

Annual Report

上海浦东发展银行股份有限公司
2018年年度报告





 Develop into a top-notch bank
operated as a digital ecology



Mission

Help to create a better life
with finance

Vision

Develop into a top-notch
bank operated as a digital
ecology

Organizational ethos

Optimism, plainness,
unity and sharing

Employee image

Dedicated, professional,
innovative and
promising

Core values

Stick to integrity and strive for excellence

Outlook on development: prioritize on developing
principal business for stable operation in the long run

Outlook on talent: pursue a people-centric approach to
discover able people and put them at suitable positions

Outlook on risk: make forward-looking, precise judgment,
take actions prudentially, and know where to stop

Outlook on management: conduct lawful and compliant
management for intensive and efficient operation

Outlook on business performance:
seek for high-quality and sustainable
business development

Corporate tenet

Strive with one heart

Manager image

Righteous, wise,
pioneering,
and responsible

Brand connotation

New thinking,
hearty service

Business Forms

Companies affiliated with the Group

SPD rural banks

SPD rural banks are a new type of rural financial service institutions with independent legal person status that are set up at Chinese counties for attracting private capital of high quality there with SPD Bank as the chief sponsor. As of the end of 2018, a total of 28 SPD rural banks had been established with 57 outlets, two thirds of which are located in central and western areas of China. With the agro-related loans and loans to small and micro businesses accounting for over 90% of total loans, these rural banks faithfully practiced the operational tenet of supporting the development of agriculture and small businesses as well as the inclusive finance policy.



SPDB Financial Leasing Co., Ltd.

SPDB Financial Leasing Co., Ltd. (SPDB Financial Leasing), established in May 2012, is China's first financial leasing Company jointly incorporated by commercial bank, advanced manufacturing enterprise and comprehensive financial holding group. SPDB Financial Leasing closely followed the professionalized, internationalized and characterized guiding principles to enhance the professional level of leasing business and strive to build green finance and a characteristic business pattern in the entire industry chain of aviation.



China International Fund Management Co., Ltd.

China International Fund Management Co., Ltd. (CIFM) was established in May 2004. Shanghai International Trust Co., Ltd. (Shanghai Trust) holds a 51% stake while J.P. Morgan Asset Management under JPMorgan Chase & Co. holds the remaining 49%. CIFM combines 150 years of globally renowned asset management experience of J.P. Morgan Asset Management with long-standing reputation of the Shanghai Trust brand in China. It engages in providing diverse and world-class asset management services for various types of investors.



Shanghai International Trust Co., Ltd.

Shanghai International Trust Co., Ltd. (Shanghai Trust), was established in 1981. SPD Bank became its controlling shareholder in March 2016. Shanghai Trust has witnessed a leading comprehensive strength among trust companies in China, by actively advancing the business transformation, making every effort to cultivate the active management capability, and constantly innovating with business and management modes.



SPDB International

SPDB International Holdings Limited (SPDB International) was opened officially in Hong Kong in March 2015. SPDB International has licenses of Type 1 "dealing in securities", Type 4 "advising on securities", Type 6 "advising on corporate finance" and Type 9 "asset management" in regulated activities from Hong Kong SFC, and has established a full-licensed investment banking platform.



Tullett Prebon SITICO (China) Limited

Tullett Prebon SITICO (China) Limited was established in December 2005 by Shanghai International Trust Co., Ltd. and Tullett Prebon (Europe) Ltd. It is the first money brokerage enterprise approved by CBRC in China. Its establishment indicated the money brokerage industry had emerged in the country. Since its foundation, it has made due contributions to increasing market liquidity, enriching the function system of Shanghai as an international financial center, facilitating the level of professionalized divisions in China's money market, and accelerating the development of China's money market.



Companies under joint control

SPD Silicon Valley Bank CO., Ltd.

SPD Silicon Valley Bank Co., Ltd. (SPD Silicon Valley Bank), established in August 2012, is a technology-oriented bank owning an independent legal person status and committing itself to serving technological businesses of small and medium sizes, providing companies engaged in technological innovation with fund support throughout all phases of their growth, and erecting a bridge that connect Chinese companies and overseas markets.



AXA SPDB Investment Managers Co., Ltd.

AXA SPDB Investment Managers Co., Ltd. is a fund management joint venture established in August 2007. It has a registered capital of RMB1.91 billion, in which SPD Bank holds 51% shares.



Rankings and Awards

Domestic and overseas rankings

Forbes magazine	70th among the "Forbes Global 2000", 13th among Chinese enterprises and 9th among Chinese banks on the list.
The Banker magazine	25th among the "Top 1000 World Banks", 8th among the Chinese-funded banks on the list and 1st worldwide by cost-to-income ratio.
Fortune magazine	227th among the "Fortune Global 500", 48th among Chinese enterprises and 7th among Chinese banks on the list.

Brand value

The Banker magazine	18th among the "Top 500 Banking Brands" and 7th among the Chinese-funded banks on the list; brand value worth USD13,252 million; brand rating of AA-.

Comprehensive financial service

Shanghai Municipal Government	"e Corporate Mobile" comprehensive service platform was awarded as the first prize in the "2017 Shanghai Finance Innovation Achievements".
People's Bank of China	The "new-generation financial accounting and general ledger system project" was awarded as the second prize in the "2017 Banking Technology Developments". The "service governance-oriented corporate service bus system project" was awarded as the third prize in the "2017 Banking Technology Developments". The "engine driving technology-based performance testing integrated implementation platform" was awarded as the third prize in the "2017 Banking Technology Developments".
China Banking and Insurance Regulatory Commission	The "core banking system-related remote double-active framework research and practice" was rated as one of "2018 IT Risk Management Research Projects (Type-1 Achievements)". The "business continuity management maturity assessment model and application cases" was rated as one of "2018 IT Risk Management Research Projects (Type-2 Achievements)". The "collective research on integrated application of online transactions based on micro service framework and SOA framework" was rated as one of "2018 IT Risk Management Research Projects (Type-3 Achievements)".
China Banking Association	Outstanding Contribution Award granted by the Special Committee for Green Credit Business Product Innovation Award for Best Fee-based Business Best Green Finance Award for Social Responsibility in the Chinese Banking Industry in 2017 Top Three Units in Quality Services, Comprehensive Exemplary Units, and Units with Outstanding Innovative Achievements in the integrated evaluation of customer service centers across the Chinese banking industry in 2018
The Asian Banker	China Best API Platform Project and China Best Product with Digitalized Employee Participation under the 2018 FinTech Innovations Selection Campaign
Asiamoney	Best Technological Innovation Award in the 2018 Chinese Retail Banks Selection Campaign
The Banker	"SPD Bank Business Department No.1" case was recognized as one of the "Top Ten Smart Bank Outlets by Innovation" in the 2018 FinTech Innovations Selection Campaign.
China Association for Quality	Onsite management maturity was rated with five stars (centralized working site of the Clearing Department)

Corporate social responsibility

China Banking Association	Best Green Finance Award for Social Responsibility in the Chinese Banking Industry in 2017
Responsibility Committee under the Chinese Institute of Business Administration	Excellent Enterprise Award for Sustainable Brand Communication in the selection of exemplary enterprises with sustained competitiveness for 2018
The Listed Companies Association of Shanghai	Award for Exemplary Enterprises of 2018 in the selection of socially responsible listed companies based in Shanghai

International Credit Ratings as at the End of the Reporting Period

Rating agency	Credit rating	Rating outlook
Moody's	Long-term deposit rating: Baa2 Short-term deposit rating: Prime-2	Stable
Standard & Poor's	Long-term issuer credit rating: BBB Short-term issuer credit rating: A-2	Stable
Fitch ratings	Long-term issuer default rating: BBB	Stable

Key Indicators

In RMB millions

Operating income of the Bank 163,868

Net profit attributable to the Bank's shareholders
deducting the non-recurring profit or loss

55,643

Operating income of the Group

Net profit attributable to the
Bank's shareholders

171,542

55,914

Total assets

Net assets attributable to the Bank's
ordinary shareholders

6,289,606

441,642

Weighted ROE after deducting non-recurring
gains and losses 13.08%

Returns on average total assets

Weighted ROE

13.14%

0.91%

Net interest spread 1.87%

Net interest income 111,844

Net fee and commission income 39,009

Net interest margin

Percentage of non-interest net income

1.94%

34.80%

NPL ratio

Cost-to-income ratio

1.92%

25.12%

Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors, and Senior Management members of the Bank warrant that the information presented in this Report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and bear joint and several liability for the information in this Report.
2. This Report was reviewed and approved at the 43rd meeting of the Sixth Board of Directors held in Shanghai on 22 March 2019. Director Fu Fan was unable to attend the meeting due to official duties and entrusted Director Yuan Zhigang by written proxy to vote on his behalf. Other Directors attended the meeting in person and exercised their voting rights.
3. The 2018 financial statements prepared by the Bank in accordance with the Accounting Standards for Business Enterprises and the International Financial Reporting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP who issued a standard unqualified opinion.
4. Gao Guofu, Chairman of the Board of Directors, Liu Xinyi, President of the Bank, Pan Weidong, Vice President and Chief Financial Officer, and Pan Peidong, person in charge of accounting institutions, warrant the authenticity, accuracy and completeness of the financial statements in this Report.
5. The profit distribution plan for the reporting period approved by the Board of Directors is as follows: Distributing to all shareholders cash dividends at RMB3.5 (tax inclusive) per 10 shares based on the total number of ordinary shares of 29,352,080,397 at the end of 2018. The total distribution amount is RMB10,273 million.
6. There was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.
7. The Bank provided no external guarantee in violation of the required decision-making process.
8. Risk statement on forward-looking statements: The future plans, development strategies and other prospective description stated in this Report do not constitute substantial warranty of the Bank to the investors; the investors and other related persons shall be fully aware of the risks and understand the difference between plans, estimates and commitments.
9. Notes on material risks: The Bank has no foreseeable material risks. Operating risks facing the Bank mainly include credit risk, market risk, liquidity risk, and operational risk. The Bank has taken various measures to effectively manage and control various operating risks, which are shown in the "Risk Management" under Section VI "Discussion and Analysis of Business Operation".
10. This Report was compiled in the language of both Chinese and English. If there is any discrepancy of understanding between the versions, the Chinese version shall prevail.



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The background is a complex, layered composition. It features a blue-toned image of a wireframe globe, possibly representing a network or a global system. Overlaid on this are various elements: a red-tinted rectangular area on the left side, and a semi-transparent blue rectangular area on the right. Within the red area, there is faint, blurred text that appears to be financial data, including phrases like "Energy Prices", "Oil Prices", and "Natural Gas Prices", along with numerical values such as "0.50%", "0.20%", "0.00%", "0.80%", and "0.60%". The overall aesthetic is high-tech and data-driven.

Definitions

Definitions

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

SPD Bank, the Company, the Parent Company, the Bank: Shanghai Pudong Development Bank Co., Ltd.

The Group: Shanghai Pudong Development Bank Co., Ltd. and its affiliated companies

Shanghai Trust: Shanghai International Trust Co., Ltd.

SPDB Financial Leasing: SPDB Financial Leasing Co., Ltd.

AXA SPDB Investment Managers: AXA SPDB Investment Managers Co., Ltd.

SPD Silicon Valley Bank: SPD Silicon Valley Bank Co., Ltd.

SPD rural banks: The 28 rural banks established by Shanghai Pudong Development Bank Co., Ltd.

