,939.4 million in 2017 to RMB7,034.1 million in 2018, primarily due to increase in business. The average cost of borrowings from the central bank increased from 3.31% in 2017 to 3.71% in 2018, respectively.

(iii) *Net interest spread and net interest margin*

Net interest spread decreased from 2.74% in 2017 to 2.07% in 2018, primarily due to a decrease in average yield of total interest-earning assets, from 5.46% to 5.09%, primarily due to (i) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields; and (ii) reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon of adoption of new financial instrument standards.. The decrease was partially offset by an increase in the average cost of total interest-bearing liabilities, from 2.72% to 3.02%, primarily due to higher market interest rate.

Net interest margin decreased from 2.91% in 2017 to 2.37% in 2018, primarily attributable to the growth in the daily average balance of interest-earning assets, which outpaced the net interest income.

Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2018	2017		
Fee and commission income				
Wealth management service fees	48.0	193.9	(145.9)	(75.2)
Agency service fees	207.3	144.4	62.9	43.6
Settlement and clearing fees	68.4	53.0	15.4	29.1
Bank acceptance bill service fees	19.8	14.7	5.1	34.7
Letters of guarantee fees	4.3	8.4	(4.1)	(48.8)
Others ⁽¹⁾	14.9	48.4	(33.5)	(69.2)
Subtotal	362.7	462.8	(100.1)	(21.6)
Fee and commission expenses	(196.6)	(86.1)	(110.5)	128.3
Net fee and commission income	166.1	376.7	(210.6)	(55.9)

Note:

⁽¹⁾ Primarily include guarantee fees and advisory service income.

Net fee and commission income decreased by 55.9% from RMB376.7 million in 2017 to RMB166.1 million in 2018, primarily due to decreases in wealth management service fees and letters of guarantee fees.

Fee and commission expenses mainly included settlement and clearing service fees paid to third parties and debit card service fees. Fee and commission expenses increased by 128.3% from RMB86.1 million in 2017 to RMB196.6 million in 2018, primarily due to increases in debit cards issued and a higher volume of debit card transactions of the Bank which led to an increase in relevant expenses.

(B) Net trading gains/(losses)

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. We had net trading losses of RMB21.9 million in 2017, and net trading gains of RMB1,089.2 million in 2018, primarily reflecting the fluctuations in market interest rates and reallocation of interest income from financial assets at fair value through profit or loss under interest income to net trading gains upon adoption of new financial instrument standards..

(C) Net gains from investment securities and other financial assets

The net gains from investment securities and other financial assets included net gains from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The net gains from investment securities and other financial assets of the Bank was RMB116.9 million in 2017. The net gains from investment securities and other financial assets of the Bank was RMB42.7 million in 2018. The decrease in the net gains was mainly due to change of accounting treatment following the application of IFRS9.

(D) Net exchange gains/(losses)

Net exchange gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. We had net exchange gains of RMB388.2 million and losses of RMB13.2 million in 2018 and 2017, primarily reflecting fluctuations in exchange rates.

(E) Other operating income

Other operating income mainly included government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets. Other operating income decreased by 46.6% from RMB109.0 million in 2017 to RMB58.2 million in 2018. This mainly reflects the decrease in government subsidies.

(iv) Operating expenses

Operating expenses increased by 10.7% from RMB2,052.2 million in 2017 to RMB2,271.0 million in 2018, primarily due to the increase in property and equipment expenses and staff costs.

The table below sets forth the principal components of operating expenses of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2018	2017		
Staff costs	1,240.5	1,157.3	83.2	7.2
General management and administrative expenses	429.8	431.0	(1.2)	(0.3)
Property and equipment expenses	523.1	409.3	113.8	27.8
Business tax and surcharge	77.7	54.6	23.1	42.3
Total	2,271.1	2,052.2	218.9	10.7
Cost-to-income ratio⁽¹⁾	24.72%	24.81%	–	(0.36)

Note:

⁽¹⁾ Calculated by dividing total operating expenses (net of business tax and surcharge) by total operating income.

(A) Staff costs

The table below sets forth the components of staff costs for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2018	2017		
Salaries and bonuses	910.4	869.7	40.7	4.7
Social insurance	209.2	183.0	26.2	14.3
Housing allowances	57.1	41.9	15.2	36.3
Staff welfares	35.5	36.3	(0.8)	(2.2)
Labour union and staff education expenses	23.5	23.8	(0.3)	(1.3)
Others	4.8	2.6	2.2	84.6
Staff costs	1,240.5	1,157.3	83.2	7.2

Staff costs increased by 7.2% from RMB1,157.3 million in 2017 to RMB1,240.5 million in 2018, primarily due to a corresponding increase in the number of employees due to the expansion of our business.

(B) Property and equipment expenses

Property and equipment expenses increased by 27.8% from RMB409.3 million in 2017 to RMB523.1 million in 2018. The increase in property and equipment expenses mainly reflected an increase in depreciation on newly owned properties, and an increase in depreciation on equipment due to development of new IT systems and addition of new equipment.

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses decreased by 0.3% from RMB431.0 million in 2017 to RMB429.8 million in 2018, maintaining relatively stable.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank increased by 42.3% from RMB54.6 million in 2017 to RMB77.7 million in 2018. The increase is in line with business growth.

(v) *Impairment losses on assets*

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2018	2017		
Loans and advances to customers	1,994.4	1,262.5	731.9	58.0
Investment assets	(57.2)	244.2	(301.4)	(123.4)
Other assets	7.8	16.3	(8.5)	(52.2)
Acceptance bill and letter of guarantee	17.4	–	17.4	N/A
Impairment losses on assets	1,962.4	1,523.0	439.4	28.9

Note:

⁽¹⁾ Primarily include interest receivables, advance payment and repossessed assets.

Impairment losses on assets increased by 28.9% from RMB1,523.0 million in 2017 to RMB1,962.4 million in 2018, mainly due to increases in provisions for impairment of loans and advances to customers.

Impairment losses on loans and advances to customers increased by 58% from RMB1,262.5 million in 2017 to RMB1,994.4 million in 2018, mainly due to the increase in provision for impairment losses on assets resulting from to an increase in new non-performing loans in 2018.

(vi) *Income tax expense*

Income tax expense increased by 7.4 % from RMB1,115.4 million in 2017 to RMB1,198.2 million in 2018. The increase in income tax expense was in line with the growth of our business. Effective tax rates were 25.8% and 24.9% in 2018 and 2017, respectively.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of December 31, 2018 and 2017, the total assets of the Bank were RMB328,622.4 million and RMB271,147.6 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, gross	160,885.3	49.0	130,283.6	48.1
Provision for impairment losses	(6,251.5)	(1.9)	(5,029.0)	(1.9)
Loans and advances to customers, net	154,633.9	47.1	125,254.6	46.2
Investment securities and other financial assets ⁽¹⁾	102,876.4	31.3	70,105.5	25.9
Deposits with banks	12,927.7	3.9	30,811.7	11.4
Cash and deposits with the central bank	31,536.9	9.6	29,084.4	10.7
Financial assets held under resale agreements	19,523.8	5.9	9,819.9	3.6
Other assets ⁽²⁾	7,123.7	2.2	6,071.5	2.2
Total assets	328,622.4	100.0	271,147.6	100.0

Notes:

⁽¹⁾ Including financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, and financial assets at amortised cost.

⁽²⁾ Primarily consist of property and equipment, deposit paid for acquisitions of premises, deferred tax assets, interests receivable and interests in an associate.

(A) Loans and advances to customers

As of December 31, 2018, the total loans and advances to customers of the Bank were RMB160,885.3 million, representing an increase of 23.5% as compared to the end of last year. Net loans and advances to customers accounted for 47.1% of the total assets of the Bank, representing an increase of approximately 0.9 percentage points as compared to the end of last year.

The table below sets forth loans and advances to customers by product as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate loans	113,204.1	70.4	97,253.7	74.7
Retail loans	28,025.2	17.4	14,638.1	11.2
Discounted bills	19,656.0	12.2	18,391.8	14.1
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, all of which are substantially denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 47.1% and 46.2% of total assets as of December 31, 2018 and 2017, respectively.

The Bank's corporate loans increased by 16.40% from RMB97,253.7 million as of December 31, 2017 to RMB113,204.1 million as of December 31, 2018, primarily due to the increasing market demand for corporate loans.

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 91.50% from RMB14,638.1 million as of December 31, 2017 to RMB28,025.2 million as of December 31, 2018, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase online loans and personal housing mortgage loans.

Loans and advances to customers by type of collateral

The table below sets forth loans and advances to customers by type of collateral as of the dates indicated. If a loan is secured by multiple forms of collateral, the classification is based on the primary form of collateral.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Collateralized loans	77,917.8	48.4	58,395.8	44.8
Pledged loans	10,310.4	6.4	8,977.9	6.9
Guaranteed loans	54,814.5	34.1	50,146.6	38.5
Unsecured loans	17,842.6	11.1	12,763.3	9.8
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0

As of December 31, 2017 and 2018, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 90.2% and 88.9% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 39.80% from RMB12,763.3 million as of December 31, 2017 to RMB17,842.6 million as of December 31, 2018. The increase of unsecured loans was primarily due to the successive launching of certain online loan products with lower risk by utilizing big data resources.

Change to the provisions for impairment losses on loans and advances to customers

The table below sets forth the change to the provisions for impairment losses on loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	2018	2017
As of January 1	5,029.0	3,756.0
Adjustments due to application of new standards	52.2	
Charge for the year	1,994.4	1,262.5
Write-offs for the year and others	(824.8)	
Reversal of write-offs for the previous years	0.7	10.5
As of December 31	<u>6,251.5</u>	<u>5,029.0</u>

Provisions for impairment losses on loans increased by 24.30% from RMB5,029.0 million as of December 31, 2017 to RMB6,251.5 million as of December 31, 2018, primarily due to the increase in the Bank's provisions for impairment losses on account of the increase in non-performing loans of the Bank.

(B) Investment securities and other financial assets

As of December 31, 2018 and 2017, the Bank's investment securities and other financial assets were RMB105,605.8 million and RMB87,116.2 million, representing 32.1% and 35.5% of its total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

Investment securities and other financial assets increased by 21.2% from RMB87,116.2 million as of December 31, 2017 to RMB105,605.8 million as of December 31, 2018. This increase was primarily due to the adjustment of our investment portfolio based on investment considerations, market conditions and other factors.

(ii) Liabilities

As of December 31, 2018 and 2017, the total liabilities were RMB303,374.8 million and RMB254,534.6 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Deposits from customers	210,723.3	69.5	192,230.6	75.5
Deposits from banks and other financial institutions	15,513.8	5.1	20,178.4	7.9
Financial assets sold under repurchase agreements	11,717.0	3.9	5,817.5	2.3
Debt securities issued	41,576.8	13.7	23,960.8	9.4
Borrowings from the central bank	11,650.9	3.8	5,290.4	2.1
Placements with banks and other financial institutions	3,300.0	1.1	1,050.0	0.4
Other liabilities ⁽¹⁾	8,893.0	2.9	6,006.9	2.4
Total liabilities	303,374.8	100.0	254,534.6	100.0

Note:

⁽¹⁾ Primarily include interest payable, taxes payable, staff costs and deferred tax liabilities.

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2017 and 2018, deposits from customers represented 75.5% and 69.5% of the total liabilities, respectively.

We offer RMB-denominated demand and time deposit products to corporate and retail customers. The table below sets forth deposits from customers by product and customer type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	54,381.4	25.8	67,636.1	35.2
Time deposits	18,058.5	8.6	14,793.2	7.7
Subtotal	72,439.9	34.4	82,429.3	42.9
Retail deposits				
Demand deposits	24,114.6	11.4	22,077.3	11.5
Time deposits	83,018.5	39.4	59,921.8	31.2
Subtotal	107,133.1	50.8	81,999.1	42.7
Pledged deposits	16,500.1	7.8	17,447.3	9.0
Others⁽¹⁾	14,650.2	7.0	10,354.9	5.4
Total deposits from customers	210,723.3	100.0	192,230.6	100.0

Note:

⁽¹⁾ Primarily include principal guaranteed wealth management products issued by the Bank and deposits raised from other investment vehicles.

Total deposits from customers increased by 9.6% from RMB192,230.6 million as of December 31, 2017 to RMB210,723.3 million as of December 31, 2018. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow retail deposits.

(B) Debts securities issued

In December 2015, the Bank issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. The Bank have an option to redeem the bonds on December 11, 2020 at par.

