

# Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2018.

## Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

## Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

## Results and Profit Distribution

The Group's annual results for 2018 are set out in the Consolidated Financial Statements. The Board of Directors has recommended a final dividend on ordinary shares for 2018 of RMB0.184 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 17 May 2019. If approved, the 2018 final dividend on the Bank's ordinary shares will be denominated and declared in RMB and paid in RMB or equivalent Hong Kong dollars. The actual amount distributed in Hong Kong dollars will be calculated according to the average of the exchange rates announced by PBOC in the week before 17 May 2019 (inclusive), being the date of the Bank's Annual General Meeting. The A-Share dividend distribution date is expected to be 3 June 2019 and the H-Share dividend distribution date is expected to be 18 June 2019 in accordance with relevant regulatory requirements and business rules. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2017 Annual General Meeting held on 28 June 2018, a final dividend on ordinary shares for 2017 of RMB0.176 per share (before tax) was approved for payment. The A-Share and H-Share dividends

were distributed to the shareholders separately in July and August of 2018 in accordance with relevant regulations. The distribution plan has been accomplished and the actual distributed amount for ordinary shares was approximately RMB51.812 billion (before tax). No interim dividend on ordinary shares was paid for the period ended on 30 June 2018 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2018.

At the Board meeting held on 19 January 2018, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2018, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

At the Board meeting held on 28 August 2018, the dividend distribution plans for the Bank's Offshore Preference Shares and Domestic Preference Shares (First Tranche) were approved. The Bank distributed dividends on the Offshore Preference Shares on 23 October 2018. According to the issuance terms of the Offshore Preference Shares, dividends on Offshore Preference Shares were denominated in RMB and paid in US dollars converted at a fixed exchange rate, with a total of approximately USD439 million (after tax) at an annual dividend rate of 6.75% (after tax). The Bank distributed dividends on the Domestic Preference Shares (First Tranche) on 21 November 2018, with a total of RMB1.920 billion (before tax) at an annual dividend rate of 6.00% (before tax). The dividend distribution plans have been accomplished.

At the Board meeting held on 25 January 2019, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2019, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

## Report of the Board of Directors

### Cash Dividend Payout for Ordinary Shares and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

Year of dividend distribution	Dividend per share (before tax) (Unit: RMB)	Total dividend (before tax) (Unit: RMB million)	Profit attributable to equity holders of the Bank (Unit: RMB million)	Payout ratio	Capitalisation of the capital reserve to share capital
2017	0.176	51,812	172,407	30%	Nil
2016	0.168	49,457	164,578	30%	Nil
2015	0.175	51,518	170,845	30%	Nil

### Dividend Distribution for Preference Shares

Types of preference shares	Dividend payment date	Total dividend	Dividend rate
Offshore Preference Shares	24 October 2016	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2016	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2017	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	23 October 2017	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2017	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2018	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	23 October 2018	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2018	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2019	1,540 (RMB million, before tax)	5.50% (before tax)

### Formulation and Implementation of Cash Dividend Policy

#### Ordinary Shares

The Bank takes full account of the return to shareholders, and also takes into account the long-term interests of the Bank, the overall interests of all its shareholders and the sustainable development of the Bank.

In 2009, the Bank amended the Articles of Association to state that the Bank should maintain the continuity and stability of its profit distribution policy.

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified

the Bank's profit distribution principles, policy and adjustment procedures, the consideration process of the profit distribution plan and other matters. The amendment states that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the ordinary shareholders of the Bank. The amendment also states that the Bank shall offer online voting to shareholders when considering amendments to the profit distribution policy and profit distribution plan.

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The Bank considered and approved the *Shareholder Return Plan for 2018 to 2020* at the 2019 First Extraordinary General Meeting on 4 January 2019, specifying the basic principles, shareholder return plan and decision-making and supervisory mechanisms regarding the formulation, implementation and amendment of the shareholder return of the Bank.

The procedure to formulate the aforementioned dividend distribution policy was compliant, transparent and complete. The criterion and ratio of the dividend are explicit and clear. The independent directors fully expressed their opinions and the legitimate rights and interests of minority shareholders were fully respected and protected. The procedure was in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan for ordinary shares of the Bank has been approved by the shareholders' meeting. In 2018, the Bank distributed dividends on ordinary shares for 2017 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

### **Preference Shares**

The preference shareholders of the Bank receive dividend at the specified dividend rate prior to the ordinary shareholders. The Bank shall pay the dividend to the preference shareholders in cash. The Bank shall not distribute dividends on ordinary shares before all the dividends on preference shares have been paid.