SPDB International: SPDB International Holdings Limited

Central bank/PBC: People's Bank of China

CBIRC: China Banking and Insurance Regulatory Commission

CSRC: China Securities Regulatory Commission

End of the reporting period: 31 December 2018

Reporting period: From 1 January 2018 to 31 December 2018

Same period of last year: From 1 January 2017 to 31 December 2017

Comparing periods: From 1 January 2017 to 31 December 2017

From 1 January 2016 to 31 December 2016

New financial instrument standards: Accounting Standard for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 23—Transfer of Financial Assets, Accounting Standard for Business Enterprises No. 24—Hedging, and Accounting Standard for Business Enterprises No. 37—Presentation of Financial Instruments

Section I
Corporate Profile

Corporate Profile

1.1. Company Information

Chinese name: 上海浦东发展银行股份有限公司
 Chinese name in short: 上海浦东发展银行、浦发银行
 English name: SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
 English name in short: SPD BANK
 Legal Representative: Gao Guofu
 Initial registration date: 19 October 1992
 Registered & office address: 12, Zhongshan Road (E-1), Shanghai 200002 PRC
 Uniform Social Credit Code: 9131000013221158XC
 Financial Institution License Serial Number: B0015H131000001
 Website: <http://www.spdb.com.cn>
 Email: bdo@spdb.com.cn
 Service hotline: 95528

1.2 Contact Information

Secretary of the Board of Directors Name: Xie Wei
 Secretary of the Board of Directors Address: Secretariat to the Board of Directors & Supervisors at 12, Zhongshan Road (E-1), Shanghai
 Secretary of the Board of Directors Telephone: 021-63611226
 Secretary of the Board of Directors Fax: 021-63230807
 Secretary of the Board of Directors Email: xiew2@spdb.com.cn
 Listing Affairs Representative Name: Yang Guoping, Wu Rong
 Listing Affairs Representative Address: Secretariat to the Board of Directors & Supervisors at 12, Zhongshan Road (E-1), Shanghai
 Listing Affairs Representative Telephone: 021-61618888 ex. Secretariat to the Board of Directors & Supervisors
 Listing Affairs Representative Fax: 021-63230807
 Listing Affairs Representative Email: yanggp@spdb.com.cn、wur2@spdb.com.cn

1.3 Information Disclosure and Access Site

Media partners selected for information disclosure: “China Securities Daily”, “Shanghai Securities News”, “Securities Times”
 Website designated by CSRC to publish this annual report: <http://www.sse.com.cn>
 Annual report prepared at: Secretariat to the Board of Directors & Supervisors

1.4 Stocks

Type	Place of listing	Short name	Code	Short name before change
Ordinary A-share	Shanghai Stock Exchange	SPD Bank	600000	—
Preference share	Shanghai Stock Exchange	SPDB P 1	360003	—
		SPDB P 2	360008	—

Corporate Profile

1.5 Other Related Documents

Accounting firm engaged (financial statements prepared as per Accounting Standards for Business Enterprises)	
Name	PricewaterhouseCoopers Zhong Tian LLP
Office address	F/11, PWC Center, 202 Hubin Road, Shanghai, PRC
Names of signatory accountants	Zhou Zhang, Zhang Wu
Accounting firm engaged (financial statements prepared as per International Financial Reporting Standards)	
Name	PricewaterhouseCoopers Zhong Tian LLP
Office address	F/11, PWC Center, 202 Hubin Road, Shanghai, PRC
Sponsor institution performing continuous supervision duties during the reporting period	
Name	HAITONG Securities Company Limited
Office address	No.689 Guangdong Road, Shanghai
Names of sponsor Representatives	Zhang Yu, Du Juan
Period of continuous supervision	4 September 2017—31 December 2018
Name	Guotai Junan Securities
Office address	F/5, Chinese Financial Information Center, 18 Dongyuan Road, Pudong New Area, Shanghai
Names of sponsor Representatives	Yu Weijun, Jin Licheng
Period of continuous supervision	4 September 2017—31 December 2018
Depository of ordinary outstanding shares with restricted sale conditions	
China Securities Depository and Clearing Co., Ltd. Shanghai Branch	

Corporate Profile

1.6 Analysis on Core Competitiveness

In 2018, the Bank bore in mind the new five-year development plan and the strategic objectives “to put customers at the core, capitalize on the driving role of technology, and develop into a top-notch bank operated as a digital ecology”, and worked hard to serve the real economy in a more efficient, quality manner. Spearheaded by the business philosophy of “returning to the ultimate mission, highlighting the significance of principal business, honing professional skills, and realizing coordinated development”, it conducted the operating tasks of “adjusting structure, securing stable income, conducting stricter management, and eliminating risks” as the main task, and spared no effort to enhance the Group’s operating capacity and competitive edges as a whole.

The Group owns many financial licenses allowing it to operate in banking, leasing, funds, trust, currency brokerage and overseas investment banking, and thus is capable of offering customers with a wide range of financial services. Thanks to the continuously increased efforts for coordinated development across the Group, all business segments and departments, the parent company and subsidiaries, and domestic and overseas branches managed to make joint action in a constantly improved way.

The Group attaches high importance to advancing the strategy for digital operation, and starts from the digitalization projects to promote digital transformation and complete the switch from old to new drivers of growth. It launched the API open banking services and the integrated VTMs before all others in the industry, thus embarking on the path of building an O2O digitalized ecology dominated by itself. To align itself with the cutting-edge technologies, the Bank teamed up with Baidu, Huawei and other companies to set up six innovation laboratories, and joined hands with Microsoft to form the FinTech cooperative community with a view to putting related technological results into commercial use. To get more out of data, it laid more stress on online operation and big data analysis, and made breakthroughs in many fields such as precision marketing, smart customer acquisition, and risk control & operation.

The Group continues to engage in more intensive operation and management, enhancing its capacity of sustainable development constantly. According to new requirements for high-quality development, it finished overhauling the organizational structure of the Head Office, making the organizational operation more efficient. To highlight the meticulous allocation of various resources, it optimized the multi-layered, classified allocation mechanism that covers all resources, and lifted its asset and liability management capacity to a higher level. Furthermore, it established the smart operation platform, and got front, middle and back-office facilities operated and managed more efficiently. As a result, its management practice went further in shared and intensive operation. Besides, the Bank continued to consolidate the foundation of risk management, and shored up its comprehensive management capability on all fronts with the help of digitalized and intensive measures. In terms of personnel work, it managed to optimize the personnel structure constantly, worked hard on exercising dynamic control over staffing, did more to introduce more high-tech personnel, and enhanced the composition of existing personnel by increasing the proportion of customer managers and product managers.

The Group seeks for international operation at a steady pace, refines the business and function structure step by step, and maintains the momentum for sound growth. Overseas branches are developing their respective business features. Hong Kong Branch became further influential in market; Singapore Branch unveiled commodities and other services unique to itself; and London Branch commenced for business smoothly, a move enabling the Group to operate across different time zones of Asia and Europe.

The background is a complex digital-themed composition. It features a central globe with a blue and white color scheme, showing continents and oceans. Overlaid on the globe are various elements: a large, semi-transparent red rectangle on the left side; a blue rectangle at the top; and several smaller blue and red rectangles at the bottom right. Scattered throughout the image are binary digits (0s and 1s) in white and blue, some appearing to float or be part of a larger data stream. The overall aesthetic is high-tech and modern.

Section II

Key Indicators

Operational Overview

2.1 Major Accounting Data and Financial Indicators

In RMB millions

	2018 Audited	2017 Audited	Increase/ (decrease) compared with the same period of last year (%)	2016 Audited
Major accounting data				
Operating income	171,542	168,619	1.73	160,779
Total profit	65,284	69,828	-6.51	69,975
Net profit attributable to the Bank's shareholders	55,914	54,258	3.05	53,099
Net profit attributable to the Bank's shareholders deducting the non-recurring profit or loss	55,643	54,046	2.95	51,687
Net cash flows from operating activities	-338,360	-140,673	N/A	-191,993
Main financial indicators				
Basic earnings per share (RMB)	1.85	1.84	0.54	1.85
Diluted earnings per share (RMB)	1.85	1.84	0.54	1.85
Basic earnings per share after deducting non-recurring gains and losses (RMB)	1.84	1.83	0.55	1.80
Weighted ROE (%)	13.14	14.45	Down 1.31 percentage points	16.35
Weighted ROE after deducting non-recurring gains and losses (%)	13.08	14.39	Down 1.31 percentage points	15.90
Net cash flows from operating activities per share (RMB)	-11.53	-4.79	N/A	-6.83
Profitability indicators (%)				
Returns on average total assets	0.91	0.92	Down 0.01 percentage point	0.98
Fully-diluted ROE	12.27	13.28	Down 1.01 percentage points	15.20
Fully-diluted ROE excl. non-recurring gains and losses	12.21	13.23	Down 1.02 percentage points	14.78
Net interest spread	1.87	1.75	Up 0.12 percentage point	1.89
Net interest margin	1.94	1.86	Up 0.08 percentage point	2.03
Cost-to-income ratio	25.12	24.34	Up 0.78 percentage point	23.16
Cash dividend ratio	18.37	5.41	Up 12.96 percentage points	8.14
Percentage in total operating income (%)				
Net interest income to operating income	65.20	63.40	Up 1.80 percentage points	67.25
Non-interest income to operating income	34.80	36.60	Down 1.80 percentage points	32.75
Net income of fees and commissions to operating income	22.74	27.03	Down 4.29 percentage points	25.31

Operational Overview

2.1 Major Accounting Data and Financial Indicators

In RMB millions				
	2018 Audited	2017 Audited	Increase/ (decrease) compared with the same period of last year (%)	2016 Audited
Scale indicators				
Total assets	6,289,606	6,137,240	2.48	5,857,263
Incl.: Total loans	3,549,205	3,194,600	11.10	2,762,806
Total liabilities	5,811,226	5,706,255	1.84	5,484,329
Incl.: Total deposits	3,227,018	3,037,936	6.22	3,002,015
Net assets attributable to the Bank's shareholders	471,562	425,404	10.85	367,947
Net assets attributable to the Bank's ordinary shareholders	441,642	395,484	11.67	338,027
Net assets per share attributable to the ordinary shareholders of the Bank (RMB)	15.05	13.47	11.73	12.03
Asset quality indicators (%)				
NPL ratio	1.92	2.14	Down 0.22 percentage point	1.89
Allowance to NPL	154.88	132.44	Up 22.44 percentage points	169.13
Allowance to total loans	2.97	2.84	Up 0.13 percentage point	3.19

Notes:

(1) The Bank recorded relevant asset disposal gain or loss and government subsidies related to its daily activities originally under the "non-operating income" and "non-operating expense" to the new items of "asset disposal gain or loss" and "other income" according to the Notice on Issuing the Accounting Standards for Business Enterprises No.42—Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations and the Accounting Standards for Business Enterprises No.16—Government Subsidies. Besides, it also restated the statement items and financial indicators in the comparing periods. The above provisions had no bearing on the total profit and net profit of the Bank.

(2) Earnings per share and weighted ROE are calculated according to the Company Information Disclosure Rule with Public Offering Securities No. 9—Calculation and Disclosure of ROE and Earnings Per Share (Revised in 2010). Earnings per share during the reporting period are calculated based on the weighted average of 29,352,080,397 ordinary shares issued.

(3) The Bank distributed dividends of RMB825 million and RMB900 million of SPDB P2 and SPDB P1, respectively in March and December 2018. When calculating the earnings per share and ROE disclosed in the Report, the Bank considered the impact of the distribution of the preference stock dividends of two phases.

(4) Non-recurring gains and losses are calculated based on the definition outlined in China Securities Regulatory Commission Announcement No.43 2008—Public Company's Information Disclosure Explanatory Notice No.1—Non-recurring Gains and Losses.

(5) Returns on average total assets = net profit/asset average balance, asset average balance = (total assets at period beginning + total assets at period end)/2.

(6) Fully-diluted ROE = net profit attributable to the Bank's ordinary shareholders during the reporting period/net assets attributable to the Bank's ordinary shareholders as at the end of the reporting period.

(7) Fully-diluted ROE after deducting non-recurring gains and losses = net profit attributable to the Bank's ordinary shareholders during the reporting period after deducting non-operating gains and losses/net assets attributable to the Bank's ordinary shareholders as at the end of the reporting period.

(8) Net interest spread is the difference between average yield of total interest-earning assets and average cost of total interest-bearing liabilities. Net interest income ratio = net interest income/average balance of total interest-earning assets. As per the new financial instrument standards adopted since 1 January 2018, the interest generated from the financial assets measured at fair value through profit or loss shall be booked into profit and loss on investments.