In March 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In August 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

In May 2018, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2018 to December 31, 2018, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB45,090.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

(iii) *Shareholders' equity*

The table below sets forth the change in Shareholders' equity of the Bank as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Share capital	10,069.8	39.9	7,526.0	45.3
Capital reserve	4,658.3	18.5	1,767.7	10.6
Defined benefit scheme reserve	(4.2)	–	(0.7)	–
Investment revaluation reserve	261.4	1.0	(125.3)	(0.8)
Surplus reserve	1,510.1	6.0	893.0	5.4
General reserve	4,423.1	17.5	3,631.6	21.9
Retained earnings	4,297.8	17.0	2,889.0	17.4
Non-controlling interests	31.3	0.1	31.7	0.2
Total equity	25,247.6	100.0	16,613.0	100.0

(c) *Asset quality analysis*

(i) *Breakdown of loans by the five-category classification*

The Bank's non-performing loans are classified into substandard, doubtful and loss-making loans and advances to customers. As of December 31, 2018, the Bank's non-performing loans amounted to RMB3,688.8 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Normal	147,789.2	91.9	120,835.5	92.7
Special mention	9,407.3	5.8	7,182.8	5.5
Substandard	1,330.2	0.8	780.2	0.6
Doubtful	1,773.2	1.1	858.6	0.7
Loss	585.4	0.4	626.5	0.5
Total loans and advances to customers	160,885.3	100.0	130,283.6	100.0
Non-performing loans and non-performing loan ratio⁽¹⁾	3,688.8	2.29	2,265.3	1.74

Note:

- ⁽¹⁾ Calculated by dividing non-performing loans by total loans and advances to customers.

As of December 31, 2018 and 2017, the non-performing loan ratios of the Bank were 2.29% and 1.74%, respectively, representing an increase of 0.55 percentage points.

(ii) Concentration of loans

(A) Concentration by industry and distribution of non-performing loans

The table below sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018				As of December 31, 2017			
	Loan amount	% of total	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	% of total	Non- performing loan amount	Non- performing loan ratio (%)
Corporate loans								
Wholesale and retail	24,169.5	15.0	1,468.5	6.08	18,232.4	14.0	783.7	4.30
Manufacturing	20,197.2	12.6	583.3	2.89	15,743.3	12.1	346.4	2.20
Agriculture, forestry, animal husbandry and fishing	8,204.6	5.1	524.0	6.39	15,728.2	12.1	399.1	2.54
Construction	9,129.2	5.7	369.8	4.05	12,101.3	9.3	122.0	1.01
Real estate	13,124.8	8.2	–	–	13,685.8	10.5	–	–
Mining	8,534.1	5.3	88.2	1.03	7,087.5	5.4	208.0	2.93
Water, environment and public facility management	6,051.4	3.7	–	–	3,133.2	2.4	–	–
Culture, sports and entertainment	2,898.1	1.8	19.3	0.67	2,628.0	2.0	2.3	0.09
Leasing and business services	7,157.6	4.4	16.4	0.23	1,695.6	1.3	27.0	1.59
Electricity, heating power, gas and water production and supply	2,509.8	1.6	4.5	0.18	2,545.3	2.0	30.0	1.18
Transportation, storage and postal services	2,328.9	1.4	47.7	2.05	1,173.8	0.9	38.3	3.26
Education	1,634.6	1.0	6.0	0.37	1,384.6	1.0	–	–
Accommodation and catering	2,689.4	1.7	32.0	1.19	1,172.3	0.9	60.8	5.19
Financial	1,000.0	0.6	–	–	3.0	0.0	–	–
Health and social services	1,846.2	1.2	–	–	463.4	0.4	–	–
Residents and other services	622.6	0.4	16.1	2.59	224.3	0.2	2.5	1.11

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018				As of December 31, 2017			
	Loan amount	% of total	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	% of total	Non- performing loan amount	Non- performing loan ratio (%)
Scientific research, technical service and geological prospecting	927.1	0.6	–	–	126.0	0.1	–	–
Information transmission, computer service and software	159.0	0.1	28.0	17.61	74.3	0.1	3.0	4.04
Public administration, social security and social organizations	20.0	–	–	–	51.4	–	–	–
Retail loans	28,025.2	17.4	485.0	1.73	14,638.1	11.2	242.2	1.65
Discounted bills	19,656.0	12.2	–	–	18,391.8	14.1	–	–
Total amount	160,885.3	100.0	3,688.8	2.29	130,283.6	100.0	2,265.3	1.74

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

Loans to borrowers in the wholesale and retail, manufacturing, real estate, construction and mining real estate industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 77.6% and 66.4% of total corporate loans as of December 31, 2017 and 2018, respectively.

As of December 31, 2018, non-performing loans of the Bank's loans were mainly concentrated in the wholesale and retail and manufacturing industry, with a non-performing loan ratio of 6.08% and 2.89%, respectively.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2018	As of December 31, 2017
Loan concentration ratio for the largest single customer (%)	≤ 10	4.22	4.56
Loan concentration ratio for the top ten customers (%)	≤ 50	31.00	35.35

Note: The data above are calculated in accordance with the formula promulgated by the CBIRC.

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2018 and the balances of loans to these borrowers, of which two borrowers were classified as special mention, others were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2018		
Customers	Industries involved	Amount	% of total loans	% of regulatory capital
Borrower A	Mining	1,300.0	0.8	4.2
Borrower B	Leasing and business services	1,018.0	0.6	3.3
Borrower C	Financial	1,000.0	0.6	3.2
Borrower D	Manufacturing industry	997.0	0.6	3.2
Borrower E	Mining	990.0	0.6	3.2
Borrower F	Agriculture, forestry, animal husbandry and fishery	900.0	0.6	2.9
Borrower G	Manufacturing industry	875.6	0.6	2.8
Borrower H	Manufacturing industry	848.3	0.5	2.8
Borrower I	Manufacturing industry	810.0	0.5	2.6
Borrower J	Scientific research and technical service	800.0	0.5	2.6
Total		9,538.9	5.9	30.8

(C) Non-performing loans by product

The table below sets forth loans and non-performing loans by product type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018			As of December 31, 2017		
	Loan amount	Non- performing loan amount	Non- performing loan ratio ⁽¹⁾ (%)	Loan amount	Non- performing loan amount	Non- performing loan ratio ⁽¹⁾ (%)
Corporate loans						
Working capital loans	72,527.7	3,117.9	4.30	32,509.8	150.0	0.46
Fixed asset loans	38,615.8	45.0	0.12	64,473.9	1,714.3	2.66
Others ⁽¹⁾	2,060.6	40.9	1.98	270.0	158.8	58.81
Sub-total	113,204.1	3,203.8	2.83	97,253.7	2,023.1	2.08
Retail loans						
Personal business loans	7,580.1	361.4	4.77	6,693.4	215.2	3.21
Personal consumption loans	7,647.7	68.5	0.90	3,962.7	21.5	0.54
Residential and commercial mortgage loans	12,797.4	55.1	0.43	3,982.0	5.5	0.14
Sub-total	28,025.2	485.0	1.73	14,638.1	242.2	1.65
Discounted bills	19,656.0	-	-	18,391.8	-	-
Total non-performing loans	160,885.3	3,688.8	2.29	130,283.6	2,265.3	1.74

Notes:

⁽¹⁾ Calculated by dividing non-performing loans by loans and advances to customers of each product category.

⁽²⁾ Primarily consist of advances for bank acceptance bill.

The non-performing loan ratio of corporate loans increased by 0.75 percentage points from 2.08% as of December 31, 2017 to 2.83% as of December 31, 2018.

The non-performing loan ratio of retail loans increased by 0.08 percentage points from 1.65% as of December 31, 2017 to 1.73% as of December 31, 2018.

(D) Loan aging schedule

The table below sets forth the loan aging schedule for loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Loans not overdue	<u>149,847.3</u>	<u>93.2</u>	<u>124,916.9</u>	<u>95.9</u>
Loans past due for:				
1 to 90 days	6,013.6	3.7	2,042.1	1.6
91 days to 1 year	3,800.7	2.4	1,521.2	1.2
1 to 3 years	1,018.1	0.6	1,356.0	1.0
3 years or more	<u>205.6</u>	<u>0.1</u>	<u>447.4</u>	<u>0.3</u>
Subtotal	<u>11,038.0</u>	<u>6.8</u>	<u>5,366.7</u>	<u>4.1</u>
Total loans and advances to customers	<u><u>160,885.3</u></u>	<u><u>100.0</u></u>	<u><u>130,283.6</u></u>	<u><u>100.0</u></u>

(d) Segments information

(i) Summary of business segment

We operate three principal lines of business: corporate banking, retail banking and financial market operations. The table below sets forth the operating income for each of our principal business segments for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate banking	4,643.1	52.3	4,455.6	55.3
Retail banking	1,026.0	11.6	1,016.3	12.6
Financial market operations	2,748.2	31.0	2,464.3	30.6
Others ⁽¹⁾	<u>454.9</u>	<u>5.1</u>	<u>116.3</u>	<u>1.5</u>
Total operating income	<u><u>8,872.2</u></u>	<u><u>100.0</u></u>	<u><u>8,052.5</u></u>	<u><u>100.0</u></u>

Note:

⁽¹⁾ Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

(ii) *Summary of geographical segment information*

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located in Gansu Province of the PRC and the revenue is derived from local activities there.

(e) *Off-balance sheet commitments*

Off-balance sheet commitments primarily consist of bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018	As of December 31, 2017
Credit commitments:		
Loan commitments	–	24.0
Bank acceptances ⁽¹⁾	26,418.1	29,352.8
Letters of guarantee ⁽²⁾	721.5	516.2
Unused credit card commitments	359.2	–
Subtotal	27,498.8	29,893.0
Operating lease commitments	320.1	372.9
Capital commitments	38.7	298.8
Total	27,857.6	30,564.7

Notes:

- (1) Bank acceptances refer to our undertakings to pay bank bills drawn on our customers.
- (2) We issue letters of credit and guarantee to third parties to guarantee our customers' contractual obligations.

Off-balance sheet commitments decreased by 10.0% from RMB30,564.7 million as of December 31, 2017 to RMB27,857.6 million as of December 31, 2018. The decreases in off-balance sheet commitments were primarily due to the decreases in bank acceptance bills issued.

Business Review

(a) Corporate banking

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises.

In addition, we are committed in seeking to develop long-term relationships with customers by closely monitoring their financial needs and by offering tailored financial solutions. As of December 31, 2018, we had over 4,430 corporate borrowers with total loans of RMB113,204.1 million, and more than 75,051 corporate deposit customers with total deposits of RMB72,439.9 million. In 2017 and 2018, operating income from our corporate banking business accounted for 55.3% and 52.3% of our total operating income, respectively. The table below sets forth the financial performance of our corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		
	2018	2017	Percentage change (%)
External interest income, net ⁽¹⁾	5,264.4	4,821.8	9.2
Inter-segment interest expenses, net ⁽²⁾	(708.3)	(510.0)	38.9
Net interest income	4,556.1	4,311.8	5.7
Net fees and commission income	87.0	143.8	(39.5)
Operating income	4,643.1	4,455.6	4.2
Operating expenses	(1,190.3)	(1,135.6)	4.8
Impairment losses on assets	(1,386.2)	(953.3)	45.4
Operating profit	2,066.6	2,366.7	(12.7)
Profit before tax	2,066.6	2,366.7	(12.7)

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Corporate loans

Corporate loans constituted the largest component of our loan portfolio. As of December 31, 2018 and 2017, corporate loans amounted to RMB113,204.1 million and RMB97,253.7 million, accounting for 70.4% and 74.7% of our total loans and advances to customers, respectively.

(ii) Discounted bills

We purchase bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2017 and 2018, discounted bills totaled RMB18,391.8 million and RMB19,656.0 million, accounting for 14.1% and 12.2% of our total loans and advances to customers, respectively.

(iii) Corporate deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HK dollar and EUR) from corporate customers. As of December 31, 2018 and 2017, corporate deposits totaled RMB72,439.9 million and RMB82,429.3 million, accounting for 34.4% and 42.9% of our total customer deposits, respectively.

(iv) Fee and commission-based products and services

We offer corporate customers a broad range of fee and commission-based products and services, primarily including wealth management services, entrusted loans, settlement services and consultation and financial advisory services.

(A) Wealth management services

We offer corporate customers a broad range of wealth management products based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2018 and 2017, wealth management products sold to corporate customers totaled RMB1,220.7 million and RMB2,009.9 million, respectively.

(B) Entrusted loans

We provide loans to borrowers designated by corporate customers, who determine the use of proceeds, principal amount and interest rates for these loans. We monitor the use of entrusted loans by borrowers and assist corporate customers in recovering these loans.

We charge agency fees based on the principal amount of entrusted loans. Our corporate customers bear the risk of default associated with these loans. In 2018 and 2017, service fees charged to corporate customers for entrusted loans totaled RMB96.7 million and RMB144.4 million, respectively.

(C) Settlement services

We offer corporate customers domestic and international settlement services.

Domestic Settlement Services. We provide domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. In 2017 and 2018, our total domestic settlement transaction volumes were approximately RMB7,910.2 billion and RMB8,429.3 billion, respectively.