Dividends on the Bank's preference shares will be distributed on an annual basis. The first dividend period begins on the date of issuance of the preference shares. Once the preference shareholders have received dividends at the specified dividend rate, they shall not be entitled to participate in the distribution of the remaining profits of the Bank together with the ordinary shareholders.

The preference share dividend is non-cumulative. If any preference share dividend for any dividend period is not paid in full, such remaining amount of dividend shall not be carried forward to the following dividend year. The Bank shall be entitled to cancel the

payment of any dividend of the preference shares, and such cancellation shall not constitute a default. The Bank may at its discretion use the funds arising from the cancellation of such dividend payment to repay other indebtedness due and payable.

Dividend payments are independent from the Bank's credit rating, nor do they vary with the credit rating.

The dividend distribution plans for preference shares of the Bank have been approved by the Board of Directors. In 2018, the Bank distributed dividends on domestic and offshore preference shares in strict compliance with the Articles of Association, the terms of issuance of preference shares and the Board of Directors' resolutions on dividend distribution.

### **Closure of H-Share Register of Members**

The H-Share register of members of the Bank will be closed from Monday, 27 May to Friday, 31 May 2019 (both days inclusive), for the purpose of determining the list of shareholders entitled to the proposed final dividends on ordinary shares. In order to qualify for the proposed final dividends, the H-Share Holders of the Bank who have not registered the relevant transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 24 May 2019. The ex-dividend date of the Bank's H Shares will be on Thursday, 23 May 2019.

### **Donations**

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB87.35 million.

### **Share Capital**

As at the latest practicable date prior to the issue of this annual report, the Bank had sufficient public float based on publicly available information, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

# Report of the Board of Directors

## Distributable Reserves

Please refer to Note V.38 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

## Fixed Assets

Please refer to Note V.20 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

## Financial Summary

Please refer to the section “Financial Highlights” for the summary of the annual results, assets and liabilities of the Bank for the last five years.

## Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2018, the Bank has engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements according to the Hong Kong Listing Rules.

## Directors’ Interests in Competing Businesses of the Bank

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

## Remuneration Policy of Directors, Supervisors and Senior Management Members

The Bank has formulated a clear regulation on the remuneration of directors, supervisors and senior management members. The remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, and executive vice presidents shall be paid in accordance with the rules on remuneration reform for central enterprises, which consists of

basic annual remuneration, performance-based annual remuneration and incentive income linked to term appraisal. The remuneration for other senior management members and shareholder supervisors consists of basic annual remuneration and performance-based remuneration, with part of performance-based remuneration paid in a deferred manner. Independent directors as well as external supervisors and employee supervisors are remunerated by the Bank while non-executive directors are not remunerated by the Bank. The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income.

Please refer to the section “Directors, Supervisors and Senior Management Members” for details of the remuneration of directors, supervisors and senior management members.

## Directors’ and Supervisors’ Service Contracts

None of the directors or supervisors of the Bank has a service contract with the Bank or its subsidiaries that is not determinable within one year or is not determinable without payment of compensation other than normal statutory compensation.

## Directors’ and Supervisors’ Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance, in relation to the Bank’s business to which the Bank, its holding companies, or its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor or any entity connected with them was materially interested, directly or indirectly, subsisted during the reporting period.

## Directors’ and Supervisors’ Rights to Acquire Shares

During the reporting period, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement that would enable the Bank’s directors and supervisors, or

their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

### **Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures**

To the best knowledge of the Bank, as at 31 December 2018, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code* as set out in Appendix 10 of the Hong Kong Listing Rules.

### **Financial, Business and Family Relations among Directors**

Directors of the Bank are not related to one another with respect to finance, business and family, or other material relations.

### **Substantial Shareholder Interests**

Please refer to the section "Changes in Share Capital and Shareholdings of Shareholders" for the details of the Bank's substantial shareholder interests.

### **Management Contracts**

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank was entered into or existed during the reporting period.

### **Share Appreciation Rights Plan and Share Option Scheme**

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

### **Purchase, Sale or Redemption of the Bank's Securities**

As at 31 December 2018, approximately 22.80 million shares of the Bank were held as treasury shares.

Please refer to the Notes to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's securities by the Bank and its subsidiaries.