(9) Cost-to-income ratio = operation and administrative expenses/operating income.

Operational Overview

(10) Total loans = corporate loans + personal loans + principal balance of discounted bills; total deposits = corporate deposits + personal deposits + principal balance of other deposits.

(11) Since 1 January 2018, the Bank has adopted the revised version of the following documents: Accounting Standard for Business Enterprises No.22—Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No.23—Transfer of Financial Assets, Accounting Standard for Business Enterprises No.24—Hedging, and Accounting Standard for Business Enterprises No.37—Presentation of Financial Instruments (hereinafter referred to as “the new financial instrument standards” collectively). As the Bank disclosed, the adoption of the new financial instrument standards led to a reduction of RMB12,075 million in the Group’s equity attributable to the Bank’s shareholders in the beginning of the reporting period. Of these, the other comprehensive income rose by RMB3,015 million, and the retained profits in the beginning of the reporting period reduced by RMB15,090 million, which was mainly caused by the adoption of the expected credit loss model to set aside allowance for impaired loans. Details can be seen in Section 7.8 “Changes in Accounting Policies and Their Influence on the Bank”.

(12) As per the Notice on Revising and Distributing the Format of 2018 Financial Statements Prepared by Financial Enterprises (Cai Kuai [2018] No.36), the Bank has adopted the revised format to develop its financial statements, with comparable data in previous periods not restated any longer, since the accounting year starting from 1 January 2018. Details can be seen in Section 7.9 “Specific Changes in Presentation Format of Financial Statements and Their Influence on the Bank”.

2.2 Differences between Accounting Data Prepared as per ASBE and IFRS

There is no difference in the net profit, total assets and total liabilities in the reporting period between the Group’s domestic financial report in accordance with the Accounting Standards for Business Enterprises (ASBE) and its international financial report in accordance with International Financial Reporting Standards (IFRS).

2.3 Key Financial Data per Quarter of the Group in 2018

Item	In RMB millions			
	1st quarter (Jan. – Mar.)	2nd quarter (Apr. – Jun.)	3rd quarter (Jul. – Sep.)	4th quarter (Oct. – Dec.)
Operating income	39,629	42,627	44,853	44,433
Total profit	17,106	17,055	16,732	14,391
Net profit attributable to the Bank’s shareholders	14,305	14,264	14,638	12,707
Net profit attributable to the Bank’s shareholders deducting the non-recurring profit or loss	14,266	14,166	14,602	12,609
Net cash flows from operating activities	-48,725	-69,370	-243,984	23,719

2.4 Non-recurring Gains and Losses items and Amount

Item	In RMB millions		
	2018	2017	2016
Proceeds from disposal of non-current assets	51	516	-13
Government subsidies	515	488	320
Other net non-operating income	-59	-447	1,658
Income tax effect of non-recurring gains and losses	-147	-269	-491
Total	360	288	1,474
Incl.: Non-recurring gains and losses attributable to the Bank’s shareholders	271	212	1,412
Non-recurring gains and losses attributable to minority shareholders	89	76	62



Shanghai Pudong Development Bank CO.,Ltd Chairman Gao Guofu

Message from Chairman of the Board of Directors



The year 2018 marks the 25th anniversary of the founding of SPD Bank. The grand development achieved in the past 25 years is the result of collective efforts made by all of us. We have the pioneering spirit in our DNA. What we accomplished has greatly contributed to the reform, innovation and advancement of the Chinese banking industry. Entering the new era, we become keenly aware of the big trends, and establish a business philosophy of “returning to the ultimate mission, highlighting the significance of principal business, honing professional skills, and realizing coordinated development”. Keeping closely up with the times, we put forth a corporate vision of “putting customers at the core, capitalizing on the driving role of technology, and developing into a top-notch bank operated as a digital ecology”. Answering to what the Chinese people aspire for, we stand firm with our corporate mission of “helping to create a better life with finance”. Now all of us at SPD Bank are making unremitting efforts to transform the development mode, adjust the business structure, switch from old to new engines of growth, and strive to realize high-quality development at a faster pace.

Returning to the founding mission, serving the needs of real economy, and guarding against various risks

In the past year, we acted on the core messages conveyed on the Central Financial Work Conference, to serve the real economy with assured quality and efficiency. Centering on major state strategies, we vigorously supported the Belt and Road Initiative, the integration of the Yangtze River Delta, the coordinated development of Beijing-Tianjin-Hebei region, and the construction of Guangdong-Hong Kong-Macao Greater Bay Area, with the outstanding loans exceeding RMB1 trillion. To shore up our capability of serving private enterprises, we issued the 16 suggestions for implementing related proposals promptly. While actively promoting the inclusive finance, we resolutely implemented the “two increases and two controls” with respect to small and micro loans, and vigorously supported the economic development relating to agriculture, rural areas and farmers. Spearheaded by Shanghai’s initiatives to build “five centers” and “four brands”, we continued to facilitate the reforms of service factor market and state-owned assets/enterprises with constantly improved service standards, and supported the construction of free trade zones (FTZs) in Shanghai, Hainan, and other places, with the number of accounts opened at FTZs going beyond 10,000.

In the past year, we kept lifting our political stance, and listed risk control and reduction as a top priority. Specifically, we developed the risk outlook of “making forward-looking, precise judgment, taking action prudentially, and knowing where to stop”. In other words, the far-sighted judgments and policies were made to guide our business on right track, instead of overstepping the bottom line for risk management; and the prudential business attitude and professional competence were developed to help us balance the relationship between business growth and risk control. At the same time, we launched the audit system reform, with a view to reshaping our audit organization and flow; we refined the front, middle and back-office risk compliance control mechanism; and we resolutely streamlined the asset and liability structure, having risks disposed of and mitigated with intensified efforts. Thanks to the unremitting endeavors throughout the year, we managed to cut down the amount and rate of NPLs and overdue loans, the credit risk assets, the over-90-day scissors difference, and other indicators. As a result, our asset quality stayed on an upward trend.

Message from Chairman of the Board of Directors

In the past year, we got driven by data and empowered by technology, thus making outstanding headway in building a bank operated as a digital ecology. Aspired by the strategic targets for the new round of development, we aligned ourselves with the best practice in the industry, re-pinpointed our position in market, updated our outlook on development, transformed our approach to growth, and overhauled our development pattern. In doing so, we hoped to transform the entire bank towards digitalized operation and management at the pull of advanced technology. Adopting the cutting-edge technologies, we worked hard to forge digital finance, laid the foundation for ecology-based operation, gathered R&D forces in reserve, explored for the integration mechanism, and guaranteed secure operation. With these bold and pioneering moves, we aimed for transitioning to digitalized operation as soon as possible.

In the past year, we put corporate governance at the core. While highlighting the role of incentive and constraint mechanism, we tried to link the Senior Management incentive scheme with shareholder value creation, and wrapped up the work of having Senior Management members hold shares smoothly, a move that transmitted their determination and confidence to market players, and hence stabilized market expectation, protecting legitimate interests of medium and small shareholders, and diversifying market value management measures. Besides, we shaped the ideas of managing capital meticulously, revised related capital management provisions, and continued to optimize capital structure. In order to improve capital use efficiency, we adopted a mix of measures to cut expenditure and increase income. As a result, our rate of capital return went up constantly. We succeeded in issuing the tier-two capital bonds worth RMB40 billion, a move that enhanced our capital adequacy ratio (CAR) substantially. In the meantime, we were actively promoting the issuance of convertible bonds, and received the formal approval reply from CBIRC by the end of the year.

We are always grateful for who and where we are today. It is impossible for us to attain this achievement and confidence without the support and care of shareholders and friends from all walks of life. Hereby on behalf of the Board of Directors, I would like to express my heartfelt gratitude to all shareholders and persons from all walks of life for their long-term support and care in the growth and development of SPD Bank. And we sincerely expect they will care for and back up with us as they used to do.

Prioritizing on developing principal business as a digital ecology and for stable operation in the long run

The year 2019 marks the 70th anniversary of the founding of new China. It is critical to the building of a moderately prosperous society in all respects. For us, it bears great significance for our implementation of the 13th five-year period plan and the construction of a bank operated as a digital ecology. In the new year, we will face the more complicated and uncertain business environment, the more stringent market regulation, the higher expectations from customers, and fiercer peer competition. In this context, we will uphold the working policy of “taking result-oriented approach, optimizing process, aligning with advanced peers in market, and assigning responsibilities to every single individual”, advocate the working method of “capitalizing the driving role of innovation and technology in a bid to transform toward high-quality development and grow stronger through reform”. By doing so, we will embark on an innovative path that ultimately leads to more efficient and sustainable development of higher quality.

Speaking of development quality, we always abide by state strategies. Finance represents a part of core competitiveness for a country. We will proceed from easing the uneven and insufficient financial supply and take serving state strategies as a great opportunity in a bid to divert more support and input into advanced manufacturing and strategic emerging industries. In 2019, we will proactively help Shanghai go about the three major missions assigned by the central government like

Message from Chairman of the Board of Directors

the launch of the science and technology innovation board, and step up efforts to develop financial products targeted at high-tech companies, various factor markets, the Yangtze River Delta, and FTZs, with a view to supporting more quality enterprises to grow larger and stronger.

To enhance development quality, we must work harder to serve the needs of real economy. The vigor and stability of finance concerns that of national economy. In this sense, we will focus on the principal sectors of finance, take serving the real economy and the general public as our mission, and keep keenly aware of our development direction, strategic positioning, customer policy, and business priorities. We will actively support the development of small and micro-sized enterprises, private enterprises, and companies from strategic emerging industries; do more to finance corporate operation, promote improvement in people's well-being, and further refine the inclusive finance-related service system; and introduce more innovative financial products and services, diversify the financial supply, and fuel the growth of real economy with concrete measures.

To enhance development quality, we must guard against financial risks substantially. Prevention of financial risks, especially systematic financial risks, proves to be the most imperative task of the financial sector. We will always uphold the bottom-line mindset, lay stress on responsibility taking, and swear to win the tough battle against financial risks. In 2019, we will attach more importance to risk management and prudential operation, work harder to forge the credit system, and do more to find out hidden risks and hazards; further enhance the risk monitoring and management capability, keep getting more yield out of risk assets, and seek to create more value through risk operation; and spare no effort to foster a good environment in favor of capital market's steady operation.

To enhance development quality, we must take digitalized transformation as an important starting point to develop ourselves into a bank operated as a digital ecology. In 2019, we will continue to prioritize on the driving role of technology, marry a variety of advanced techniques with corporate governance, financial market, operational management, and other aspects at a faster pace, and recruit agile teams to transform various fields toward digitalized operation side by side. In addition, we will allow full play to FinTech cooperative communities, introduce innovative resources, and put innovative programs into operation, in a bid to translate innovative results into business growth as fast as possible. Moreover, we will continue to roll out innovative institutions, optimize personnel structure, and give a boost to the efficient, swift and sustained development.

Dear shareholders, we will celebrate the 20th anniversary of our listing in 2019. Through the whole journey, we always keep in line with the central government, pace with the times, and go along with customers. The future heralds both opportunities and challenges. Looking ahead, we will attach equal importance to competition and innovation. Thanks to the wise leadership of the Board of Directors and the enormous support of the vast shareholders and friends from all walks of life, we will have full confidence in our future, bear in mind our founding mission, and take forging a bank operated as a digital ecology as an objective. In practice, we will focus on principal business in exchange for stable operation in the long run, strive to realize the high-quality development, and create more value for our customers, employees, shareholders, and other stakeholders!

Gao Guofu, Chairman
Shanghai Pudong Development Bank Co., Ltd.



Shanghai Pudong Development Bank CO.,Ltd Vice Chairman and President Liu Xinyi

Message from President



New chapters keep commencing as time speeds by. The past year witnessed the Chinese economy was transitioning from high-speed growth to high-quality development. Against such a backdrop, we thoroughly implemented the core messages conveyed at the 19th National Congress of the CPC, the National Financial Work Conference and the Central Economic Work Conference. In practice, we focused on the strategic objective of “building into a top-notch bank operated as a digital ecology” and the main business guideline of “adjusting structure, securing stable income, conducting stricter management, and eliminating risks”. During the process, we overcame difficulties and forged ahead, creating a momentum of “realizing quality development amid stability”, and completing the business objectives and tasks set by the Board of Directors.