International Settlement Services. We obtained approval to provide international settlement services in January 2014. Our international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

We established cooperative relationships with twenty overseas corporate customers. In 2017 and 2018, our international settlement transaction volumes were US\$664 million and US\$1,085 million, of which settlement transactions involving Iran had total volumes of US\$591 million and US\$859 million, respectively. For information on the operation of the Bank in Iran in 2018, please refer to the section headed “Report of the Board of Directors – 45. Business Activities Involving Sanctioned Countries” in the annual report.

(D) Consultation and financial advisory services

We structure financial solutions and offer advisory services with respect to the economy, financial markets and industry trends for corporate customers. In 2017, our fee and commission income from consultation and financial advisory services were RMB0.8 million. As we did not conduct any consultation and financial advisory services business, we had no fee and commission income from such services in 2018.

(E) Other fee and commission-based products and services

We offer other fee and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

(b) *Retail banking*

We offer retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee and commission-based products and services. We have a large retail customer base.

As of December 31, 2018, we had 90,635 retail borrowers with total loans of RMB28,025.2 million and over 4.91 million retail deposit customers with total deposits of RMB107,133.1 million. In 2018 and 2017, operating income from our retail banking business accounted for 11.6% and 12.6% of our total operating income, respectively.

We categorize retail banking customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above).

As of December 31, 2018, we had over 150,000 wealthy customers and over 1,438 private banking customers. We continue to grow our wealthy customer and private banking customer base by expanding our product and service portfolio. The table below sets forth the financial performance of our retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2018	2017	
External interest expenses, net ⁽¹⁾	(1,232.0)	(1,492.4)	(17.5)
Inter-segment interest income, net ⁽²⁾	<u>2,238.8</u>	<u>2,490.3</u>	<u>(10.1)</u>
Net interest income	<u>1,006.8</u>	<u>997.9</u>	<u>0.9</u>
Net fee and commission income	<u>19.2</u>	<u>18.4</u>	<u>4.4</u>
Operating income	<u>1,026.0</u>	<u>1,016.3</u>	<u>1.0</u>
Operating expenses	(262.9)	(259.0)	1.5
Impairment losses on assets	(287.7)	(221.2)	30.1
Operating profit	<u>475.4</u>	<u>536.1</u>	<u>(11.3)</u>
Profit before tax	<u>475.4</u>	<u>536.1</u>	<u>(11.3)</u>

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Retail loans

We offer retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2018 and 2017, total retail loans were RMB28,025.2 million and RMB14,638.1 million, accounting for 17.4% and 11.2% of our total loans and advances to customers, respectively.

(ii) Retail deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of December 31, 2018 and 2017, retail deposits totaled RMB107,133.1 million and RMB81,999.1 million, accounting for 50.8% and 42.7% of our total customer deposits, respectively.

(iii) Bank card services

(A) Debit cards

We issue debit cards denominated in Renminbi to retail customers holding deposit accounts with us. Customers may use debit cards for a variety of purposes, such as cash deposits and withdrawals, transfers, payments, settlements, consumption, bill payments, financing and wealth management. We provide cardholders with differentiated services by classifying debit cards into basic cards, gold cards, platinum cards and diamond cards based on a bank cardholder's deposit balances.

To expand our customer base and service scope, we issue the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): We work with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue social security cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Cards (公積金聯名卡): We work with the local housing provident fund management center to issue housing provident fund co-branded cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Cards (隴原交通卡): We work with the Gansu Province Expressway Management Bureau to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance our brand recognition, we cooperate with local governments to issue theme cards based on regional characteristics of Gansu Province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xiongguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). We also cooperate with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

As of December 31, 2018, the Bank had issued approximately 6.85 million debit cards. As of December 31, 2017 and 2018, holders of these debit cards conducted transactions of approximately RMB19,751.3 million and RMB17,026.6 million, respectively.

(B) Credit cards

In August 2013, the Bank obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu Province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

The Bank obtained approval to issue credit cards in June 2017. The Bank will launch credit card business subject to improvements in the operating market environment amid rising operating risks of credit cards and the negative market condition affected by the domestic economic situation.

(C) POS settlement services

As a payment settlement service provider, we provide selected merchants with transaction fund settlement services. As of December 31, 2018, we had 8,780 selected merchant customers for POS settlement services and 13,510 POS terminals.

(iv) Fee and commission-based products and services

We offer retail customers a wide range of fee and commission-based products and services, primarily including wealth management services, agency services and payroll and payment agency services.

(A) Wealth Management Services

We offer retail customers wealth management products under our Huifu (匯福) series based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products. In 2018 and 2017, wealth management products sold to retail customers totaled RMB34,914.99 million and RMB29,572.30 million, respectively. As of December 31, 2018, we had over 253,664 retail wealth management clients and the return rate of our retail wealth management products was between 4.05% to 5.50% in 2018.

(B) Agency services

We sell insurance and precious metal products to retail customers as an agent.

Insurance Products. As of December 31, 2018, we had entered into agency agreements with six nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products. We received approval to distribute precious metals in China in August 2015. In 2018 and 2017, we sold an aggregate of RMB90 million and RMB59.3 million of precious metal products, respectively.

In October 2017, Dunhuang Research Academy granted us an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes.

In addition, we have completed the development of a fund agent system and fund qualification training for our employees.

(C) Payroll and payment agency services

Payroll Services. We provide payroll services to governmental agencies, public organizations and enterprises customers. As of December 31, 2018, we had over 804,750 payroll customers. In 2017 and 2018, we paid, in the role of paying agent, average monthly salaries of approximately RMB1,771.5 million and RMB1,897.4 million, respectively.

Payment Agency Services. We offer customers payment agency services related to daily living expenses (such as utilities costs) through our broad distribution network.

(D) Other fee and commission-based products and services

We offer other fee and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

(c) **Financial market operations**

Our financial market operations, which primarily include money market transactions, investment business and wealth management business, are one of our most important revenue sources. In 2018 and 2017, operating income from financial market operations accounted for 31.0% and 30.6% of our total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percent change (%)
	2018	2017	
External interest income, net ⁽¹⁾	3,095.4	4,155.6	(25.5)
Inter-segment interest expenses, net ⁽²⁾	(1,530.5)	(1,980.3)	(22.7)
Net interest income	1,564.9	2,175.3	(28.1)
Net fee and commission income	51.4	193.9	(73.5)
Net trading gains/(losses)	1,089.2	(21.9)	N/A
Net income arising from investment securities	42.7	116.9	(63.5)
Operating income	2,748.2	2,464.2	11.5
Operating expenses	(702.1)	(628.0)	11.8
Impairment losses on assets	(263.4)	(332.3)	(20.7)
Operating profit	1,782.7	1,503.9	18.5
Profit before tax	1,782.7	1,503.9	18.5

Notes:

- ⁽¹⁾ Represents net income and expenses from third parties.
- ⁽²⁾ Represents inter-segment expenses and consideration of transfer.
- ⁽³⁾ Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Money market transactions

We adjust our liquidity using various monetary market instruments and earn interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

(A) Interbank deposits

We deposit and withdraw funds from banks and other financial institutions to manage our assets and liabilities. We accept deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engage in other interbank transactions with certain of these banks and financial institutions.

As of December 31, 2018 and 2017, deposits from banks and other financial institutions totaled RMB15,513.8 million and RMB20,178.4 million, and our deposits at banks and other financial institutions totaled RMB12,932.4 million and RMB30,811.7 million, respectively.

(B) Interbank placements

The balance of our placements with banks and other financial institutions as of December 31, 2018 and 2017 are both nil. As of the same dates, placements from banks and other financial institutions totaled RMB3,300.0 million and RMB1,050.0 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying our repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of December 31, 2018 and 2017, financial assets held under resale agreements totaled RMB19,523.8 million and RMB9,819.9 million, and financial assets sold under repurchase agreements totaled RMB11,717.0 million and RMB5,817.5 million, respectively.

(ii) Investment securities and other financial assets

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

(A) Security investment by holding purpose

The table below sets forth investment securities and other financial assets by investment intention as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Investments classified as receivables	–	–	48,182.6	68.7
Available-for-sale financial assets	–	–	13,057.2	18.6
Held-to-maturity investments	–	–	8,616.1	12.3
Financial assets at fair value through profit or loss	42,561.0	41.4	249.6	0.4
Financial assets at fair value with changes recognised in other comprehensive income	15,249.1	14.8	–	–
Financial assets at amortised costs	45,066.3	43.8	–	–
Total amount of investment securities and other financial assets	102,876.4	100.0	70,105.5	100.0

Total amount of investment securities and other financial assets increased by 46.7% from RMB70,105.5 million as of December 31, 2017 to RMB102,876.4 million as of December 31, 2018.

(B) Maturity profile of the Bank's investment portfolio

The table below sets forth investment securities and other financial assets by remaining maturity as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
Repayable on demand	–	–	–	–
Due in three months or less	32,149.1	31.2	14,885.3	21.2
Due between three months and one year	29,749.3	28.9	18,661.4	26.6
Due between one year and five years	38,537.5	37.5	32,251.2	46.0
Due over five years	2,440.5	2.4	4,307.6	6.2
Indefinite ⁽¹⁾	–	–	–	–
Total	102,876.4	100.0	70,105.5	100.0

Note:

- ⁽¹⁾ Refers to impaired investments, investments overdue for more than one month and equity investments.

The Bank's securities investment with a remaining maturity between 1 year and 5 years represent the largest portion of the Bank's investment securities.

(C) Holding of government bonds

As of December 31, 2018, the balance of face value of government bonds held by the Bank amounted to RMB9,986.30 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 2018.

Name of the bond	Face value	Interest rate per annum	Maturity date
18 Gansu bond 01 (18甘肅債01)	1,040.00	3.3900	April 24, 2023
16 Interest-bearing treasury bond 22 (16 附息國債22)	1,000.00	2.2900	October 27, 2019
18 Gansu 02 (18甘肅02)	700.00	3.7900	June 15, 2023
16 Gansu Targeted 02 (16甘肅定向02)	677.60	3.2600	April 21, 2023
18 Gansu 03 (18甘肅03)	500.00	3.9000	June 15, 2025
18 Gansu 04 (18甘肅04)	500.00	4.1800	June 15, 2028
17 Interest-bearing treasury bond 12 (17 附息國債12)	500.00	3.6200	June 15, 2019
17 Interest-bearing treasury bond 16 (17 附息國債16)	500.00	3.4600	July 27, 2020
16 Gansu Targeted 01 (16甘肅定向01)	443.00	3.2600	April 21, 2023
17 Gansu bond 03 (17甘肅債03)	440.00	3.9700	June 16, 2020

(D) Holding of financial bonds

As of December 31, 2018, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB26,030.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2018.

Name of the bond	Face value	Interest rate per annum	Maturity date
18 ADBC bond 06 (18農發06)	1,790.00	4.65	May 11, 2028
17 CDB bond 09 (17國開09)	1,470.00	4.14	September 11, 2020
18 ADBC bond 05 (18農發05)	1,200.00	4.13	April 11, 2020
18 ADBC bond 01 (18農發01)	1,110.00	4.98	January 12, 2025
15 ADBC bond 15 (15農發15)	1,000.00	3.73	May 22, 2020
18 ADBC bond 08 (18農發08)	980.00	4.37	May 25, 2023
17 ADBC bond 02 (17農發02)	700.00	3.54	January 6, 2020
18 CDB bond 08 (18國開08)	700.00	4.07	April 24, 2021
15 CDB bond 16 (15國開16)	600.00	3.94	July 10, 2022
15 CDB bond 13 (15國開13)	500.00	3.86	June 25, 2020

(d) Distribution network

(i) Physical outlets

As of December 31, 2018, we had 1 head office operational department, 12 branches, 189 sub-branches, 5 micro-to-small sub-branches and 2 community banks. Our branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

(ii) *Electronic banking business*

(A) Internet banking

Through the Internet, we offer customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2018, we had over 1,064,000 Internet banking customers, consisting of 43,155 corporate customers and over 1,021,000 retail customers. As of December 31, 2018, our corporate customers conducted over 5.7 million online transactions with a total transaction amount of approximately RMB1,156,867.0 million, while retail customers conducted approximately 6.2 million online transactions with a total transaction amount of approximately RMB219,456.2 million.

(B) Direct banking platform

We launched our direct banking platform in August 2017. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2018, our direct banking platform had over 955,039 registered users with total transaction amounts of RMB9,499.3 million. The sales volume of direct banking platform products exceeded RMB2,578.1 million.

(C) Mobile phone banking

We provide customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of December 31, 2018, we had approximately 1,783,000 mobile phone banking customers that had conducted approximately 15.4 million transactions through mobile phones, with total transaction amounts of approximately RMB193,517.0 million.

(D) Telephone banking

We provide customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2018, we had 314,854 telephone banking customers, including 314,839 individual customers and 15 corporate customers.

(E) Self-service banking

We provide convenient banking services to customers at lower operating costs through self-service facilities. Our self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2018, we had 209 outlets, 168 off-bank self-service zones and 793 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access our products and services; manage accounts, transaction inquiries, payment and convenience services; and search for our outlet locations. As of December 31, 2018, we had over 461,568 WeChat banking customers.