### **Pre-emptive Rights**

There are no compulsory provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provide that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring its capital reserve, issuing convertible bonds, or through other means as permitted by laws, administrative regulations and relevant regulatory authorities.

### **Permitted Indemnity Provision**

As stipulated in the Articles of Association, within the scope permitted under applicable laws, administrative regulations and the Articles of Association, the Bank may purchase and maintain any liabilities insurance for the Bank's former and incumbent directors. The Bank will indemnify every former and incumbent director out of its own assets against any liability incurred when he/she served as director of the Bank to the maximum extent permitted by law and administrative regulations or alternatively to the extent that it is not prohibited by law and administrative regulations unless it is established that the director has not acted honestly or in good faith in performing his/her duties.

During the reporting period, the Bank renewed its directors' liability insurance to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

### **Equity-linked Agreement**

The Bank has not been engaged in any equity-linked agreement during the reporting period.

### **Business Review**

For disclosures of the Bank in respect of business review under paragraph 28 of Appendix 16 to the

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Hong Kong Listing Rules, please refer to sections “Management Discussion and Analysis” and “Corporate Social Responsibilities”. The relevant disclosure constitutes part of the Report of the Board of Directors.

## Use of Raised Funds

All proceeds raised from initial public offerings, issuance of subordinated bonds, the rights issue, issuances of tier 2 capital bonds, preference shares and undated capital bonds have been used to replenish the Bank’s capital and increase the level of capital adequacy.

For details, please refer to the related announcements on the websites of SSE, HKEX and the Bank and the Notes to the Consolidated Financial Statements.

## Tax and Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2018.

### A-Share Holders

In accordance with the provisions of the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2012] No. 85) and the *Notice on Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2015] No. 101) issued jointly by MOF, State Administration of Taxation of PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the transfer market, where the holding period is less than one month (inclusive), the dividends and bonuses shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends and bonuses shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, the dividends and bonuses shall not be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable

for all incomes mentioned above. The individual income tax levied on dividends and bonuses obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

In accordance with the provisions of Article 26.2 of the *Enterprise Income Tax Law of the People’s Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People’s Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People’s Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

In accordance with the *Enterprise Income Tax Law of the People’s Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People’s Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

### H-Share Holders

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macao. Accordingly, the Bank generally withholds 10% of the dividends to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax laws, regulations and agreements.

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In accordance with the provisions of the *Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders who are Overseas Non-resident Enterprises* (Guoshuihan [2008] No. 897) published by the State Administration of Taxation of PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends on H Shares paid by the Bank.

The tax and tax relief of Shanghai-Hong Kong Stock Connect shall comply with the *Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong* issued jointly by MOF, State Administration of Taxation of PRC, and CSRC.

### **Domestic Preference Share Holders**

The individual income tax levied on dividends obtained by individuals from non-public issuance of domestic preference shares is calculated in accordance with the relevant Chinese tax laws and regulations.

In accordance with the provisions of the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income from domestic preference shares distributed between qualified resident enterprises are non-taxable, and dividend income from domestic preference shares obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

### **Offshore Preference Share Holders**

In accordance with Chinese tax laws and regulations, when distributing dividends to overseas non-resident enterprises on offshore preference shares, the Bank shall withhold enterprise income tax at a rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

### **Auditors**

Please refer to the section "Corporate Governance — Appointment of External Auditors" for details of the Bank's external auditors.

### **Consumer Rights Protection**

The Bank incorporates consumer protection efforts into its corporate governance and corporate culture, and integrates consumer protection into its development strategies and operational management. It keeps improving the governance structure and policy system for consumer protection. Focusing on consumer needs, the Bank has constantly launched new products and improved service quality. It attaches great importance to consumer comments, provides smooth complaint channels, and improves complaint handling process, hence earnestly protecting the legitimate rights and interests of consumers. Dedicated to raising the financial literacy of consumers, the Bank has carried out all-round and multifaceted publicity and education campaigns.

### **Members of the Board of Directors**

Executive Directors: CHEN Siqing, LIU Liange, WU Fulin, LIN Jingzhen

Non-executive Directors: ZHAO Jie, LI Jucai, XIAO Lihong, WANG Xiaoya, LIAO Qiang

Independent Directors: LU Zhengfei, LEUNG Cheuk Yan, WANG Changyun, Angela CHAO, JIANG Guohua

On behalf of the Board of Directors  
**CHEN Siqing**  
Chairman  
29 March 2019