Looking back into 2018, we realize that nothing is so precious as hard work. Thanks to the support of the vast shareholders, customers and persons from all walks of life as well as the joint efforts of all employees, our Group posted total assets worth RMB6.29 trillion, an increase of 2.48% over the beginning of the year; generated an operating income of RMB171,542 million, a year-on-year rise of 1.73%; and reaped a net profit attributable to the Bank's shareholders of RMB55,914 million, up 3.05%. At the same time, our NPL ratio fell to 1.92%, down 0.22 percentage point from the beginning of the year; and CAR hit 13.67%, an increase of 1.65 percentage points. Our ranking in the “Top 1000 World Banks” released by the British magazine The Banker edged up by two seats to the 25th spot; we ranked 227th on the Fortune Global 500 after going up by 18 seats; and we continued to be rated above the investment grade by the three major international rating agencies.

In 2018, we thoroughly adjusted the structure to promote high-quality development, always put “structure adjustment” in a prominent position, and unswervingly streamlined the customer structure, asset and liability structure, personnel structure, and outlet and channel structure. Meanwhile, we rolled out a host of strategies, which included “optimizing corporate banking structure, controlling corporate liabilities” “increasing returns from retail business, taking in more deposits”, and “reducing fund leverage, consolidating tax shield”. Additionally, we allocated special resources for key business lines and customer groups that met the transformation direction. Also, we optimized the performance appraisal system, putting more emphasis on the balance between short term and long term, and between process and outcome. Overall, the structural adjustments we had made to major business fields in favor of long-term development started to take effect, thus laying a solid foundation for our high-quality development.

In 2018, we tried to win the battle for risk reduction, focused on risk mitigation as a key objective, and did our best to reduce risk with unprecedented determination and strength. As a result, we managed to control and reduce credit risk successfully. By narrowing down our attention on key branches, key projects, and key areas, we achieved the goals of cutting down on NPL amount and ratio, overdue loan amount and rate, credit risk assets, and over-90-day scissors difference. While trying to win the battle for risk reduction, our work in this regard achieved effect for the current period. Consequently, our risk management capability was improved, and the awareness of operational compliance was boosted significantly.

Message from President

In 2018, we realized the rise in both revenue amount and rate, by switching to new engines of growth from old ones. Through optimizing structure and strengthening interest margin management, we managed to enhance the comprehensive return of acceptable assets, and the annual yield of interest-earning assets year on year. At the same time, we seized market opportunities to reduce liability costs. As a result, our net interest spread and net interest margin went up quarter by quarter, and tax shield continued to take effect. Overall, our income-retaining work achieved positive results. In particular, our retail banking sector relied on the open internet platforms to forge new growth points of high yield from such perspectives of customer acquisition, product, service, marketing, and risk control, leaping to the largest revenue segment for the first time. With the joint effect of the above factors, our revenue and profit both secured a positive growth rate, which marked we had taken new steps towards the switch of growth drivers.

In 2018, we capitalized on the driving role of technology to develop into a top-notch bank operated as a digital ecology. Being pioneering and courageous, we gathered pace in digitalized transformation. As a result, we launched the API open banking services, and the integrated VTMs (virtual teller machines) before any other peers, in a bid to build an O2O digitalized ecology dominated by ourselves. To align with the cutting-edge technologies, we teamed up with Baidu, Huawei and other companies to set up six innovation laboratories, and joined hands with Microsoft to form the FinTech cooperative community with a view to putting related technological results into commercial use. While getting more out of data actively, we laid more stress on online operation and big data analysis, and made breakthroughs in many fields such as precision marketing, smart customer acquisition, and risk control & operation.

Looking into 2019, we will set sail again. As a flagship enterprise in building Shanghai into an international financial center, we will benchmark ourselves against the highest standards in all aspects of our work, and try to keep delivering excellence. Innovation and quality are two criteria for dividing banks into different levels. This is especially true for a time of economic downturn and transformation. Our courage and professionalism will undergo more rigid test. In 2019, as per the strategic arrangements made by the Board of Directors, we will uphold the overall principle of “seeking progress amid stability”, stand firm with the targeted policies, the clearly-cut priorities, and the bottom line, and take an active part in serving the real economy, forestalling financial risks, and making headway towards high-quality, sustainable development as a whole.

——Adjust structure, stabilize growth, and develop principal business with assured quality and efficiency. We will step up efforts in promoting transformation and development. To this end, we will focus our attention on key fields, and then radiate their influence to other aspects. While adjusting the structure of assets and liabilities, we will get the interest margin income stabilized and then go up. Knowing that liability business is the foundation of stable growth, we have to make keen judgments and seize window phases to expand low-cost liabilities. In catering to the needs of real economy, we will tap financing needs and optimize related structure. At the same time, we will take further steps to adjust business structure, increase non-interest income, focus on customers’ pain points, optimize products and services, do a good job in underlying and featured business lines, streamline customer structure faster, and lift the comprehensive contribution rate of customers to a higher level.

——Reinforce operational compliance, enhance quality, and promote robust, sustainable development as a whole. We will continue intensifying risk compliance and audit management, in a bid to guarantee operational compliance. In the meantime, we will keep shoring up efforts to recover funds, lift the non-performing assets handling standards to a higher level, do a good job in the disposal of NPLs and keep a tight lid on new NPLs, and implement differentiated management policies for different branches. Besides, we will continuously strengthen risk policy and credit management, attach equal

Message from President

importance to risk prevention and business growth, extend credit resources in a precision way, and optimize differentiated policies for different branches dynamically. Also, we will monitor material risks and hidden hazards properly, optimize and strengthen credit management, advocate meticulous risk management, and develop business in a high-quality fashion. When it comes to the compliance work, “being stringent” is the most pressing requirement. We will exercise rigid control over the compliance work, and start from institutional aspect to promote ourselves towards operational compliance. Besides, we will exploit the advantages of internal audit reform to further boost the effectiveness and timeliness of related inspection and supervision.

——Optimize management, build up capability, and consolidate the foundation for long-standing development.

We will dynamically adjust our asset and liability strategy in response to how related environment evolves; push forward channel transformation and operational management in exchange for stronger support; and overhaul the all-channel mode by connecting internal and external ecologies, thus lifting our standards in customer acquisition, service, sales, and risk control. Meanwhile, we will continue to develop ourselves into a bank operated as a digital ecology, enable innovation to play its driving role, and do a good job in top-level design. Moreover, we will bring our management personnel and employees under better management, encourage teams to grow more competent, optimize human capital management, and recruit a team of high-caliber talents. We will continue get more out of our Party building and corporate culture, and integrate central work with Party building efforts closely. Besides, we will also continue to seek for group-wide, international operation, and push subsidiaries to sharpen their core competitive edges constantly. While forging featured business and controlling various risks, we will coordinate all sources of endeavors across the Group to lift our position in the industry. On the premise of operational compliance and joint operation at home and abroad, our overseas branches and institutions are expected to further boost their operational/management standards and profitability.

As the greatest truths are the simplest, hard work will lead to a prosperous bank. Dear shareholders, at a time critical for our transformation and development, as long as we stay true to our established strategies, and make unswervingly persistent and unified efforts to deal with anything adverse properly, we will land brilliant achievements in the new era, realize high-quality development across the board, and deliver an exemplary performance to celebrate the 70th anniversary of the founding of PRC!

Liu Xinyi, Vice Chairman & President
Shanghai Pudong Development Bank Co., Ltd.



Shanghai Pudong Development Bank CO.,Ltd Chairman of the Board of Supervisors Sun Jianping

Message from Chairman of the Board of Supervisors



The year 2018 is anything but ordinary for SPD Bank. Despite the complicated and ever-changing economic and financial landscape at home and abroad as well as the unprecedented operating pressure, the Board of Directors played its role in scientific decision-making and strategic management in accordance with laws, regulations, regulatory requirements and the Articles of Association; the Senior Management implemented the strategic plans and major decisions made by the Board, centered on “adjusting structure, securing stable income, conducting stricter management, and eliminating risks” as a main task, pushed forward structural transformation in depth, and strengthened risk-related internal control management. Thanks to the joint efforts and hard work of all employees across the board, our operating efficiency and asset scale grew steadily, risk indicators continued to improve, main aspects of business management work achieved remarkable results, and efforts in transformation and development made positive progress. To sum up, we completed the main targets and tasks set for the year.

In 2018, the Board of Supervisors performed its supervisory duties in accordance with laws and regulations. With the support and cooperation of the Board of Directors and the Senior Management, it strengthened the ex ante, interim and ex post supervision from three dimensions (corporate governance, state-owned assets supervision and management, and financial supervision and management), continued to improve the working mechanisms including the Board of Supervisors meetings, the special meetings of the Board of Supervisors and the inquiries by letter from the Board of Supervisors, and insisted that the requirements for the above-mentioned three dimensions should be integrated into its supervision for the Bank, with a view to supporting and promoting various business management activities and business developments across the board, and safeguarding the legitimate rights and interests of the Bank, shareholders and other stakeholders.

In 2018, the Board of Supervisors convened 13 meetings in total. It successively surveyed and inspected 33 branches and the Head Office departments, held 40 special meetings, and issued four letters for inquiry, effectively fulfilling its supervision and inspection functions, and escorting the Bank through its endeavors to accelerate the transformation of development mode, the adjustment of development structure, the switch of growth drivers, and the realization of sustainable and high-quality development.

According to the requirements for corporate governance, the Board of Supervisors focused on supervising duty performance and implementation of strategies and plans. Specifically, it oversaw the duty performance, major decisions and key links of the Board of Directors and the Senior Management, thus continuously refining the corporate governance mechanism of the Bank. By attending the Party committee meeting, the Board meetings, and the President’s executive meetings as non-voting attendee, and convening its own meetings, it supervised how the Board of Directors and the Senior Management made and executed their major business management decisions. It continued to track the implementation of strategies and plans at the Bank, regularly analyzed and evaluated the implementation of the same, and promoted the five-year strategic plan, the construction of top-notch bank operated as a digital ecology, and the fulfillment of annual priority tasks through the grassroots-level surveys, inspections and specific-purpose supervision activities. To act on the core spirit of the second working meeting attended by all tier-two branches and implement the bank-wide strategy

Message from Chairman of the Board of Supervisors

for international operation, it conducted the grassroots-level inspections on directors and supervisors, thus providing a basis for directors to participate in the Bank's business decision-making and supervisors to play their supervisory role, and giving a further boost in the Bank's executive power. Besides, it also supervised and guided the risk compliance and internal audit work, and promoted the risk, compliance, and audit departments to share inspection resources and results, hence forming a synergy in supervision.

According to the supervisory requirements for state-owned assets, the Board of Supervisors actively fulfilled duties in terms of investor control and strengthened ex ante, interim, and ex post supervision to ensure revenue collection and value preservation and increase of state-owned assets. It focused on major financial decisions, important financial revenue and expenditure activities, and financial risk control efforts made at the Bank, and carried out special inspections on how the Bank established management policies for major investment projects and how these policies were implemented, special campaigns to oversee how the Bank executed its annual financial budget, and the special supervision activities to check how the Bank acted on opinions on the annual final accounts. Besides, it also organized efforts to independently evaluate the Bank's business management results and financial position, and produced the annual supervision and evaluation report which was sent to the superior competent department.