(G) E-commerce platform

In April 2018, we formally launched our e-commerce platform “Longyin Commerce”, which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of December 31, 2018, the platform had 781 merchants and 140,002 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2018, we held an approximately 62.7% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.

As of December 31, 2018, Jingning Chengji Rural Bank had 21 corporate loan customers, 632 corporate deposit customers, 3,706 retail loan customers and 80,428 retail deposit customers. As of December 31, 2018, Jingning Chengji Rural Bank had 12 outlets and 108 employees.

As of December 31, 2018, Jingning Chengji Rural Bank had total assets of RMB1,216.88 million, total deposits of RMB1,041.61 million and total loans of RMB676.44 million. In 2017 and 2018, operating income attributable to Jingning Chengji Rural Bank totaled RMB54.1 million and RMB42.9 million, accounting for 0.63% and 0.48% of our total operating income, respectively.

We assist Jingning Chengji Rural Bank by providing strategic guidance and employee training. We also dispatch professional staff to improve employee business skills, and share experience to innovate products and services to diversify its business.

(f) Operation and safety of IT systems

We regularly optimize and upgrade our IT system to support the operation and management of our businesses. For 2017 and 2018, investments in our IT system totaled RMB586.0 million and RMB311.0 million, respectively.

Our new core banking system based on the SOA-framework was formally put into operation in October 2017. Constructed according to the five-layer application framework of the “four horizontal layers and one vertical layer”, the system is able to achieve rapid and flexible product innovation, centralized management of customer information, separation of transaction and accounting, refined management and decision making, transformation of a process-oriented bank and dynamic management of system resources.

We were granted the Certification of ISO 20000 – Information Technology Service Management System Standard in June 2018, signaling that we have built an IT service management system applicable to the circumstance of the Bank.

We place a high priority on business continuity and information security. We have established disaster recovery centres in Lanzhou and Xi'an and conducted periodic security drills to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities. Our new data center, new local disaster recovery center and new core banking system have been put into use synchronously. With a floorage of about 5,400 square meters, the new data center is constructed in strict accordance with the standards of class-A machine room of the state, with partial kernel module reaching T4, the highest international standard (TIA-942). The new local disaster recovery center adopts an active-active architecture. With these two centres supporting business operation simultaneously, we have made important application systems both active locally, which has greatly improved our business continuity.

We have also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desk site security, intrusion prevention and detection, filing and evaluation of important information systems, key information infrastructure protection and information system security assessment. During the Reporting Period, we did not suffer any material IT system failures.

Risk Management

(a) *Risk management of the Bank*

We are primarily exposed to credit risk, liquidity risk, market risk and operational risk in our business. We are also exposed to other risks such as reputational risk, information technology risk, money-laundering risk and legal and compliance risk.

Since our inception, we have implemented comprehensive risk management strategies to enhance our risk management systems.

(i) *Credit risk management*

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. Our credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

We determine the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. We also consider our asset and liability structure and trends in deposit and loan growth. We formulate annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. We also encourage the extension of credit to emerging sectors, such as modern services, new urbanization construction and Internet commerce, in accordance with national policy directives. In addition, we may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and our risk preferences.

We categorize the industries in which a loan applicant operates into the following four categories and adopt a different credit policy for each industry category.

Industries	Credit Policies
Modern agriculture, tourism, education and health care industries (“active support” industries)	<ul style="list-style-type: none"> • prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, utility, warehouse and logistics, culture-related and pharmaceutical industries (“moderate support” industries)	<ul style="list-style-type: none"> • selectively distribute credit to borrowers in these industries.
Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries (“caution” industries)	<ul style="list-style-type: none"> • focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
Steel trading, coal trading, over-capacity and commodity trading industries (“exit” industries)	<ul style="list-style-type: none"> • focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-disbursement management measures.

We have also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. We generally update these policies on an annual basis.

(ii) *Market risk management*

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. We are exposed to market risks primarily through our banking book and trading book.

(A) Interest rate risk management

Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. Our primary source of interest rate risk is the repricing of on- and off-balance sheet assets and liabilities due to mismatches in maturities.

Maturity or repricing date mismatches may cause changes in net interest income due to fluctuations in prevailing interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market operations.

We place great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. We formulate and adjust interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

We manage the interest rate risk exposure of our RMB-denominated assets and liabilities on our balance sheet primarily by adjusting interest rates and optimizing the maturity profile of our assets and liabilities. We seek to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

We use various measures to evaluate interest rate risks arising from our banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests, to measure our interest rate risk. For example, we regularly conduct sensitivity analysis and duration analysis on our bond business under different circumstances, to measure the potential effects on our profitability. Under unfavorable external conditions, we will also conduct special stress tests analyses on the interest rate benchmark on loans and deposits. Based on such analyses, we may adjust our terms on repricing to control interest rate risk.

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2018.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	31,536.9	432.4	31,104.5	–	–	–
Deposits with banks	12,927.7	–	8,903.4	4,024.3	–	–
Financial assets held under resale agreement	19,523.8	–	19,523.8	–	–	–
Interests receivable	1,891.2	1,891.2	–	–	–	–
Loans and advances to customers	154,633.9	5,777.8	67,559.1	55,280.9	24,044.7	1,971.4
Investments	102,876.4	–	32,099.4	21,347.2	40,491.6	8,938.2
Others ⁽¹⁾	5,232.5	5,232.5	–	–	–	–
Total assets	328,622.4	13,333.9	159,190.2	80,652.4	64,536.3	10,909.6
Liabilities						
Borrowings from the central bank	11,650.9	–	4,835.9	6,815.0	–	–
Deposits from banks and other financial institutions	15,513.8	57.4	5,953.3	9,170.0	500.0	–
Placements from banks	3,300.0	–	–	3,300.0	–	–
Financial assets sold under repurchase agreements	11,717.0	–	11,717.0	–	–	–
Deposits from customers	210,723.3	–	99,502.9	20,943.0	85,410.8	4,866.6
Interests payable	6,418.9	6,418.9	–	–	–	–
Debt securities issued	41,576.8	–	10,516.2	21,869.8	5,993.7	3,197.1
Others ⁽²⁾	2,474.1	2,474.1	–	–	–	–
Total liabilities	303,374.8	8,950.4	132,358.4	62,097.8	91,904.5	8,063.7
Asset-liability gap	25,247.6	4,383.5	26,831.8	18,554.6	(27,368.2)	2,845.9

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017					
	Total	Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	29,084.4	492.4	28,592.0	–	–	–
Deposits with banks	30,811.7	–	12,409.9	18,401.8	–	–
Financial assets held under resale agreement	9,819.9	–	9,819.9	–	–	–
Interests receivable	1,268.6	1,268.6	–	–	–	–
Loans and advances to customers	125,254.6	2,000.9	55,350.9	52,337.0	13,952.7	1,613.1
Investments	70,105.5	–	14,885.2	18,661.5	32,251.2	4,307.6
Others ⁽¹⁾	4,802.9	4,802.9	–	–	–	–
Total assets	271,147.6	8,564.8	121,057.9	89,400.3	46,203.9	5,920.7
Liabilities						
Borrowings from the central bank	5,290.4	–	1,787.3	3,503.1	–	–
Deposits from banks and other financial institutions	20,178.4	–	8,236.5	11,341.9	600.0	–
Placements from banks	1,050.0	–	1,000.0	–	50.0	–
Financial assets sold under repurchase agreements	5,817.5	–	5,817.5	–	–	–
Deposits from customers	192,230.6	–	106,737.8	29,377.2	56,115.6	–
Interests payable	4,305.5	4,305.5	–	–	–	–
Debt securities issued	23,960.8	–	4,991.6	11,281.2	6,696.2	991.8
Others ⁽²⁾	1,701.4	1,701.4	–	–	–	–
Total liabilities	254,534.6	6,006.9	128,570.7	55,503.4	63,461.8	991.8
Asset-liability gap	16,613.0	2,557.9	(7,512.8)	33,896.9	(17,257.9)	4,928.9

Notes:

⁽¹⁾ Primarily include property and equipment, goodwill and deferred tax assets.

⁽²⁾ Primarily include accrued staff costs and taxes payable.

We use sensitivity analysis to measure the impact of changes in interest rates on our net profit or loss and equity. The table below sets forth the results of our interest rates sensitivity analysis based on our assets and liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31,			
	2018		2017	
	Change in net profit	Changes in equity	Change in net profit	Changes in equity
Increase by 100 basis points	151.1	(419.6)	174.7	371.6
Decrease by 100 basis points	(151.1)	419.6	(174.7)	(371.6)

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each Track Record Period apply to our non-derivative financial instruments;
- At the end of each Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(B) Exchange rate risk management

We are exposed to exchange rate risks primarily due to mismatches in the currency denominations of on- and off-balance sheet assets and liabilities and in the trading positions of foreign exchange transactions. We manage exchange rate risks by matching the sources and uses of funds.

We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of our assets and liabilities. In addition, we endeavor to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

(iii) *Operational risk management*

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

Our Board of Directors is ultimately responsible for monitoring the effectiveness of our operational risk management. It determines our operational risk appetite based on our overall business strategies, and reviews and oversees the implementation of operational risk strategies and policies.

Our senior management is responsible for coordinating operational risk management through its risk management and internal control committee.

Our risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of our Board and senior management. Our audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures.

We have established a GRC system for managing internal control and operational risks. Through the system, we utilize operational risk management tools to identify, measure and monitor operational risks.

(iv) *Liquidity risk*

(A) Liquidity risk management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting our liquidity include the term structure of our assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to our statutory deposit reserve ratio. We are exposed to liquidity risk primarily in our lending, trading and investment activities, as well as in the management of our cash flow positions.

The organizational framework of our liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for our liquidity risk management, the Board of Directors assumes ultimate responsibility for our liquidity risk management.

Senior management is responsible for liquidity management, and our assets and liabilities management committee is responsible for implementing liquidity management policies and procedures. Our supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for our daily liquidity risk management.

The objective of our liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of our assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

According to the Measures for the Management of Liquidity Risks of Commercial Banks (effective as from July 1, 2018) issued by the CBRC, we continually improve liquidity risk management, strictly implement regulatory rules, closely monitor liquidity indicators, enhance maturity management of our cash flows, formulate emergency plans and enhance liquidity risk management and stress tests.

We manage liquidity risks with instruments such as position provisioning and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(B) Liquidity risk analysis

We fund our loan and investment portfolios principally through customer deposits. Deposits from customers have been, and we believe will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 57.2% and 70.8% of total deposits from customers as of December 31, 2018 and December 31, 2017, respectively.

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2018 and December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
Assets							
Cash and deposits with the central bank	24,717.0	6,819.9	–	–	–	–	31,536.9
Deposits with banks	–	4,038.6	4,864.8	4,024.3	–	–	12,927.7
Financial assets held under resale agreements	–	–	19,523.8	–	–	–	19,523.8
Financial assets at fair value through profit or loss	–	–	24,428.9	8,262.8	8,654.1	1,215.2	42,561.0
Interests receivables	–	13.3	558.9	1,214.6	104.4	–	1,891.2
Loans and advances to customers	3,586.3	2,191.6	18,517.1	65,564.8	46,074.4	18,699.7	154,633.9
Financial assets at fair value with changes recognised in other comprehensive income	–	–	299.7	8,451.7	6,497.7	–	15,249.1
Financial assets at amortised costs	–	–	7,420.5	13,034.7	23,385.8	1,225.3	45,066.3
Others ⁽¹⁾	5,053.4	–	–	–	179.1	–	5,232.5
Total assets	33,356.7	13,063.4	75,613.7	100,552.9	84,895.5	21,140.2	328,622.4

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
Liabilities							
Borrowings from the central bank	–	–	4,835.9	6,815.0	–	–	11,650.9
Deposits from banks and other financial institutions	–	1,093.8	4,750.0	9,170.0	500.0	–	15,513.8
Placements from banks and other financial institutions	–	–	–	3,300.0	–	–	3,300.0
Financial assets sold under repurchase agreements	–	–	11,717.0	–	–	–	11,717.0
Deposits from customers	–	81,896.5	17,606.4	20,943.0	85,410.8	4,866.6	210,723.3
Interests payable	–	5,873.3	124.0	400.4	21.2	–	6,418.9
Debt securities issued	–	–	10,516.2	21,869.8	5,993.7	3,197.1	41,576.8
Others ⁽²⁾	61.5	1,093.0	1,319.6	–	–	–	2,474.1
Total liabilities	61.5	89,956.6	50,869.1	62,498.2	91,925.7	8,063.7	303,374.8
New working capital	33,295.2	(76,893.2)	24,744.6	38,054.7	(7,030.2)	13,076.5	25,247.6