According to the requirements of financial regulators, the Board of Supervisors, as guided by the core spirits of the 19th CPC National Congress and the National Financial Work Conference, focused its attention on acting on the national financial regulation policies and the annual regulatory opinions of CBIRC, and carrying forward the crackdown on market chaos in the banking industry, worked harder to oversee and check how these policies, opinions and campaigns were executed, helped the Bank to serve the real economy, prevent and control financial risks, and promote financial reforms in depth, and lifted its risk management and disposal capabilities continuously. Adapting itself to the rigid regulation as a new normal, the Board of Supervisors continued following how the special crackdowns against "three violations, three arbitrages, and four misconducts" ("ten market disorders") initiated by CBRC were going on, further assessed and supervised these efforts to crack down these banking market disorders, and made sure the rectification and governance work could remain on right track. To ensure the annual regulatory opinions issued by CBIRC could be implemented in related rectification work, it conducted related assessment of how the regulatory opinions for 2015-2016 were executed, pointed out the weak links and deficiencies existing in the Bank's rectification work, and put forth such suggestions as acting on regulatory requirements and further conducting comprehensive risk management, which were positively answered by the Senior Management. While attaching high importance to the comprehensive risk management, it supported the building of risk culture and internal control system, and promoted the internal audit work in depth.

Sharing a common vision leads to triumphs; standing together through ups and downs brings prosperity.

In 2019, as spearheaded by the core messages conveyed on the 19th CPC National Congress and the National Financial Work Conference and instructed by the financial regulators and superior competent departments, the Board of Supervisors will strive to perform its supervisory duties diligently and steadily, and to enhance its supervisory competence and standards constantly, thus providing the Bank with the strong supervisory support in its pursuit for developing into a top-notch bank operated as a digital ecology and realizing high-quality and sustainable development.

Sun Jianping, Chairman of the Board of Supervisors
Shanghai Pudong Development Bank Co., Ltd.



Shanghai Pudong Development Bank CO.,Ltd Vice Chairman of the Board of Supervisors Chen Zheng'an

The background is a collage of financial data, including stock prices and percentages, in various colors (blue, red, white) and sizes. Overlaid on this are several geometric shapes: a large blue rectangle, a red rectangle, and a dark blue rectangle. The text is centered within the blue rectangle.

Section VI

Discussion and Analysis of Business Operation



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Senior Management:

Liu Xinyi, Vice Chairman and President (left 4) Pan, Weidong, Executive Director, Vice President and Chief Financial Officer (left 3)
Xu, Haiyan, Vice President (Right 3) Liu, Yiyang, Vice President (left 2) Wang, Xinhao, Vice President (Right 2)
Cui, Bingwen, Vice President (Left 1) Xie, Wei, Vice President and Secretary to the Board of Directors (Right 1)

Discussion and Analysis of Business Operation

6.1 Overall Business Operation

In the face of complicated situations, the Group has earnestly acted on the core messages conveyed at the 19th CPC National Congress, the National Work Conference and the Central Economic Work Conference, and focused on the strategic objective of “developing into a top-notch bank operated as a digital ecology”. In the process, it has overcome all setbacks and forged ahead into a development pattern of “realizing quality development amid stability”. At the same time, it has achieved remarkable results towards major tasks such as “adjusting structure, securing stable income, conducting stricter management, and eliminating risks”, as illustrated below:

Profit grew steadily.

During the reporting period, the Group saw its operating income and net profit both on the rise. The Group achieved an operating income of RMB171,542 million, an increase of RMB2,923 million or 1.73% over 2017; a total profit of RMB65,284 million, a decrease of RMB4,544 million or 6.51% over 2017; and net after-tax profits attributable to the Bank's shareholders of RMB55,914 million, an increase of RMB1,656 million or 3.05% over 2017. In 2018, the average return on assets (ROA) of the Group stood at 0.91%, a decrease of 0.01 percentage point from last year; the weighted average return on equity (ROE) was 13.14%, a decrease of 1.31 percentage points from last year; and the cost-to-income ratio posted 25.12%, a year-on-year increase of 0.78 percentage points from last year.

The structure of assets and liabilities was optimized continuously.

During the reporting period, the Group established the overall strategy of “optimizing corporate banking structure, controlling corporate liabilities” “increasing returns from retail business, taking in more deposits”, and “reducing fund leverage, consolidating tax shield” in its asset and liability operation. As at the end of the reporting period, the total assets of the Group posted RMB6,289,606 million, representing an increase of RMB152,366 million or 2.48% over the end of previous year. Of these, the balance of loans in local and foreign currencies stood at RMB3,549,205 million, representing an increase of RMB354,605 million or 11.10% over the end of previous year. The Group's total liabilities amounted to RMB5,811,226 million, an increase of 1.84%, of which, the balance of deposits in local and foreign currencies was RMB3,227,018 million, an increase of RMB189,082 million or 6.22% over the end of 2017. The retail deposits totaled RMB647,874 million, an increase of RMB159,441 million compared with the end of last year.

Asset quality improved remarkably.

During the reporting period, the Group centered around the objective of defusing risks. Through strengthening risk systems and policies and credit management, it worked harder to optimize the credit structure, consolidated the foundation of risk management, and improved the capability of comprehensive risk management. While narrowing down its attention on key branches, key projects, and key areas, it spared no effort to defuse risks, and achieved the goals of cutting down on NPL amount and ratio, overdue loan amount and ratio, and credit risk assets. As at the end of the reporting period, based on the five-tier loan classification, the Group's balance of NPLs in the last three categories was RMB68,143 million, a decrease of RMB376 million over the end of 2017, the NPL ratio was 1.92%, a decrease of 0.22 percentage point over the end of 2017; the NPL reserve coverage ratio reached 154.88%, an increase of 22.44 percentage points from the end of 2017; the loan provision ratio (provision-to-loan ratio) was 2.97%, an increase of 0.13 percentage point as compared with the end of 2017.

Progress was made towards conglomeration and internationalization.

During the reporting period, the Group's coordinated scale grew fast year on year, and the companies it invested in operated well, generating revenues worth RMB8,279 million and net profits worth RMB3,081 million. Hong Kong Branch became further influential in market; Singapore Branch unveiled commodities and other services unique to itself; and London Branch commenced for business smoothly, a move enabling the Group to operate across different time zones of Asia and Europe.

Discussion and Analysis of Business Operation

6.2. Analysis of Income Statement

During the reporting period, the Group realized sustained development across all business lines. The interest earning assets grew rapidly in scale, the cost-to-income ratio continued to stay at a fairly low level, the operating income reached RMB171,542 million, up RMB2,923 million or 1.73% year on year, and the net profits attributable to the Bank's shareholders posted RMB55,914 million, an increase of 3.05% year on year.

In RMB millions			
Item	2018	2017	Change in amount
Operating income	171,542	168,619	2,923
-Net interest income	111,844	106,912	4,932
-Net fee and commission income	39,009	45,580	-6,571
-Other net income	20,689	16,127	4,562
Operating expenses	106,199	98,344	7,855
-Tax and surcharges	1,852	1,610	242
-Operation and administrative expenses	43,094	41,047	2,047
-Impairment losses on credit assets and impairment losses on other assets	60,420	55,285	5,135
-Other operating costs	833	402	431
Net non-operating income and expenses	-59	-447	388
Total profit	65,284	69,828	-4,544
Income tax expense	8,769	14,826	-6,057
Net profit	56,515	55,002	1,513
Net profit attributable to the Bank's shareholders	55,914	54,258	1,656
Minority interest income	601	744	-143

Notes:

(1) Reasons for the increase in interest income: the interest earning assets continued to scale up during the reporting period.

(2) Reasons for the decrease in net fee and commission income: the custodian and other fiduciary service fees shrank during the reporting period.

(3) Reasons for the decrease in income tax expense: the tax-free income went up during the reporting period.

6.2.1 Operating income

The following table sets out the composition of the Group's operating income and the proportions of each part in the recent three years.

Item	2018 (%)	2017 (%)	2016 (%)
Net interest income	65.20	63.40	67.25
Net fee and commission income	22.74	27.03	25.31
Other net income	12.06	9.57	7.44
Total	100.00	100.00	100.00

Discussion and Analysis of Business Operation

During the reporting period, the Group's total business income was RMB334,382 million, representing a year-on-year increase of RMB21,664 million or 6.93%.

The following table sets out the changes in the total business income.

In RMB millions			
Item	Amount	Percentage in total business income (%)	Increase/decrease over the same period of previous year (%)
Loan interest income	179,426	53.66	17.21
Interest income on investment	68,006	20.34	-7.41
Fee and commission income	46,205	13.82	-9.00
Interest income on due from and placements with banks and other financial institutions	10,575	3.16	12.48
Interest income from balance with central bank	6,806	2.03	-9.60
Leasing interest income	2,071	0.62	9.06
Other income	21,293	6.37	28.39
Total	334,382	100.00	6.93

The following table sets out the geographic distribution of the Group's operating income.

In RMB millions				
Region	Operating income	Increase/decrease over the same period of previous year (%)	Operating profit	Increase/decrease over the same period of previous year (%)
Head Office	67,999	9.84	30,553	-34.33
Yangtze River Delta	36,528	12.52	22,035	65.70
Pearl River Delta and West Side of Taiwan Straits	11,641	3.15	7,801	2.89
Bohai Rim	14,989	-13.11	225	-95.65
Central China	15,644	-6.81	7,483	57.54
Western China	10,451	-27.54	-5,731	Being negative in the same period of last year
North-east China	4,585	-16.68	-2,277	Being negative in the same period of last year
Overseas institutions and subsidiaries	9,705	7.82	5,254	0.90
Total	171,542	1.73	65,343	-7.02

Notes: For the purpose of the Report, the regions and divisions of the Group are defined as follows:

- (1) Head Office: Headquarters (Head Office and institutions directly under it);
- (2) Yangtze River Delta: Shanghai (excl.: Headquarters), Jiangsu Branch and Zhejiang Branch;
- (3) Pearl River Delta and West Side of Taiwan Straits: Guangdong Branch and Fujian Branch;
- (4) Bohai Rim: Beijing Branch, Tianjin Branch, Hebei Branch and Shandong Branch;
- (5) Central China: Shanxi Branch, Henan Branch, Hubei Branch, Hunan Branch, Anhui Branch, Jiangxi Branch and Hainan Branch;
- (6) Western China: Chongqing Branch, Sichuan Branch, Guizhou Branch, Yunnan Branch, Guangxi Branch, Shaanxi Branch, Gansu Branch, Qinghai Branch, Ningxia Branch, Xinjiang Branch, Inner Mongolia Branch and Tibet Branch;
- (7) North-east China: Liaoning Branch, Jilin Branch and Heilongjiang Branch;
- (8) Overseas institutions and subsidiaries: Overseas branches and domestic and overseas affiliates.

Discussion and Analysis of Business Operation

6.2.2 Net interest income

During the reporting period, the Group incurred a net interest income of RMB111,844 million, an increase of RMB4,932 million or 4.61% year on year.

The following table sets forth the interest income/expenses as well as average yield and costs of the assets and liabilities of the Group during the reporting period.

In RMB millions

	2018			2017		
Interest-earning assets	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Loans and advances	3,359,630	179,426	5.34	3,016,910	153,081	5.07
Investments	1,563,222	68,006	4.35	1,837,266	73,449	4.00
Balance with central bank	451,095	6,806	1.51	507,995	7,529	1.48
Due from and placements with banks and other financial institutions	338,976	10,575	3.12	334,334	9,402	2.81
Other financial assets	57,048	2,675	4.69	50,410	2,357	4.68
Total	5,769,971	267,488	4.64	5,746,915	245,818	4.28

In RMB millions

	2018			2017		
Interest-bearing liabilities	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Deposits from customers	3,168,364	61,014	1.93	3,071,322	48,877	1.59
Due to and placements from banks and other financial institutions	1,535,071	58,108	3.79	1,593,853	58,895	3.70
Debt securities issued	705,096	29,788	4.22	656,068	25,795	3.93
Due to central bank	204,731	6,734	3.29	172,526	5,339	3.09
Total	5,613,262	155,644	2.77	5,493,769	138,906	2.53

6.2.2.1 Interest income

During the reporting period, the Group generated the interest income totaling RMB267,488 million, an increase of RMB21,670 million or 8.82% year on year; and its interest income from retail loans stood at RMB85,560 million, an increase of RMB16,058 million or 23.10%, with the average yield rate reaching 6.35%, up 0.31 percentage points over the prior year.

Discussion and Analysis of Business Operation

Interest income from loans and advances

In RMB millions

	2018			2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,835,441	85,927	4.68	1,794,579	81,025	4.51
Retail loans	1,346,459	85,560	6.35	1,151,067	69,502	6.04
Discounted bills	177,730	7,939	4.47	71,264	2,554	3.58

Note: Of these, the average yield of general short-term loans and medium and long-term loans was 4.90% and 5.72%, respectively.

Interest income on investment

During the reporting period, the Group's interest income on investment stood at RMB68,006 million, representing a year-on-year decrease of 7.41%. The average investment yield rate was 4.35%, representing an increase of 0.35 percentage point over the prior year.

Interest income on due from and placements with banks and other financial institutions

During the reporting period, the Group generated the interest income on due from and placements with banks and other financial institutions totaling RMB10,575 million, up 12.48% over the prior year; and it saw the average yield rate from such business increasing by 0.31 percentage point over last year to 3.12%.

6.2.2.2 Interest expense

During the reporting period, the Group's interest income expense was RMB155,644 million, representing a year-on-year increase of RMB16,738 million or 12.05%. The rise was mainly credited to the growing interest expense on deposits from customers.

Interest expense on deposits from customers

During the reporting period, the Group's interest income on deposits from customers stood at RMB61,014 million, representing a year-on-year decrease of 24.83%. The average cost ratio reported 1.93%, representing an increase of 0.34 percentage point over the prior year.

The following table sets forth the average balance, interest expense and average cost ratio of corporate deposits and retail deposits at the Group in 2018 and 2017.

In RMB millions

	2018			2017		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate customers						
Current deposits	1,218,097	10,978	0.90	1,249,996	9,495	0.76
Time deposits	1,166,323	32,279	2.77	1,123,060	27,079	2.41
Retail customers						
Current deposits	204,151	590	0.29	174,621	498	0.29
Time deposits	379,287	13,681	3.61	306,751	8,326	2.71

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Interest expenses on due to and placements from banks and other financial institutions\

During the reporting period, the Group's interest expenses on due to and placements from banks and other financial institutions totaled RMB58,108 million, a decrease of 1.34% over the previous year.

Interest expense on debt securities issued

During the reporting period, the Group recorded interest expenses of RMB29,788 million on debt securities in issue, an increase of 15.48% over the previous year.

6.2.3 Net non-interest income

During the reporting period, the Group generated the net non-interest income of RMB59,698 million, down 3.26% over last year. Such income represented 34.80% of the Group's operating income, a decrease of 1.80 percentage points from last year. Specifically, net fee and commission income fell by 14.42% to RMB39,009 million, and other non-interest income went up by 28.29% to RMB20,689 million.

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Net fee and commission income	39,009	65.35	45,580	73.86
Incl.: Fee and commission income	46,205	77.40	50,773	82.28
Fee and commission expenses	-7,196	-12.05	-5,193	-8.42
Profit or loss on investments	14,765	24.73	13,585	22.02
Profit or loss on changes in fair value	798	1.34	-3,797	-6.15
Exchange profit or loss	1,155	1.93	2,723	4.41
Other business income	3,405	5.70	2,612	4.23
Asset disposal profit or loss	51	0.09	516	0.84
Other income	515	0.86	488	0.79
Total	59,698	100.00	61,707	100.00

6.2.3.1 Fee and commission income

During the reporting period, the Group incurred a fee and commission income of RMB46,205 million, a decrease of RMB4,568 million or 9.00% year on year.

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Fees from bank card	23,390	50.62	17,717	34.89
Fees from custodian and other fiduciary activities	12,831	27.77	21,051	41.46
Fees from investment banking activities	3,048	6.60	3,521	6.94
Credit commitment fees	2,276	4.93	2,311	4.55
Agency commission	1,883	4.07	1,700	3.35
Settlement and clearing fees	1,020	2.21	1,201	2.37
Others	1,757	3.80	3,272	6.44
Total	46,205	100.00	50,773	100.00

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6.2.3.2 Profit or loss on investments

During the reporting period, the Group reaped an income on investments of RMB14,765 million, a year-on-year increase of 8.69%.

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading financial assets				
—Fund investments	8,874	60.10	N/A	N/A
—Bonds	2,273	15.40	N/A	N/A
—Trust and asset management plans	2,106	14.26	N/A	N/A
Creditor' s rights investments	-22	-0.15	N/A	N/A
Other creditor' s rights investments				
—Bonds	150	1.02	N/A	N/A
—Trust and asset management plans	211	1.43	N/A	N/A
Other equity instrument investments	40	0.27	N/A	N/A
Precious metals	-641	-4.34	1,508	11.10
Derivatives	1,610	10.90	859	6.32
Investments on long-term equity as calculated by equity method	164	1.11	97	0.71
Fund investments	N/A	N/A	4,537	33.40
Financial assets at fair value through profit or loss	N/A	N/A	1,360	10.01
Financial assets designated at fair value through profit or loss	N/A	N/A	4,278	31.49
Available-for-sale equities	N/A	N/A	480	3.53
Available-for-sale creditor' s rights	N/A	N/A	96	0.71
Investment securities - loans and receivables	N/A	N/A	51	0.38
Others	N/A	N/A	319	2.35
Total	14,765	100.00	13,585	100.00

6.2.3.3 Profit or loss on changes in fair value

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Derivatives	-1,887	-236.47	-4,912	129.36
Precious metals	-573	-71.80	-566	14.91
Trading financial assets	3,155	395.36	N/A	N/A
Financial assets at fair value through profit or loss	N/A	N/A	-250	6.58
Financial assets designated at fair value through profit or loss	N/A	N/A	1,885	-49.64
Hedged bonds	103	12.91	46	-1.21
Total	798	100.00	-3,797	100.00

Discussion and Analysis of Business Operation

6.2.4 Operation and administrative expenses

During the reporting period, the Group's operation and administrative expenses were RMB43,094 million, representing a year-on-year increase of 4.99%. Cost-to-income ratio was 25.12%, representing a year-on-year increase of 0.78 percentage point.

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Wages and salaries, bonuses, allowances and subsidies	19,137	44.41	18,238	44.43
Welfare fund	592	1.37	647	1.58
Social insurance	3,387	7.86	2,967	7.23
Housing fund	1,105	2.56	1,056	2.57
Labor union fund and staff education fund	422	0.98	388	0.95
Rental expenses	2,995	6.95	2,957	7.20
Depreciation and amortization expenses	3,326	7.72	2,933	7.15
Electronic equipment operating and maintenance expenses	760	1.76	921	2.24
Others	11,370	26.39	10,940	26.65
Total	43,094	100.00	41,047	100.00

6.2.5 Impairment losses on credit assets and impairment losses on other assets

During the reporting period, the Group worked hard to dispose of and defuse risks. Its impairment losses on loans and advances totaled RMB58,383 million, up by 10.58% over 2017.

Item	In RMB millions			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	58,383	96.63	52,799	95.50
Investments	870	1.44	1,706	3.09
Other assets	1,167	1.93	780	1.41
Total	60,420	100.00	55,285	100.00

Discussion and Analysis of Business Operation

6.2.6 Income tax expense

During the reporting period, the Group incurred an income tax of RMB8,769 million, a decrease of RMB6,057 million or 40.85% over the previous year.

In RMB millions		
Item	2018	2017
Profit before income tax	65,284	69,828
Tax calculated at applicable tax rate	16,289	17,411
Tax effect of expenses that are not deductible for tax purpose	302	533
Tax effect arising from income not subject to tax	-7,878	-3,158
Adjustments on income tax for prior years which affect current profit or loss	56	40
Income tax expense	8,769	14,826

6.3. Analysis of the Balance Sheet

6.3.1 Analysis of assets

As at the end of the reporting period, the total assets of the Group reached RMB6,289,606 million, representing an increase of RMB152,366 million or 2.48%, as compared with the end of previous year.

In RMB millions				
Item	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans	3,549,205	56.43	3,194,600	52.05
Interest accrued on loans	11,705	0.19	N/A	N/A
Less: Allowance for impairment losses on loans	-105,421	-1.68	-90,747	-1.48
Financial investments	1,922,815	30.57	2,104,698	34.29
Long-term equity investment	1,968	0.03	1,006	0.02
Derivative financial assets	43,274	0.69	28,264	0.46
Cash and deposits with central bank	443,723	7.05	486,531	7.93
Due from and placements with banks and other financial institutions	248,108	3.95	191,161	3.11
Goodwill	6,981	0.11	6,981	0.11
Others	167,248	2.66	214,746	3.51
Total	6,289,606	100.00	6,137,240	100.00

6.3.1.1 Loans to customers

As at the end of the reporting period, the Group's total loans were RMB3,549,205 million, an increase of 11.10% from the end of last year. The ratio of total loans to total assets was 56.43%, representing an increase of 4.38 percentage points as compared with the end of previous year.

Discussion and Analysis of Business Operation

6.3.1.2 Financial investments

In RMB millions

Item	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	N/A	N/A	162,866	7.74
Trading financial assets	395,668	20.58	N/A	N/A
Creditor' s rights investments	1,144,249	59.51	N/A	N/A
Other creditor' s rights investments	378,860	19.70	N/A	N/A
Other equity instrument investments	4,038	0.21	N/A	N/A
Available-for-sale financial assets	N/A	N/A	664,508	31.57
Held-to-maturity investments	N/A	N/A	444,726	21.13
Investment securities – loans and receivables	N/A	N/A	832,598	39.56
Total	1,922,815	100.00	2,104,698	100.00

Trading financial assets

The Group started to adopt the new financial instrument standards from 1 January 2018. As a result, its statement items shall be presented in line with the new standards' requirements for classification and measurement. By the end of reporting period, the trading financial assets held by the Group had a balance of RMB395,668 million. Related details can be referred to in Note 4.12 "Financial investments – trading financial assets" .

Creditor' s rights investments

The Group started to adopt the new financial instrument standards from 1 January 2018. As a result, its statement items shall be presented in line with the new standards' requirements for classification and measurement. By the end of reporting period, the creditor' s rights investments held by the Group had a balance of RMB1,144,249 million. Related details can be referred to in Note 4.12 "Financial investments – creditor' s rights investments" .

In RMB millions

Type	31 December 2018	
	Balance	Percentage (%)
Bonds	841,663	73.56
Trust and asset management plans	285,576	24.96
Other creditor' s rights instruments	9,650	0.84
Accrued interest	14,863	1.30
Impairment allowances	-7,503	-0.66
Total	1,144,249	100.00

Discussion and Analysis of Business Operation

The following table sets out the composition of total bond investments at the Group by issuers.

Item	31 December 2018	
	Amount	Percentage (%)
Ministry of Finance (MOF), local governments and central bank of China	455,516	54.12
Policy banks	194,088	23.06
Commercial banks and other financial institutions	45,862	5.45
Others	146,197	17.37
Total bond investments	841,663	100.00

Other creditor' s rights investments

The Group started to adopt the new financial instrument standards from 1 January 2018. As a result, its statement items shall be presented in line with the new standards' requirements for classification and measurement. By the end of reporting period, the other creditor' s rights investments held by the Group had a balance of RMB378,860 million. Related details can be referred to in Note 4.12 "Financial investments – other creditor' s rights investments".

Other equity instrument investments

The Group started to adopt the new financial instrument standards from 1 January 2018. As a result, its statement items shall be presented in line with the new standards' requirements for classification and measurement. By the end of reporting period, the other equity instrument investments held by the Group had a balance of RMB4,038 million. Related details can be referred to in Note 4.12 "Financial investments – other equity instrument investments".

The following table sets out the top 10 financial bonds held in nominal value.