As of December 31, 2017							
(Expressed in millions of RMB, unless otherwise stated)	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets							
Cash and deposits with the central bank	25,070.1	4,014.3	–	–	–	–	29,084.4
Deposits with banks	–	3,121.8	9,288.1	18,401.8	–	–	30,811.7
Financial assets held under resale agreements	–	–	9,819.9	–	–	–	9,819.9
Financial assets at fair value through profit or loss	–	–	249.6	–	–	–	249.6
Interests receivables	–	–	621.6	579.5	67.5	–	1,268.6
Loans and advances to customers	1,630.7	370.3	18,326.8	61,298.1	33,056.3	10,572.5	125,254.7
Available-for-sale financial assets	–	–	1,811.4	5,255.3	4,255.0	1,735.5	13,057.2
Held-to-maturity investments	–	–	85.2	598.0	7,264.9	668.0	8,616.1
Debt securities classified as receivables	–	–	12,739.0	12,808.1	20,731.3	1,904.2	48,182.6
Others ⁽¹⁾	3,535.9	–	–	–	1,266.9	–	4,802.8
Total assets	30,236.7	7,506.4	52,941.6	98,940.8	66,641.9	14,880.2	271,147.6
Liabilities							
Borrowings from the central bank	–	–	1,787.3	3,503.1	–	–	5,290.4
Deposits from banks and other financial institutions	–	531.5	7,705.0	11,341.9	600.0	–	20,178.4
Placements from banks	–	–	1,000.0	–	50.0	–	1,050.0
Financial assets sold under repurchase agreements	–	–	5,817.5	–	–	–	5,817.5
Deposits from customers	–	92,713.8	14,024.0	29,377.2	56,115.6	–	192,230.6
Interests payable	–	3,684.2	167.8	312.4	141.1	–	4,305.5
Debt securities issued	–	–	4,991.6	11,281.1	6,696.2	991.9	23,960.8
Others ⁽²⁾	–	623.7	1,077.7	–	–	–	1,701.4
Total liabilities	–	97,553.2	36,570.9	55,815.7	63,602.9	991.9	254,534.6
New working capital	30,236.7	(90,046.8)	16,370.7	43,125.1	3,039.0	13,888.3	16,613.0

Notes:

- (1) Primarily include property and equipment, goodwill and deferred tax assets.
- (2) Primarily include accrued staff costs and taxes payable.

The Bank's liquidity coverage ratio

	December 31, 2018	December 31, 2017
Liquidity coverage ratio (%)	<u>198.28</u>	<u>159.47</u>

(v) *Reputational risk management*

Reputational risk represents the risk of negative publicity caused by our operations, management or other activities or external events. The general office of our head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management.

(vi) *Legal compliance risk management*

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

(vii) *IT risk management*

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. Our IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

Our IT management committee supervises and guides our IT activities. Our risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Our audit department audits IT risks. Our IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

(viii) Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and the regulations of the PBoC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches.

(ix) Internal audits

We believe internal audits are essential to our stable operations and achievement of business objectives. We conduct internal audits to monitor the compliance with laws and regulations and the implementation of our internal policies and procedures, with the objective of controlling risks at an acceptable level.

We also aim to conduct effective risk management as well as optimize internal control compliance and our corporate governance structure, in an effort to improve our operations. We adhere to the principles of independence, importance, prudence, objectiveness and relevance.

We have adopted an independent and vertical internal audit management system, consisting of the audit committee of our Board of Directors, the audit committee of our Board of Supervisors and the audit department of our head office.

Analysis On Capital Adequacy Ratio

We are required to comply with the CBIRC capital adequacy ratio requirements. Since January 1, 2015, we have calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures, which required China's commercial banks (except systematically important banks) to maintain (i) minimum capital adequacy ratios of 8.9%, 9.3%, 9.7%, 10.1% and 10.5%, (ii) minimum tier-one capital adequacy ratios of 6.9%, 7.3%, 7.7%, 8.1% and 8.5%, and (iii) minimum core tier-one capital adequacy ratios of 5.9%, 6.3%, 6.7%, 7.1% and 7.5%, as of December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

The table below sets forth certain information relating to our capital adequacy ratio as of December 31, 2018 and December 31, 2017.

(Expressed in millions of RMB,
unless otherwise stated)

	December 31, 2018	December 31, 2017
Core capital		
Paid-up capital	10,069.8	7,526.0
Qualifying portion of capital reserve	4,658.3	1,767.7
Defined benefit plan reserve	(4.2)	(0.7)
Investment revaluation reserve	261.4	(125.3)
Surplus reserve	1,510.1	893.0
General risk reserve	4,423.1	3,631.6
Retained earnings	4,297.8	2,889.0
Qualifying portion of non-controlling interest	17.2	17.4
Core tier-one capital deductions ⁽¹⁾	(225.0)	(32.5)
Net core tier-one capital	25,008.5	16,566.2
Other tier-one capital ⁽²⁾	2.3	2.3
Net tier-one capital	25,010.8	16,568.5
Tier-two capital		
Instruments issued and share premium	3,194.4	3,191.9
Surplus reserve for loan impairment	2,562.7	2,187.1
Eligible portion of non-controlling interest	4.7	4.6
Net capital base	30,772.6	21,952.1
Total risk-weighted assets	227,144.1	190,251.6
Core tier-one capital adequacy ratio (%)	11.01	8.71
Tier-one capital adequacy ratio (%)	11.01	8.71
Capital adequacy ratio (%)	13.55	11.54

Notes:

⁽¹⁾ Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.

⁽²⁾ Primarily includes tier-one capital instruments such as preference Shares and their premiums.

4. ISSUE AND LISTING OF SECURITIES AND BONDS

4.1 Issue and Listing of Securities

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018 (the “**Listing Date**”). The offer price was determined at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,212,000,000 H Shares. Four cornerstone investors subscribed 1,163,152,000 H Shares in total issued by the Bank. The net proceeds from global offering received by the Bank, after deducting the underwriting fees for the global offering, commissions, and other expenses and assuming no exercise of the over-allotment option was not obtained, are approximately HK\$5,743.18 million.

On February 5, 2018, Joint Representatives (as defined in the prospectus of H Shares Global Offering of the Bank) (on behalf of international underwriters) fully exercised the over-allotment option, in respect of an aggregate of 331,800,000 H Shares, representing in aggregate 15% of the offer shares initially offered under the Global Offering before any exercise of the over-allotment options, to cover over-allocations in the international offering tranche. The over-allotment shares were issued and allotted at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on February 8, 2018. The Bank raised additional net proceeds from the issuance of over-allotment shares of approximately HK\$872.84 million (after deducting underwriting commissions, brokerage fee, transaction levy and transaction fee).

The Bank has used the net proceeds from the global offering to supplement the capital base of the Bank to support the on-going growth of its business in accordance with the use of proceeds as disclosed in the prospectus.

4.2 Issuance of Bonds

For the year ended December 31, 2018, the Bank has issued debt securities during the Reporting Period to replenish its capital, the details of which are set out as follows:

Interbank certificates

For the year ended December 31, 2018, the Bank issued several tranches of zero coupon interbank certificates in an aggregate principal amount of RMB45,090.0 million. The interbank certificates have a term ranging from six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

Financial bonds

In May 2018, the Bank issued three-year financial bonds in an aggregate principal amount of RMB1,500.0 million with an annual interest rate of 4.87%.

5. OTHER INFORMATION

5.1 Corporate Governance

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve its core competitiveness and to build a modern rural commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of shareholders of the Bank (“**Shareholders**”) and improve the value of the Bank.

The Bank has established a modern corporate governance structure in line with the requirements of the articles of association of the Bank (the “**Articles of Association**”), PRC laws and regulations and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”). The Board of Directors is accountable to the Shareholders as a whole and is responsible for, among others, determining the Group’s business development strategies, business plans and investment proposals, appointing or removing senior management, and deciding matters such as internal management structure. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related-party transactions and risk control committee. The board of supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the directors and senior management and oversee the Group’s financial activities, risk management and internal control.

The Bank has incorporated the corporate governance code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the “**Guidelines**”) into the Bank’s governance structure and policies. The Corporate Governance Code and Guidelines are well reflected in the Bank’s Articles of Association and the Terms of Reference of the Shareholders’ General Meeting, the Board of Directors and committees under the Board of Directors. The Bank’s Shareholders’ general meeting, the Board of Directors and the board of supervisors perform their respective duties and form good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank’s internal policies.

The Bank has established and improved the corporate governance structure and established a series of corporate governance system according to Corporate Governance Code and Guidelines. During the Reporting Period, the Bank has complied with the compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

The Bank will review its corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code and the Guidelines and meet the higher expectations from its Shareholders and potential investors.

5.2 Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted, in respect of securities transactions by directors, supervisors and member of the senior management, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Having made specific enquiries to all directors, supervisors and members of the senior management of the Bank, the Bank confirmed that they had complied with the Model Code for the period from the Listing Date (January 18, 2018) to December 31, 2018.

5.3 Profits and Dividend

The Group’s revenue for the year ended December 31, 2018 and the Group’s financial position as of the same date are set out in the consolidated financial statements of this announcement.

(a) 2017 final dividend

At the meeting of the Board of Directors of the Bank convened on March 27, 2018, the Board of Directors advised the Bank not to distribute 2017 final dividend to Shareholders considering that the Bank needed sufficient capital support for future business development. The proposal was considered and approved at the 2017 annual general meeting convened on June 1, 2018.

(b) Profit and profit distribution plan for 2018

Considering the Shareholders' interests, our future development and other factors and in accordance with the requirements of relevant laws and regulations and the Articles of Association of the Bank, the Board proposed the 2018 profit distribution plan as follows:

- To appropriate RMB343.1 million, being 10% of net profit realized this year to statutory surplus reserve.
- To appropriate RMB343.1 million, being 10% of net profit realized this year to surplus reserve fund.
- To appropriate RMB785.4 million, being 1.5% of the risk-bearing assets to the general risk reserve according to the Administrative Measures for the Provisioning for Reserves of Financial Institutions (2012) No. 20 (《金融企業準備金計提管理辦法》([2012]20號)) promulgated by the Ministry of Finance of the People's Republic of China.
- To distribute cash dividends in an aggregate amount of RMB1,029,363,510.73 (tax inclusive), being 30% of the net profit of RMB3,431,211,702.42, representing a cash dividend of RMB0.1022 per share (tax inclusive) to be distributed.
- The remaining retained earnings of the parent company of RMB2,925.9 million to be carried forward to the following year.

The above profit distribution plan remains to be submitted to the 2018 annual general meeting of the Bank for consideration. If approved by the Shareholders, the final dividend for 2018 is expected to be distributed on or before Friday, August 2, 2019 to all Shareholders on register as at Saturday, June 15, 2019. A further announcement on the specific arrangements for dividend distribution will be made after the general meeting. In case there is any change in the projected date for the dividend distribution mentioned above, an announcement will also be made by the Bank in a timely manner.

5.4 Annual General Meeting and Book Closure Date

The 2018 annual general meeting of the Bank will be held on Monday, June 3, 2019. In order to determine the holders of H Shares who are eligible to attend the 2018 annual general meeting of the Bank, the H share register of the Bank will be closed from Friday, May 3, 2019 to Monday, June 3, 2019 (both days inclusive), during which period no transfer of H Shares will be registered. In order to qualify for attending the 2018 annual general meeting of the Bank, share certificates accompanied by transfer documents must be lodged with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, May 2, 2019. Holders of H Shares of the Bank who are registered with Computershare Hong Kong Investor Services Limited on Monday, June 3, 2019 are entitled to attend the 2018 annual general meeting of the Bank.

In order to determine the holders of shares who are entitled to receive the proposed 2018 final dividend, the register of members of the Bank will also be closed from Monday, June 10, 2019 to Saturday, June 15, 2019 (both days inclusive). To be eligible to receive the aforementioned final dividend (subject to the approval of the shareholders), unregistered holders of H shares of the Bank shall lodge the relevant share transfer documents with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, June 6, 2019.

5.5 Purchase, Sale and Redemption of Listed Securities of the Bank

The H Shares of the Bank were listed on the Main Board of Hong Kong Stock Exchange on January 18, 2018. The over-allotment option was fully exercised on February 5, 2018. The over-allotment shares were listed on the Main Board of the Hong Kong Stock Exchange on February 8, 2018. Save as disclosed above, neither the Bank nor its subsidiary had purchased, sold or redeemed any of the Bank's listed securities during the Reporting Period.

5.6 Event after the Reporting Period

Subsequent to December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB9,760,000,000. The ranges of the interest rates per annum on the Group's interbank deposits issued are 2.97% to 3.30%.

6. FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
	Notes	RMB'000	RMB'000
Interest income		15,327,061	14,045,768
Interest expenses		(8,199,277)	(6,560,779)
Net interest income	4	7,127,784	7,484,989
Fee and commission income		362,673	462,750
Fee and commission expenses		(196,618)	(86,079)
Net fee and commission income	5	166,055	376,671
Net trading gains/(losses)	6	1,089,241	(21,937)
Net gains arising from investment securities	7	42,689	116,992
Net exchange gains/(losses)		388,230	(13,203)
Other operating income, net	8	58,240	109,033
Operating income		8,872,239	8,052,545
Operating expenses	9	(2,271,097)	(2,052,230)
Impairment losses on assets, net of reversals	10	(1,962,374)	(1,523,033)
Operating profit		4,638,768	4,477,282
Share of result of an associate		(960)	1,798
Profit before tax		4,637,808	4,479,080
Income tax expense	11	(1,198,164)	(1,115,351)
Profit for the year		3,439,644	3,363,729
Earnings per share			
– Basic and diluted (RMB cents)	12	34.52	44.62

	2018 RMB'000	2017 <i>RMB'000</i>
Profit for the year	3,439,644	3,363,729
Other comprehensive income/ (expenses) for the year:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Remeasurement of defined benefit obligations	(4,550)	4,430
– Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently	<u>1,138</u>	<u>(1,108)</u>
	<u>(3,412)</u>	<u>3,322</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Debt instrument at fair value through other comprehensive income		
– Amounts reclassified to profit or loss in respect of impairment losses	(45,198)	–
– Change in fair value recognised in investment revaluation reserve	391,898	–
– Income tax relating to item that may be reclassified subsequently	(97,975)	–
Available-for-sale financial assets		
– Change in fair value recognised in investment revaluation reserve	–	(130,909)
– Income tax relating to item that may be reclassified subsequently	<u>–</u>	<u>32,727</u>
	<u>248,725</u>	<u>(98,182)</u>
Other comprehensive income (expenses) for the year, net of income tax	<u>245,313</u>	<u>(94,860)</u>
Total comprehensive income for the year	<u><u>3,684,957</u></u>	<u><u>3,268,869</u></u>

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit for the year attributable to:		
– Owners of the Bank	3,435,278	3,358,464
– Non-controlling interests	4,366	5,265
	<u>3,439,644</u>	<u>3,363,729</u>
 Total comprehensive income for the year attributable to:		
– Owners of the Bank	3,680,591	3,263,604
– Non-controlling interests	4,366	5,265
	<u>3,684,957</u>	<u>3,268,869</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018

		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Cash and deposits with the central bank		31,536,912	29,084,415
Deposits with banks		12,927,702	30,811,728
Financial assets held under resale agreements		19,523,812	9,819,920
Financial assets at amortised cost	13	45,066,288	–
Interests receivables		1,891,235	1,268,593
Loans and advances to customers	14	154,633,858	125,254,681
Financial assets at fair value through profit or loss	15	42,560,973	249,636
Debt instruments at fair value through other comprehensive income	16	15,249,097	–
Available-for-sale financial assets	16	–	13,057,235
Held-to-maturity investments	13	–	8,615,964
Debt securities classified as receivables	13	–	48,182,626
Interest in an associate		8,970	9,930
Property and equipment		3,006,860	1,752,840
Deferred tax assets		1,719,546	1,465,662
Other assets		497,118	1,574,387
Total assets		<u>328,622,371</u>	<u>271,147,617</u>
Liabilities and equity			
Liabilities			
Borrowings from the central bank		11,650,851	5,290,410
Deposits from banks and other financial institutions		15,513,772	20,178,373
Placements from banks and other financial institutions		3,300,000	1,050,000
Financial assets sold under repurchase agreements		11,716,985	5,817,526
Deposits from customers		210,723,317	192,230,603
Accrued staff costs		478,344	398,478
Taxes payable		491,170	572,856
Interests payable		6,418,933	4,305,460
Debts securities issued	17	41,576,773	23,960,759
Deferred tax liabilities		135,263	–
Other liabilities		1,369,372	730,113
Total liabilities		<u>303,374,780</u>	<u>254,534,578</u>

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Equity		
Share capital	10,069,791	7,525,991
Capital reserve	4,658,314	1,767,659
Defined benefit plan reserve	(4,156)	(744)
Investment revaluation reserve	261,427	(125,323)
Surplus reserve	1,510,052	892,953
General reserve	4,423,117	3,631,670
Retained earnings	4,297,780	2,889,067
	<hr/>	<hr/>
Total equity attributable to owners of the Bank	25,216,325	16,581,273
Non-controlling interests	31,266	31,766
	<hr/>	<hr/>
Total equity	25,247,591	16,613,039
	<hr/>	<hr/>
Total liabilities and equity	328,622,371	271,147,617
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to owners of the Bank								Non-controlling interests	Total
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039
Change in accounting policy (note 2)	-	-	-	138,025	(61,310)	-	(556,709)	(479,994)	(2,916)	(482,910)
At January 1, 2018	7,525,991	1,767,659	(744)	12,702	831,643	3,631,670	2,332,358	16,101,279	28,850	16,130,129
Profit for the year	-	-	-	-	-	-	3,435,278	3,435,278	4,366	3,439,644
Other comprehensive (expenses)/ income for the year	-	-	(3,412)	248,725	-	-	-	245,313	-	245,313
Total comprehensive (expenses)/ income for the year	-	-	(3,412)	248,725	-	-	3,435,278	3,680,591	4,366	3,684,957
Shareholders' injection	-	500	-	-	-	-	-	500	-	500
Change in share capital										
- Capital contributed by equity shareholders	2,543,800	3,058,642	-	-	-	-	-	5,602,442	-	5,602,442
- Share issue expenses	-	(168,487)	-	-	-	-	-	(168,487)	-	(168,487)
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	678,409	-	(678,409)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	791,447	(791,447)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,950)	(1,950)
At December 31, 2018	10,069,791	4,658,314	(4,156)	261,427	1,510,052	4,423,117	4,297,780	25,216,325	31,266	25,247,591
At January 1, 2017	7,525,991	1,765,183	(4,066)	(27,141)	557,666	3,226,100	271,460	13,315,193	28,451	13,343,644
Profit for the year	-	-	-	-	-	-	3,358,464	3,358,464	5,265	3,363,729
Other comprehensive income/ (expenses) for the year	-	-	3,322	(98,182)	-	-	-	(94,860)	-	(94,860)
Total comprehensive income/ (expenses) for the year	-	-	3,322	(98,182)	-	-	3,358,464	3,263,604	5,265	3,268,869
Shareholders' injection	-	2,476	-	-	-	-	-	2,476	-	2,476
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	335,287	-	(335,287)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	405,570	(405,570)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,950)	(1,950)
At December 31, 2017	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 RMB'000	2017 <i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before tax	4,637,808	4,479,080
Adjustments for:		
Depreciation of property and equipment	329,589	213,619
Amortisation of long term deferred expenses, land use rights and intangible assets	13,611	17,415
Impairment losses on assets	1,962,374	1,523,033
Interest expense on debts securities issued	1,566,339	945,992
Loss/(gain) on disposal of property and equipment	159	(4)
Gain on disposal of repossessed assets	–	(32,319)
Net unrealised trading gains	(262,821)	(3,213)
Net gains arising from investment securities	(42,689)	(116,992)
Government grants	(23,775)	(75,520)
Interest income on investments	(3,812,326)	(4,608,705)
Share of result of an associate	960	(1,798)
	<u>4,369,229</u>	<u>2,340,588</u>
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank	353,157	(3,567,941)
Net decrease/(increase) in deposits with the banks	23,296,018	(24,330,181)
Net (increase)/decrease in financial assets at fair value through profit or loss	(32,268,292)	289,967
Net increase in loans and advances to customers	(31,425,805)	(22,418,062)
Net increase in other operating assets	<u>(2,595,100)</u>	<u>(1,519,680)</u>
	<u>(42,640,002)</u>	<u>(51,545,897)</u>

	2018 RMB'000	2017 <i>RMB'000</i>
Changes in operating liabilities		
Net increase/(decrease) in borrowing from central bank	6,360,441	(402,514)
Net decrease in deposits and placements from banks and other financial institutions	(2,414,601)	(14,549,027)
Net increase in financial assets sold under repurchase agreements	5,899,459	1,237,045
Net increase in deposits from customers	18,492,714	21,065,282
Net increase in other operating liabilities	2,720,516	2,037,369
	31,058,529	9,388,155
Cash generated used in operations	(7,212,264)	(39,817,154)
Income tax paid	(1,323,896)	(1,855,279)
NET CASH USED IN OPERATING ACTIVITIES	(8,536,160)	(41,672,433)
INVESTING ACTIVITIES		
Proceeds from disposal and redemption of investments	135,094,122	161,260,436
Interest income received from financial investments	3,538,423	4,334,545
Proceeds from disposal of property and equipment and other assets	3,756	42,787
Payments on acquisition of investments	(132,123,913)	(144,797,792)
Payments on acquisition of property and equipment and intangible assets	(1,401,927)	(586,009)
Deposit paid for acquisition of premises	(200,087)	–
NET CASH GENERATED FROM INVESTING ACTIVITIES	4,910,374	20,253,967

	2018 RMB'000	2017 <i>RMB'000</i>
FINANCING ACTIVITIES		
Shareholders' injection	500	2,476
Government grants received	23,775	75,520
Proceeds from capital contribution by equity shareholder	5,602,442	—
Shares issue expense	(168,487)	—
Net proceeds from issue of new debt securities	45,922,603	48,602,356
Repayment of debt securities issued	(28,740,000)	(35,420,000)
Interest paid on debts securities issued	(1,086,709)	(170,775)
Dividends paid	(141)	(296)
Dividends paid to non-controlling interests	(1,950)	(1,950)
NET CASH FROM FINANCING ACTIVITIES	<u>21,552,033</u>	<u>13,087,331</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>17,926,247</u>	<u>(8,331,135)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>17,220,882</u>	<u>25,552,017</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>35,147,129</u></u>	<u><u>17,220,882</u></u>
Interest received	<u><u>14,692,994</u></u>	<u><u>7,471,034</u></u>
Interest paid (excluding interest expense on debts securities issued)	<u><u>(7,024,642)</u></u>	<u><u>(1,149,929)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. GENERAL

The Bank was established in Lanzhou, Gansu Province, the People's Republic of China (the “**PRC**”) on September 27, 2011 with the approval of China Banking Regulatory Commission (the “**CBRC**”). Prior to its establishment, the banking business was carried out by two city commercial banks (the “**Predecessor Entities**”), each being located in Gansu Province.

Pursuant to reorganisation initiated by the People's Government of Gansu Province, the Bank was established through the merger and reorganisation of the Predecessor Entities.

The Bank obtained its finance permit No. B1228H262010001 from the CBRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Liu Qing and the address of the registered office is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at December 31, 2018, the Bank has a head office, 12 branches, 189 sub-branches, 5 micro-to-small enterprise sub-branches, 2 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the “**Group**”) are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in Mainland China.

On January 18, 2018, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (Stock code: 2139).

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Bank and its subsidiary.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied, for its first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”).

Application of new and amendments to IFRSs

IFRS 9 (2014)	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction
Amendments to IFRS 4	Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014 – 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and on the disclosures set out in these consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2.1.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial instruments

The directors of the Bank reviewed and assessed the Group's financial assets and financial liabilities as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of IFRS 9 has had impact on the Group's financial assets and financial liabilities as regards their classification and measurement thereof are detailed in Note 2.1.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including financial assets held under resale agreements, debt instruments at fair value through other comprehensive income, financial assets at amortised cost, interest receivables and loan and advance to customers). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognise an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of financial assets held under resale agreements, interest receivables and loan and advance to customers where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

As at January 1, 2018, the directors of the Bank reviewed and assessed the Group’s existing financial assets, financial assets held under resale agreements, debt instruments at fair value through other comprehensive income, financial assets at amortised cost, interest receivables and loan and advance to customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

2.1.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application.

	Closing balance at December 31, 2017 – IAS 39 RMB'000	Reclassification				Remeasurement			Opening balance at January 1, 2018 – IFRS 9 (Restated) RMB'000
		From Available- for-sale equity investment (a)(i) RMB'000	From Available- for-sale debt investment (a)(ii) RMB'000	From Held to maturity investments (b) RMB'000	From Debt securities classified as receivables (b) RMB'000	Impairment under ECL model (c) RMB'000	From amortised cost to fair value (b) RMB'000	Release of surplus reserve (Note) RMB'000	
Assets									
Deposits with banks	30,811,728	-	-	-	-	(4,455)	-	-	30,807,273
Financial assets held under resale agreements	9,819,920	-	-	-	-	(62)	-	-	9,819,858
Financial assets at FVTPL	249,636	10,000	2,754,231	-	7,113,600	-	(97,607)	-	10,029,860
Interest receivable	1,268,593	-	(11,425)	-	-	-	-	-	1,257,168
Loans and advances to customers	125,254,681	-	-	-	-	(52,196)	-	-	125,202,485
Available-for-sale financial assets	13,057,235	(10,000)	(13,047,235)	-	-	-	-	-	-
Held to maturity investments	8,615,964	-	-	(8,615,964)	-	-	-	-	-
Debt securities classified as receivables	48,182,626	-	-	-	(48,182,626)	-	-	-	-
Debt instruments at FVTOCI	-	-	4,425,024	150,000	-	-	(2,385)	-	4,572,639
Financial assets at amortised cost	-	-	6,021,026	8,465,964	41,158,930	(685,091)	-	-	54,960,829
Deferred tax assets	1,465,662	-	(38,262)	-	(22,476)	207,247	24,903	-	1,637,074
Liabilities									
Other liabilities	730,113	-	-	-	-	44,051	-	-	774,164
Equity									
Surplus reserve	892,953	-	-	-	-	-	-	(61,310)	831,643
Non controlling interest	31,766	-	-	-	-	(2,916)	-	-	28,850
Retained earnings	2,889,067	-	10,355	-	67,428	(622,502)	(73,300)	61,310	2,332,358
Investment revaluation reserve	(125,323)	-	93,004	-	-	46,810	(1,789)	-	12,702

Note: As a result of remeasurement of financial assets under IFRS 9, surplus reserve amounted approximately RMB61,310,000 was released to retained earnings.