The Group	Par value	Annual interest rate (%)	Maturity date	In RMB millions
				Impairment reserves set aside
Bond A	10,000	5.55	22-Mar.-19	1.69
Bond B	10,000	5.40	3-Jun.-19	6.91
Bond C	10,000	3.70	11-Mar.-19	1.69
Bond D	10,000	3.80	13-Mar.-19	1.69
Bond E	4,000	3.25	22-Nov.-21	0.39
Bond F	4,000	3.52	25-May-21	2.77
Bond G	3,000	3.79	18-Dec.-21	1.01
Bond H	2,800	4.20	24-May-20	1.94
Bond I	2,500	4.29	30-Oct.-20	0.24
Bond J	2,260	3.99	1-Nov.-21	0.76

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Financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment securities – loans and receivables

The Group started to adopt the new financial instrument standards from 1 January 2018. As a result, its statement items shall be presented in line with the new standards' requirements for classification and measurement by the end of reporting period. Related details can be referred to in Note 4.4 "Financial assets at fair value through profit or loss", Note 4.9 "Available-for-sale financial assets", Note 4.10 "Held-to-maturity investments", and Note 4.11 "Investment securities – loans and receivables".

6.3.1.3 Long-term equity investment

As at the end of the reporting period, the balance of long-term equity investment at the Group recorded RMB1,968 million, up 95.63% from the end of last year. Specifically, the investment balance in associates stood at RMB1,757 million, up 118.53% over the end of last year. The balance of allowance for impairment losses on long-term equity investment at the Group was zero by the end of reporting period. Related details can be referred to in Note 4.13 "Long-term equity investment".

6.3.1.4 Derivatives

As at the end of the reporting period, major categories and amounts of derivatives held by the Group are set out in the following table. Related details can be referred to in Note 4.5 "Derivatives".

In RMB millions

Item	31 December 2018			31 December 2017		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Non-hedging derivative products:						
Interest rate swap contracts	3,178,256	12,882	14,673	2,174,427	4,521	4,322
Currency swap contracts	3,745,734	23,836	22,517	1,877,844	19,561	22,850
Option contracts	668,433	3,940	3,105	297,449	1,713	1,154
Precious metal derivative financial instruments	135,375	1,814	1,414	106,916	1,009	869
Foreign exchange forward contracts	92,855	587	861	75,092	824	755
Commodity contracts	2,825	62	55	9,732	512	5
Derivative financial instruments designated as hedging instruments at fair value:						
Interest rate swap contracts	20,777	146	141	2,711	124	15
Cross-currency interest rate swaps	2,134	7	27	740	-	64
Total		43,274	42,793		28,264	30,034

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6.3.1.5 Goodwill

As per ASBE provisions, the Group conducted the impairment test on the goodwill out of the purchase of Shanghai Trust as at the end of the reporting period. In the test, the Group compared the book value and the recoverable amount of related assets or asset portfolios (including goodwill). If the recoverable amount is lower than the book value, the gap between them shall be booked into profit or loss during the reporting period. The recoverable amount of assets and asset portfolios is calculated through the cash-flow forecast method based on the five-year budget approved by the Senior Management. The cash flow for a longer-than-five-year span shall be calculated with the estimated growth rate. The corresponding asset portfolios encompass Shanghai International Trust Co., Ltd., China International Fund Management, Tullett Prebon SITICO (China) Limited, and Shangxin Asset Management Co., Ltd. The impairment test findings suggest that no impairment reserves needed to be set aside during the reporting period. By the end of reporting period, the book value of goodwill at the Group stood at RMB6,981 million.

6.3.2 Analysis of liabilities

As at the end of the reporting period, the total liabilities of the Group reached RMB5,811,226 million, representing an increase of RMB104,971 million or 1.84%, as compared with the end of previous year.

In RMB millions

Item	31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Total deposits	3,227,018	55.53	3,037,936	53.24
Interest payable on deposits	26,297	0.45	N/A	N/A
Due to central bank	221,003	3.80	182,387	3.19
Due to and placements from banks and other financial institutions	1,335,955	22.99	1,637,564	28.69
Trading financial liabilities	34,912	0.60	28,333	0.50
Derivative financial liabilities	42,793	0.74	30,034	0.53
Debt securities issued	841,440	14.48	686,296	12.03
Others	81,808	1.41	103,705	1.82
Total liabilities	5,811,226	100.00	5,706,255	100.00

Composition of total deposits

In RMB millions

Item	31 December 2018		31 December 2017	
	Balance	Percentage (%)	Balance	Percentage (%)
Current deposits	1,464,038	45.37	1,537,937	50.63
Incl.: Corporate deposits	1,244,437	38.56	1,353,271	44.55
Retail deposits	219,601	6.81	184,666	6.08
Time deposits	1,759,075	54.51	1,495,627	49.23
Incl.: Corporate deposits	1,330,802	41.24	1,191,860	39.23
Retail deposits	428,273	13.27	303,767	10.00
Other deposits	3,905	0.12	4,372	0.14
Total	3,227,018	100.00	3,037,936	100.00

Discussion and Analysis of Business Operation

6.3.3 Analysis of changes in shareholders' equity

As at the end of the reporting period, shareholders' equity of the Group was RMB478,380 million, up 11.00% from the end of last year. The equity attributable to the Bank's shareholders recorded RMB471,562 million, an increase of 10.85% over the end of last year; and the retained earnings totaled RMB140,208 million, up 17.03% over the end of last year, which was mainly credited to the net profit increase and profit distribution during the reporting period.

In RMB millions

Item	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General risk reserve	Other comprehensive income	Retained earnings	Total equity attributable to the Bank's shareholders
Opening balance	29,352	29,920	81,760	94,198	75,702	-5,335	119,807	425,404
Influence of the new financial instrument standards on the retained earnings in the year beginning	-	-	-	-	-	3,015	-15,090	-12,075
Restated retained earnings at the beginning of the period	29,352	29,920	81,760	94,198	75,702	-2,320	104,717	413,329
Increase	-	-	-	15,519	244	6,979	35,491	58,233
Closing balance	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562

In RMB millions

Item	31 December 2018	31 December 2017	Increase/decrease over the end of previous year (%)
Share capital	29,352	29,352	-
Other equity instruments	29,920	29,920	-
Capital reserve	81,760	81,760	-
Other comprehensive income	4,659	-5,335	N/A
Surplus reserve	109,717	94,198	16.47
General risk reserve	75,946	75,702	0.32
Retained earnings	140,208	119,807	17.03
Total equity attributable to the Bank's shareholders	471,562	425,404	10.85
Minority shareholders' equity	6,818	5,581	22.16
Total equity	478,380	430,985	11.00

Discussion and Analysis of Business Operation

6.4. Items with Changes above 30% in the Accounting Statements and Reasons

In RMB millions

Item	At the end of 2018	At the end of 2017	Change (%)	Main reason for the change during the reporting period
Placements with banks and other financial institutions	142,251	80,839	75.97	Increase in placements with domestic non-banking financial institutions
Derivative financial assets	43,274	28,264	53.11	Change in valuation of the fair value
Long-term equity investment	1,968	1,006	95.63	Capital increase in joint ventures
Intangible assets	9,962	3,299	201.97	Increase in land use rights
Derivative financial liabilities	42,793	30,034	42.48	Change in valuation of the fair value
Financial assets sold under repurchase agreements	119,564	184,464	-35.18	Decrease in bonds sold under repurchase agreements
Staff compensation payable	10,487	7,911	32.56	Time lag between accrual and distribution of staff compensation; and an increase in the accrued yet unpaid staff compensation as at the end of reporting period.
Other comprehensive income	4,659	-5,335	N/A	Increase in the valuation of bond investments, as a result of the classification and measurement switch due to the adoption of new financial instrument standards in the beginning of the reporting period.
Financial assets at fair value through profit or loss	N/A	162,866		
Available-for-sale financial assets	N/A	664,508		
Held-to-maturity investments	N/A	444,726		
Investment securities – loans and receivables	N/A	832,598		
Trading financial assets	395,668	N/A		The Bank started to adopt the new financial instrument standards from 1 January 2018. Statement items shall be presented, and no data of comparing periods shall be restated, as per the new standards' requirements for classification and measurement as well as the Notice on Revising and Distributing the Format of 2018 Financial Statements Prepared by Financial Enterprises (Cai Kuai [2018] No.36).
Creditor' s rights investments	1,144,249	N/A		
Other creditor' s rights investments	378,860	N/A		
Other equity instrument investments	4,038	N/A		
Interest receivables	N/A	31,094		
Interest payables	N/A	35,064		
Accrued liabilities	4,747	N/A		

Discussion and Analysis of Business Operation

In RMB millions

Item	2018	2017	Change (%)	Main reason for the change during the reporting period
Fee and commission expenses	7,196	5,193	38.57	Increase in expenses arising from bank card transaction fees
Other business income	3,405	2,612	30.36	Increase in bill trading spread income
Asset disposal profit or loss	51	516	-90.12	Decrease in repossessed asset disposal profit or loss
Other operating expenses	833	402	107.21	Increase in bill trading spread loss
Non-operating income	104	197	-47.21	Decrease in other non-operating income
Non-operating expenses	163	644	-74.69	Decrease in regulatory fines
Income tax expense	8,769	14,826	-40.85	Increase in income not subject to tax
Other comprehensive income after tax, net	6,983	-5,572	N/A	Increase in valuation of bond investments
Net cash flows from operating activities	-338,360	-140,673	N/A	Increase in cash paid for inter-bank liabilities
Net cash flows from investing activities	257,889	37,800	582.25	Increase in net cash recovered from investments
Net cash flows from financing activities	117,903	4,820	2,346.12	Net increase in cash paid for bonds and inter-bank CDs issued
Profit or loss on changes in fair value	798	-3,797		The Bank started to adopt the new financial instrument standards from 1 January 2018. Statement items shall be presented, and no data of comparable periods shall be restated, as per the new standards' requirements for classification and measurement as well as the Notice on Revising and Distributing the Format of 2018 Financial Statements Prepared by Financial Enterprises (Cai Kuai [2018] No.36) issued by the Ministry of Finance in December 2018.
Exchange profit or loss	1,155	2,723		
Impairment losses on assets	N/A	55,285		
Impairment losses on loans	60,417	N/A		
Impairment losses on other assets	3	N/A		

6.5 Analysis of Loan Quality

During the reporting period, the Bank actively engaged in risk disposal and defusion, thus enhancing asset quality indicators remarkably. Through strengthening risk systems and policies and credit management, it worked harder to optimize credit structure, consolidated the foundation of risk management, and improved the capability of comprehensive risk management.

6.5.1 Five-tier loan classification

In RMB millions

Five-tier risk classification	31 December 2018	Percentage (%)	Increase/decrease over the same period of the previous year (%)
Pass	3,376,345	95.13	11.76
Special mention	104,717	2.95	-0.16
Substandard	27,784	0.78	6.55
Doubtful	19,063	0.54	-29.03
Loss	21,296	0.60	36.66
Total	3,549,205	100.00	11.10

Discussion and Analysis of Business Operation

In RMB millions

Category	31 December 2018	Percentage (%)	Increase/decrease over the same period of the previous year (%)
Restructured loans	3,531	0.10	368.30
Overdue loans	85,532	2.41	-4.47

Note: Restructured loans refer to loans which have been impaired but their contract clauses have been renegotiated.

6.5.2 Loan structure and loan quality by product types

As at the end of the reporting period, the proportion of corporate loans was 51.17%, a decrease of 5.73 percentage points from the end of previous year; the proportion of personal loans was 41.79%, an increase of 2.91 percentage points as compared with the end of previous year; and the proportion of discounted bills was 7.04%, an increase of 2.82 percentage points as compared with the end of the previous year.