(a) Available-for-sale investments

(i) *Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:*

For the available-for-sale unlisted equity investments carried at cost less impairment amounting to RMB10,000,000, the Group has not elected the option for designation at FVTOCI and reclassified them to financial assets at FVTPL. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. Due to no significant difference in its fair value and carrying amount as at January 1, 2018, no fair value gain or loss was adjusted to retained earnings as at January 1, 2018.

(ii) *Debt investments previously classified as available-for-sale financial assets carried at fair value:*

Some of these debt investments amounting to approximately RMB4,425,024,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt investments. Accordingly, these financial assets continue to be subsequently measured at FVTOCI and were reclassified to financial assets at FVTOCI under IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve continue to be subsequently reclassified to profit or loss when the debt investments are derecognised.

Some of these debt investments amounting to approximately RMB6,021,026,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by collecting contractual cash flows. Accordingly, these financial assets were classified at financial assets at amortised cost under IFRS 9, with corresponding reversal of fair value losses of approximately RMB114,784,000 after deducting the effect of deferred tax of approximately RMB38,262,000 accumulated in the investment revaluation reserve.

The remaining debt investments amounting to approximately RMB2,754,231,000 fail the contractual cash flow characteristics test, were reclassified to financial assets at fair value through profit or loss with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under IFRS 9. Related fair value gain of approximately RMB21,780,000 was adjusted from investment revaluation reserve to retained earnings at January 1, 2018. Interest receivables related to these financial assets amounted approximately RMB11,425,000 was adjusted to retained earnings at January 1, 2018.

(b) Debt investments previously classified as held-to-maturity investments and debt securities classified as receivables previously classified as loan and receivables carried at amortised cost

Some of these held to maturity investments and debt securities classified as receivables amounting to approximately RMB8,465,964,000 and RMB41,158,930,000 respectively are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these investments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon adoption of IFRS 9.

Some of these held to maturity investments amounting to approximately RMB150,000,000 satisfy the contractual cash flow characteristics test, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt investments. Accordingly, these financial assets were reclassified to financial assets at FVTOCI under IFRS 9, with the fair value gains or losses to be recognised in investment revaluation reserve. On initial application of IFRS 9, fair value loss relating to these investments amounting to approximately RMB1,789,000, after deducting the effect of deferred tax credit of approximately RMB596,000, was adjusted to investment revaluation reserve at January 1, 2018.

The remaining debt securities classified as receivables amounting to RMB7,113,600,000 which fail the contractual cash flow characteristics test or are held within a business model whose objective is neither to collect the contractual cash flows nor to both collect contractual cash flows and sell these financial assets, were reclassified to financial assets at FVTPL under IFRS 9, with the fair value gains or losses to be recognised in profit or loss. On initial application of IFRS 9, amount of approximately RMB67,428,000 reversal of provision of impairment loss after deducting the effect of deferred tax charge of approximately RMB22,476,000 was adjusted to retained earnings at January 1, 2018. Related fair value loss relating to these investments amounting to approximately RMB73,300,000, after deducting the effect of deferred tax credit of approximately RMB24,307,000, was adjusted to retained earnings at January 1, 2018.

All other financial assets and financial liabilities continue to be measured on the same bases as are previously measured under IAS 39.

(c) Impairment under ECL model

Certain debt instruments at FVTOCI of the Group are listed bonds that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at January 1, 2018, the additional credit loss allowance of approximately RMB578,608,000, after deducting the effect of deferred tax credit amounted approximately RMB207,247,000, has been recognised against retained earnings. The additional loss allowance is charged against the respective asset. An impairment loss recognised in financial assets at FVTOCI amounted RMB46,810,000 was reclassified from investment revaluation reserve to retained earnings. An amount of approximately RMB2,916,000 resulted from this remeasurement was debited from retained earnings to non-controlling interest.

All loss allowances for financial assets including loan and advance to customers, deposits with banks, financial asset held under resale agreement, financial asset at amortised cost and bank acceptances and letters of guarantees as at December 31, 2017 reconcile to the opening loss allowance as at January 1, 2018 is as follows:

	Loan and advance to customer <i>RMB'000</i>	Deposits with banks <i>RMB'000</i>	Financial asset held under resale agreement <i>RMB'000</i>	Financial asset at amortised cost <i>RMB'000</i>	Bank acceptances and letters of guarantees <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 2017	5,028,961	-	-	2,146,175	-	7,175,136
Reclassification	-	-	-	(89,904)	-	(89,904)
Amounts remeasured through opening retained earnings	52,196	4,455	62	685,091	44,051	785,855
At January 1, 2018	5,081,157	4,455	62	2,741,362	44,051	7,871,087

2.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

In current year, the Group's revenue mainly includes interest income, fee and commission income, among which fee and commission income will be within the scope of IFRS 15, while interest income is within the scope of IFRS 9 for the annual periods beginning on or after 1 January 2018. The directors of the Bank consider that the adoption of IFRS 15 as of January 1, 2018 does not have any material impact on the financial position and the financial result of the Group.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations

As a result of the changes in accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	December 31, 2017 RMB'000	IFRS 9 RMB'000	January 1, 2018 RMB'000
Assets			
Cash and deposits with the central bank	29,084,415	–	29,084,415
Deposits with banks	30,811,728	(4,455)	30,807,273
Financial assets held under resale agreements	9,819,920	(62)	9,819,858
Financial assets at amortised cost	–	54,960,829	54,960,829
Interests receivables	1,268,593	(11,425)	1,257,168
Loans and advances to customers	125,254,681	(52,196)	125,202,485
Financial assets at fair value through profit or loss	249,636	9,780,224	10,029,860
Debt instruments at fair value through other comprehensive income	–	4,572,639	4,572,639
Available-for-sale financial assets	13,057,235	(13,057,235)	–
Held-to-maturity investments	8,615,964	(8,615,964)	–
Debt securities classified as receivables	48,182,626	(48,182,626)	–
Interest in an associate	9,930	–	9,930
Property and equipment	1,752,840	–	1,752,840
Deferred tax assets	1,465,662	171,412	1,637,074
Other assets	1,574,387	–	1,574,387
Total assets	271,147,617	(438,859)	270,708,758

	December 31, 2017 <i>RMB'000</i>	IFRS 9 <i>RMB'000</i>	January 1, 2018 <i>RMB'000</i>
Liabilities			
Borrowings from the central bank	5,290,410	–	5,290,410
Deposits from banks and other financial institutions	20,178,373	–	20,178,373
Placements from banks and other financial institutions	1,050,000	–	1,050,000
Financial assets sold under repurchase agreements	5,817,526	–	5,817,526
Deposits from customers	192,230,603	–	192,230,603
Accrued staff costs	398,478	–	398,478
Taxes payable	572,856	–	572,856
Interests payable	4,305,460	–	4,305,460
Debts securities issued	23,960,759	–	23,960,759
Deferred tax liabilities	–	–	–
Other liabilities	730,113	44,051	774,164
Total liabilities	254,534,578	44,051	254,578,629
Equity			
Share capital	7,525,991	–	7,525,991
Capital reserve	1,767,659	–	1,767,659
Defined benefit plan reserve	(744)	–	(744)
Investment revaluation reserve	(125,323)	138,025	12,702
Surplus reserve	892,953	(61,310)	831,643
General reserve	3,631,670	–	3,631,670
Retained earnings	2,889,067	(556,709)	2,332,358
 Total equity attributable to owners of the Bank	 16,581,273	 (479,994)	 16,101,279
Non-controlling interests	31,766	(2,916)	28,850
Total equity	16,613,039	(482,910)	16,130,129
Total liabilities and equity	271,147,617	(438,859)	270,708,758

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts ⁴
Amendments to IFRS 3	Definition of a Business ³
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ²
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to IFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹
IFRIC 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after January 1, 2019.

² Effective for annual periods beginning on or after January 1, 2020.

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

⁴ Effective for annual periods beginning on or after January 1, 2021.

⁵ Effective date not yet been determined.

The directors of the Bank anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the consolidated statement of financial position of the Group.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.

IFRS 16 will become effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB320,062,000 as disclosed in Note 51(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Bank are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The directors of the Bank expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Bank expects that, as a lessor, there will be no significant impact on the consolidated financial statements.

3. BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB on the historical cost basis except for certain financial instruments that are measured at fair values and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. NET INTEREST INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest income arising from		
– Deposits with the central bank	434,322	387,413
– Deposits with banks	692,630	974,517
– Placements with banks and other financial institutions	4,778	1,723
– Financial asset at fair value through profit or loss	–	79,084
– Loans and advances to customers:		
Corporate loans and advances	7,194,282	5,918,470
Personal loans and advances	1,757,676	945,083
Discounted bills	1,019,428	881,212
– Financial assets held under resale agreements	411,619	249,561
– Debt instruments at fair value through other comprehensive income	3,305,577	–
– Financial assets at amortised cost	506,749	–
– Investments	–	4,608,705
	<u>15,327,061</u>	<u>14,045,768</u>
Less: Interest expenses arising from		
– Borrowing from the central bank	(261,055)	(130,520)
– Deposits from banks and other financial institutions	(1,017,503)	(1,712,482)
– Placements from banks and other financial institutions	(194,796)	(8,973)
– Deposits from customers:		
Corporate customers	(1,933,660)	(1,095,315)
Individual customers	(2,989,641)	(2,437,434)
– Financial assets sold under repurchase agreements	(236,283)	(230,063)
– Debts securities issued	(1,566,339)	(945,992)
	<u>(8,199,277)</u>	<u>(6,560,779)</u>
	<u><u>7,127,784</u></u>	<u><u>7,484,989</u></u>

5. NET FEE AND COMMISSION INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Fee and commission income		
– Wealth management service fees	48,020	193,895
– Bank acceptance bills service fees	19,812	14,676
– Agency services fees	207,307	144,391
– Settlement and clearing fees	68,399	52,997
– Letter of guarantee service fees	4,333	8,442
– Others	14,802	48,349
	<u>362,673</u>	<u>462,750</u>
Fee and commission expense		
– Settlement and clearing fees	(5,470)	(2,763)
– Bank card service fees	(184,852)	(70,528)
– Others	(6,296)	(12,788)
	<u>(196,618)</u>	<u>(86,079)</u>
	<u><u>166,055</u></u>	<u><u>376,671</u></u>

6. NET TRADING GAINS/(LOSSES)

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Financial assets at FVTPL/trading financial instruments		
– Realised gains/(losses) from debt securities	277,313	(25,150)
– Unrealised gains from debt securities	262,821	3,213
Interest income arising from financial asset at FVTPL	549,107	–
	<u><u>1,089,241</u></u>	<u><u>(21,937)</u></u>

7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Net gains on disposal of debt instruments at fair value through other comprehensive income	42,689	–
Net gains on disposal of available-for-sale financial assets	–	116,992
	<u>42,689</u>	<u>116,992</u>

8. OTHER OPERATING INCOME, NET

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Government grants	23,775	75,520
(Loss)/gain on disposal of property and equipment	(159)	4
Gain on disposal of repossessed assets	–	32,319
Rental income	40,791	1,737
Other operating expenses	(6,167)	(547)
	<u>58,240</u>	<u>109,033</u>

9. OPERATING EXPENSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Staff costs (including directors' emoluments)		
– Salaries and bonuses	909,916	869,652
– Staff welfares	35,467	36,330
– Social insurance	209,234	182,985
– Housing allowances	57,057	41,897
– Labor union and staff education expenses	23,466	23,827
– Long term staff welfare expenses	510	860
– Others	4,873	1,782
	<u>1,240,523</u>	<u>1,157,333</u>

	2018 RMB'000	2017 <i>RMB'000</i>
Premises and equipment expenses		
– Depreciation of property and equipment	329,589	213,619
– Amortisation of long term deferred expenses	11,058	11,637
– Amortisation of land use rights	1,312	2,878
– Amortisation of intangible assets	1,241	2,900
– Rental and property management expenses	179,866	178,311
	523,066	409,345
Business tax and surcharges	77,684	54,637
Other general and administrative expenses (Note)	429,824	430,915
	2,271,097	2,052,230

Note: Auditor's remuneration for the year ended December 31, 2018 was approximately RMB3,000,000 (2017: approximately RMB3,000,000).

Listing expenses for the year ended December 31, 2017 was approximately RMB9,924,000 (2018: nil).

10. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Impairment losses, net of reversals on:		
Debt instruments at FVTOCI	(45,198)	–
Financial assets at amortised cost	(11,962)	–
Other receivables, prepayments and repossessed assets	7,507	15,687
Loans and advances to customers	1,994,432	1,262,506
Deposit with banks and other financial institutions	254	–
Property and equipment	–	634
Financial assets held under resale agreements	(62)	–
Bank acceptances and letters of guarantees	17,403	–
Debt securities classified as receivables	–	246,822
Held-to-maturity investments	–	(2,616)
	<u>1,962,374</u>	<u>1,523,033</u>

11. INCOME TAX EXPENSE

Income tax:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current tax:		
– PRC Enterprise Income Tax	<u>1,242,210</u>	<u>1,347,028</u>
Over-provision in prior years:		
– PRC Enterprise Income Tax	<u>–</u>	<u>(10,885)</u>
Deferred tax		
– Current year	<u>(44,046)</u>	<u>(220,792)</u>
	<u>1,198,164</u>	<u>1,115,351</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd. (“平涼市靜寧成紀村鎮銀行股份有限公司”, “**Jingning Chengji Rural Bank**”), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15%.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Bank is based on the following data:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit for the year attributable to owners of the Bank (<i>RMB'000</i>)	<u>3,435,278</u>	<u>3,358,464</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (<i>'000</i>)	<u>9,951,313</u>	<u>7,525,991</u>

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended December 31, 2018 and 2017.

13. FINANCIAL ASSETS AT AMORTISED COST/HELD TO MATURITY INVESTMENTS/DEBT SECURITIES CLASSIFIED AS RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	5,238,228	–
– Banks and other financial institutions	7,348,088	–
– Corporations	5,831,434	–
Trust plans	11,977,738	–
Asset management plans	17,020,474	–
Asset-backed securities issued by bank and other institutions	<u>379,726</u>	–
	47,795,668	–
Less: Provision for impairment losses	<u>(2,729,400)</u>	–
	<u>45,066,288</u>	–
Analysed as:		
Listed outside Hong Kong	18,321,494	–
Unlisted outside Hong Kong	<u>26,744,794</u>	–
	<u>45,066,288</u>	–
Fair value	<u>45,163,984</u>	–

	2018 RMB'000	2017 <i>RMB'000</i>
Held to maturity investments at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	–	2,370,315
– Banks and other financial institutions	–	4,479,509
– Corporations	–	1,700,000
Asset-backed securities issued by bank and other institutions	–	86,000
	–	8,635,824
Less: Provision for impairment losses	–	(19,860)
	–	8,615,964
Analysed as:		
Listed outside Hong Kong	–	8,529,964
Unlisted outside Hong Kong	–	86,000
	–	8,615,964
Fair value	–	8,439,667
Debt securities classified as receivables		
Trust plans	–	10,260,782
Asset management plans	–	33,556,159
Wealth management products issued by other financial institutions	–	6,492,000
	–	50,308,941
Less: Provision for impairment losses	–	(2,126,315)
	–	48,182,626
Analysed as:		
Unlisted outside Hong Kong	–	48,182,626

14. LOANS AND ADVANCES TO CUSTOMERS

Analysed by nature

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Gross loans and advances to customers		
Corporate loans and advances	<u>113,204,179</u>	<u>97,253,744</u>
Personal loans and advances		
– Personal business loans	7,580,060	6,693,380
– Personal consumption loans	7,647,686	3,962,666
– Residential and commercial mortgage loans	<u>12,797,435</u>	<u>3,982,054</u>
	<u>28,025,181</u>	<u>14,638,100</u>
Discounted bills	<u>19,655,952</u>	<u>18,391,798</u>
	<u>160,885,312</u>	<u>130,283,642</u>
Less: Provision for impairment losses	<u>(6,251,454)</u>	<u>(5,028,961)</u>
	<u><u>154,633,858</u></u>	<u><u>125,254,681</u></u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Financial assets held for trading (<i>Note (i)</i>)	8,811,736	249,636
Trust plans	263,294	–
Asset management plans	25,341,432	–
Investment funds	6,970,953	–
Other debt securities (<i>Note (ii)</i>)	1,173,558	–
	<u>42,560,973</u>	<u>249,636</u>
Analysed as:		
Listed outside Hong Kong	8,811,736	249,636
Unlisted outside Hong Kong	33,749,237	–
	<u>42,560,973</u>	<u>249,636</u>

Notes:

(i) Financial assets held for trading:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	8,556,552	–
– Corporations	255,184	249,636
	<u>8,811,736</u>	<u>249,636</u>

As at December 31, 2018, no financial assets at FVTPL were subject to material restrictions on the realisation (2017: nil).

The above debt securities traded on the China Interbank Bond Market are included in “Listed outside Hong Kong”.

(ii) Other debt securities

Other debt securities mainly represented investments, financed by the proceeds raised from principal-guaranteed wealth management products issued by the Group.

16. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Debt instruments at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	4,869,958	–
– Banks and other financial institutions	10,037,993	–
– Corporations	341,146	–
	<u>15,249,097</u>	<u>–</u>
Analysed as:		
Listed outside Hong Kong	<u>15,249,097</u>	<u>–</u>
	<u>15,249,097</u>	<u>–</u>
Available-for-sale financial assets		
Debt securities issued by the following institutions in Mainland China		
– Government	–	2,621,959
– Banks and other financial institutions	–	4,615,162
– Corporations	–	368,645
Asset-backed securities issued by banks and other financial institutions in Mainland China	–	110,973
Trust plans	–	792,030
Asset management plans	–	3,510,178
Wealth management products issued by other financial institutions	–	730,157
Investment funds	<u>–</u>	<u>298,131</u>
	–	13,047,235
Equity investment measured at amortised cost	<u>–</u>	<u>10,000</u>
	<u>–</u>	<u>13,057,235</u>
Analysed as:		
Listed outside Hong Kong	–	7,716,739
Unlisted outside Hong Kong	<u>–</u>	<u>5,340,496</u>
	<u>–</u>	<u>13,057,235</u>

17. DEBT SECURITIES ISSUED

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Fixed rates financial bonds	5,996,352	4,496,189
Fixed rate tier-two capital bonds issued	3,194,430	3,191,851
Interbank deposits	<u>32,385,991</u>	<u>16,272,719</u>
	<u>41,576,773</u>	<u>23,960,759</u>

18. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of RMB10.22 cents in respect of the year ended December 31, 2018 per share has been proposed by the directors of the Bank and is subject to approval by the shareholders in the forthcoming general meeting.

No dividend was paid or proposed during the year ended December 31, 2017.

19. SEGMENT REPORTING

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial market operations

This segment covers the Group's financial market operations. The financial market operations enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial market segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and expenses are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, land use rights and other long-term assets.

Segment results, assets and liabilities

	Year ended December 31, 2018				
	Corporate banking <i>RMB'000</i>	Retail banking <i>RMB'000</i>	Financial market operations <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Operating income					
External net interest income/ (expense)	5,264,351	(1,231,966)	3,095,399	–	7,127,784
Internal net interest (expense)/ income	(708,266)	2,238,762	(1,530,496)	–	–
Net interest income	4,556,085	1,006,796	1,564,903	–	7,127,784
Net fee and commission income	87,028	19,222	51,338	8,467	166,055
Net trading gains	–	–	1,089,241	–	1,089,241
Net gains arising from investment securities	–	–	42,689	–	42,689
Foreign exchange gain	–	–	–	388,230	388,230
Other operating income, net	–	–	–	58,240	58,240
Operating income	4,643,113	1,026,018	2,748,171	454,937	8,872,239
Operating expenses	(1,190,262)	(262,898)	(702,142)	(115,795)	(2,271,097)
Impairment losses on assets	(1,386,171)	(287,740)	(263,360)	(25,103)	(1,962,374)
Operating profit	2,066,680	475,380	1,782,669	314,039	4,638,768
Share of result of associate	–	–	–	(960)	(960)
Profit before tax	<u>2,066,680</u>	<u>475,380</u>	<u>1,782,669</u>	<u>313,079</u>	<u>4,637,808</u>
Segment assets	110,549,327	27,819,221	188,347,517	186,760	326,902,825
Deferred tax assets	–	–	–	1,719,546	1,719,546
Total assets	<u>110,549,327</u>	<u>27,819,221</u>	<u>188,347,517</u>	<u>1,906,306</u>	<u>328,622,371</u>
Segment liabilities	92,065,313	112,244,596	98,802,812	118,236	303,230,957
Deferred tax liabilities	–	–	–	135,263	135,263
Dividend payable	–	–	–	8,560	8,560
Total liabilities	<u>92,065,313</u>	<u>112,244,596</u>	<u>98,802,812</u>	<u>262,059</u>	<u>303,374,780</u>
Other segment information					
– Depreciation and amortisation	188,760	44,616	106,392	3,432	343,200
– Capital expenditure	<u>880,655</u>	<u>208,157</u>	<u>496,370</u>	<u>16,009</u>	<u>1,601,191</u>

	Year ended December 31, 2017				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	4,821,768	(1,492,356)	4,155,577	–	7,484,989
Internal net interest (expense)/ income	(510,045)	2,490,297	(1,980,252)	–	–
Net interest income	4,311,723	997,941	2,175,325	–	7,484,989
Net fee and commission income	143,852	18,329	193,895	20,595	376,671
Net trading losses	–	–	(21,937)	–	(21,937)
Net gains arising from investment securities	–	–	116,992	–	116,992
Foreign exchange loss	–	–	–	(13,203)	(13,203)
Other operating income, net	–	–	–	109,033	109,033
Operating income	4,455,575	1,016,270	2,464,275	116,425	8,052,545
Operating expenses	(1,135,524)	(259,001)	(628,032)	(29,673)	(2,052,230)
Impairment losses on assets	(953,332)	(221,122)	(332,259)	(16,320)	(1,523,033)
Operating profit	2,366,719	536,147	1,503,984	70,432	4,477,282
Share of result of associate	–	–	–	1,798	1,798
Profit before tax	<u>2,366,719</u>	<u>536,147</u>	<u>1,503,984</u>	<u>72,230</u>	<u>4,479,080</u>
Segment assets	95,401,308	14,576,563	159,634,750	69,334	269,681,955
Deferred tax assets	–	–	–	1,465,662	1,465,662
Total assets	<u>95,401,308</u>	<u>14,576,563</u>	<u>159,634,750</u>	<u>1,534,996</u>	<u>271,147,617</u>
Segment liabilities	111,026,341	85,934,437	57,087,564	477,535	254,525,877
Dividend payable	–	–	–	8,701	8,701
Total liabilities	<u>111,026,341</u>	<u>85,934,437</u>	<u>57,087,564</u>	<u>486,236</u>	<u>254,534,578</u>
Other segment information					
– Depreciation and amortisation	127,069	30,034	71,620	2,311	231,034
– Capital expenditure	<u>322,305</u>	<u>76,182</u>	<u>181,663</u>	<u>5,859</u>	<u>586,009</u>

20. COMMITMENTS

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The Group provides financial guarantees to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2018 RMB'000	2017 RMB'000
Loan commitments	–	24,000
Acceptances	26,418,071	29,352,762
Letters of guarantees	721,547	516,209
Unused credit card commitment	359,224	–
	<u>27,498,842</u>	<u>29,892,971</u>

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Operating lease commitments

As at December 31, 2018 and 2017, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group as lessee

	2018 RMB'000	2017 RMB'000
Within one year	142,223	150,123
In the second to fifth years inclusive	165,992	198,409
Over five years	11,847	24,415
	<u>320,062</u>	<u>372,947</u>

(c) **Capital commitments**

At December 31, 2018 and 2017, the Group's authorised capital commitments are as follows:

The Group

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Purchase of property and equipment		
– Contracted for but not provided	<u>38,655</u>	<u>298,819</u>

7. PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement has been published on the HKEXnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com). The 2018 Annual Report of the Bank prepared in accordance with the IFRSs will be published on the HKEXnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com) and will be despatched to the H Shareholders of the Bank in due course.

By Order of the Board
Bank of Gansu Co., Ltd.*
Liu Qing
Chairman

Gansu Lanzhou
March 27, 2019

*As at the date of this announcement, the Board of Directors comprises Mr. LIU Qing and Mr. WANG Wenyong as executive Directors; Ms. WU Changhong, Ms. ZHANG Hongxia, Mr. GUO Jirong, Mr. ZHANG Youda and Mr. LIU Wanxiang** as non-executive Directors; and Ms. TANG Xiuli, Ms. LUO Mei, Mr. WONG Sincere and Mr. DONG Ximiao as independent non-executive Directors.*

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

** *The qualification of Mr. LIU Wanxiang as Director is subject to approval of the competent regulatory authority.*