In RMB millions

Product type	31 December 2018			31 December 2017		
	Loan balance	NPLs	NPL ratio (%)	Loan balance	NPLs	NPL ratio (%)
Corporate loans	1,815,874	49,175	2.71	1,817,860	54,110	2.98
General corporate loans	1,778,999	48,983	2.75	1,772,962	54,040	3.05
Trade finance	36,875	192	0.52	44,898	70	0.16
Discounted bills	250,103	-	-	134,609	30	0.02
Discounted bank acceptances	135,273	-	-	98,611	-	-
Re-discount	111,814	-	-	34,420	-	-
Discounted commercial acceptances	3,016	-	-	1,578	30	1.90
Personal loans	1,483,228	18,968	1.28	1,242,131	14,379	1.16
Personal housing loans	588,988	1,585	0.27	505,135	1,838	0.36
Personal business loans	240,404	3,759	1.56	187,209	4,773	2.55
Credit card and overdraft	433,470	7,832	1.81	418,347	5,526	1.32
Others	220,366	5,792	2.63	131,440	2,242	1.71
Total	3,549,205	68,143	1.92	3,194,600	68,519	2.14

Discussion and Analysis of Business Operation

6.5.3 Loan structure and loan quality by industries

In RMB millions

Product type	31 December 2018			31 December 2017		
	Loans	Percentage in total loans (%)	NPL ratio (%)	Loans	Percentage in total loans (%)	NPL ratio (%)
Corporate loans	1,815,874	51.17	2.71	1,817,860	56.90	2.98
Manufacturing	305,290	8.60	6.27	303,242	9.49	6.54
Real estate	283,516	7.99	0.36	277,054	8.67	0.53
Lease and commerce services	265,795	7.49	0.32	312,879	9.79	0.53
Wholesale and retail	207,144	5.84	8.57	262,569	8.22	7.57
Water, environment and public utilities management	165,400	4.66	0.13	119,900	3.75	0.06
Construction	141,439	3.99	1.17	126,382	3.96	1.20
Transportation, warehouse and postal services	125,359	3.53	0.72	120,846	3.78	0.81
Mining	77,164	2.17	5.15	76,505	2.39	6.85
Energy and utilities	64,389	1.81	0.79	61,298	1.92	0.97
Financial services	56,467	1.59	0.01	14,778	0.46	-
Agriculture, forestry, farming and fishery	27,205	0.77	5.70	29,765	0.93	5.97
Information transmission, software and IT services	25,023	0.71	3.84	32,447	1.02	1.85
Research and technology services	21,401	0.60	1.19	18,980	0.59	0.70
Healthcare and social welfare	11,837	0.33	-	10,823	0.34	0.05
Culture, sports and entertainment	10,573	0.30	0.51	10,444	0.33	1.04
Education	10,302	0.29	0.21	10,395	0.33	0.14
Hotel and catering	8,835	0.25	1.47	8,550	0.27	1.78
Resident services, repairing and other services	5,621	0.16	3.59	12,256	0.38	0.83
Public management, social security and social organization	2,104	0.06	-	7,306	0.23	-
Others	1,010	0.03	-	1,441	0.05	-
Discounted bills	250,103	7.04	-	134,609	4.22	0.02
Discounted bank acceptances	135,273	3.81	-	98,611	3.09	-
Re-discount	111,814	3.15	-	34,420	1.08	-
Discounted commercial acceptances	3,016	0.08	-	1,578	0.05	1.90
Personal loans	1,483,228	41.79	1.28	1,242,131	38.88	1.16
Total	3,549,205	100.00	1.92	3,194,600	100.00	2.14

Discussion and Analysis of Business Operation

6.5.4 Loan structure by geography

In RMB millions

Region	31 December 2018		31 December 2017	
	Loans	Percentage (%)	Loans	Percentage (%)
Head Office	526,613	14.84	535,413	16.76
Yangtze River Delta	1,049,321	29.55	855,652	26.79
Pearl River Delta and West Side of Taiwan Straits	345,174	9.73	304,451	9.53
Bohai Rim	444,619	12.53	404,193	12.65
Central China	458,935	12.93	407,555	12.76
Western China	464,613	13.09	451,520	14.13
North-east Region	179,470	5.06	160,985	5.04
Overseas institutions and subsidiaries	80,460	2.27	74,831	2.34
Total	3,549,205	100.00	3,194,600	100.00

6.5.5 Loan structure by collateral types

In RMB millions

	31 December 2018		31 December 2017	
	Loans	Percentage (%)	Loans	Percentage (%)
Loans secured by mortgages	1,284,367	36.19	1,180,094	36.94
Guaranteed loans	739,258	20.83	723,672	22.65
Unsecured loans	1,325,740	37.35	1,090,899	34.15
Pledged loans	199,840	5.63	199,935	6.26
Total	3,549,205	100.00	3,194,600	100.00

6.5.6 Loan migration

Item (%)	2018		2017		2016	
	Year-end	Average	Year-end	Average	Year-end	Average
Pass loan migration ratio	3.14	3.59	4.04	5.63	7.21	6.20
Special-mention loan migration ratio	33.44	36.74	40.04	45.11	50.17	49.78
Substandard loan migration ratio	81.04	83.92	86.80	79.97	73.14	52.12
Doubtful loan migration ratio	57.72	48.10	38.47	53.02	67.56	59.07

Discussion and Analysis of Business Operation

6.5.7 Loans of top ten customers

In RMB millions

Customer name	31 December 2018	Percentage (%)
Customer A	9,842	0.28
Customer B	9,340	0.26
Customer C	5,872	0.17
Customer D	5,200	0.15
Customer E	4,820	0.14
Customer F	4,760	0.13
Customer G	4,500	0.13
Customer H	4,422	0.12
Customer I	4,280	0.12
Customer J	4,113	0.11
Total	57,149	1.61

6.5.8 Management of LGFV loans

During the reporting period, the Bank constantly strengthened its management of debt financing to local governments, kept control of key businesses like local government financing vehicles (LGFVs) and local government bonds, and firmly forestalled and defused hidden local government debt risks, according to state policies, regulatory requirements, and its own operation and management needs.

First, in strict accordance with state policies on management of local government debt financing, the Bank implemented classified management of local government debt financing based on the LGFV list, and prioritized on managing the implicit debts which were likely to increase the debt burdens of local governments.

Second, based on limit monitoring and concentration management over LGFV business, the Bank kept those branches with a high proportion of LGFV business and the provinces and cities with great debt repayment pressure under targeted, progressive administration in terms of policy orientation, resources allocation, and other aspects.

Third, the Bank continued to implement the requirements of laws, regulations and policies concerning local government budget management, debt management, debt limit management, etc., and took an active part in underwriting local government bonds in line with the return-risk balance principle. It properly realized the interconnection of key links in the process of debt replacement, which guaranteed its own interests and rights.

Fourth, the Bank conducted related business prudentially and compliantly according to the market-based principle, continued to support financing needs of projects related to people's livelihood, constantly pushed forward the transformation of the business model, and rolled out financing projects in cooperation with local and social capital as per related provisions, with a view to serving local economic development.

Fifth, the Bank implemented the major decisions made by the CPC Central Committee and the State Council, to resolutely forestall and defuse the risks arising from LGFV business. Upholding the principle of treating existing and new loans differently, it put new businesses under normative management, implemented the policies for cleaning up and standardizing local government debts, and completely eradicated the emergence of such debts in breach of any provision. Furthermore, existing businesses were put under classified guidance for proper disposal.

During the reporting period, the LGFV loan business ran stably, with risks being controllable and meeting regulatory requirements.

6.5.9 Year-end NPLs and corresponding measures taken

At the end of the reporting period, based on the criteria of five-tier loan classification, the balance of substandard, doubtful and loss loans of the Group was RMB68,143 million, a decrease of RMB376 million over the end of 2017; and the NPL ratio was 1.92%, down 0.22 percentage point over the prior year-end.

Discussion and Analysis of Business Operation

The Bank adopted the following measures:

First, it increased credit facilities to key industries and regions, ensured credit newly extended was of high quality, exited from those industries under control and contraction and made according adjustment to customers, and accelerated the optimization of the industry structure of credit assets.

Second, it conducted industry limit management and strengthened differentiated control over the industries with excess production capacity and the key business regions to optimize the asset structure and effectively control concentration.

Third, it continuously increased efforts to adjust the credit business structure and to withdraw cash from those businesses with risks. On the one hand, it tried to mitigate risks of existing credit assets through cash recovery; on the other hand, it optimized its credit extension to improve guarantee and increase risk mitigation, reduce occupation of risk capital substantially, and lift the risk-adjusted yield level steadily.

Fourth, it continued to refine the early warning mechanism for corporate and retail credit business, in a bid to issue early warnings against potential risk customers; established the “three-pronged” management mechanism; and highlighted structural adjustments, increased cash withdrawal from risk customers, and optimized the structure of customers provocatively.

Fifth, while intensifying risk inspections on various types of business, it, with regulatory requirements at its core and comprehensive risk management as its basic principle, systematically integrated onsite inspections and offsite monitoring, so as to shore up its risk management capacity.

Sixth, it went further to build a mechanism of moving asset preservation efforts to earlier stages, continued to protect and dispose of NPAs through various channels and means, intensified risk control over key fields, branches, and projects as well as innovative businesses, and increased professional guidance for debt recovery in the aforesaid areas. With these targeted measures, it managed to dispose of its NPAs more efficiently.

6.5.10 Credit extension to group customers

For group customers, the Bank insisted on the principles of “operational compliance, unified credit extension, moderate credit limit, and differentiated administration”. All of its group customers were brought under uniform management and risk control. Credit line granted to all group customers was based on their risk conditions and ability to undertake risks. In this way, the Bank could work out the overall credit line to group customers reasonably, and forestall risks arising from the related business. Based on business development realities and in full consideration of differentiated management of group customers, it further refined the classified management model for group customers with balance between risk and efficiency. It ensured general stability of credit extension to group customers and satisfied the regulator’s requirements for credit concentration of group customers through continuously refining the credit extension management system for group customers, optimizing the credit extension management procedure and stepping up early warning and post-lending management.

6.5.11 Provisions for loan impairment

	In RMB millions	
The Group	2018	2017
Balance as at 31 December 2017 and 31 December 2016	90,747	88,249
Influence brought by the new financial instrument standards	15,188	N/A
Balance as at 1 January 2018 and 1 January 2017	105,935	88,249
Provision in the year	58,383	52,799
Write-off and disposal in the year	-61,290	-51,254
Recovery of loans written off in previous years	3,748	2,760
Unwind of discount on impairment allowance	-1,309	-1,438
Exchange difference	75	-369
Year-end balance	105,542	90,747

Discussion and Analysis of Business Operation

Note: Description of provisions for loan impairment:

The Group assessed the expected credit loss in combination of forward-looking information. The method adopted by the measurement of expected credit loss reflected the following elements: the unbiased-probability weighted average amount determined by assessing a series of possible results; the time value of money; the reasonable and well-grounded information on related past events, current conditions and predictions of economic prospects that can be obtained on the balance sheet date without incurring unnecessary extra costs or endeavors. Related details can be referred to in Note 4.8.5 "Changes to allowance for impairment losses on loans".

6.6 Analysis of Other Regulatory Indicators Applicable for Commercial Banks

6.6.1 Capital structure

As calculated based on relevant provisions in the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBRC:

In RMB millions

Item	31 December 2018		31 December 2017	
	The Group	The Bank	The Group	The Bank
Total capital	599,114	587,655	500,827	492,085
Incl.: Core tier-one capital	444,926	434,850	398,143	390,539
Other tier-one capital	30,278	29,920	30,225	29,920
Tier-two capital	123,910	122,885	72,459	71,626
Capital deduction items	9,806	26,424	9,943	23,618
Incl.: Core tier-one capital deduction items	9,806	26,424	9,943	23,618
Other tier-one capital deduction items	-	-	-	-
Tier-two capital deduction items	-	-	-	-
Net capital	589,308	561,231	490,884	468,467
Minimum capital requirement (%)	8.00	8.00	8.00	8.00
Requirement for capital reserve and counter-cyclical capital (%)	2.50	2.50	2.50	2.50
Additional capital requirement	-	-	-	-
Risk-weighted assets	4,311,886	4,196,285	4,084,499	3,982,115
Incl.: Credit risk-weighted assets	3,934,963	3,841,869	3,727,889	3,644,136
Market risk-weighted assets	57,099	49,322	42,370	36,741
Operational risk-weighted assets	319,824	305,094	314,240	301,238
Core tier-one capital adequacy (%)	10.09	9.73	9.50	9.21
Tier-one capital adequacy (%)	10.79	10.45	10.24	9.97
Capital adequacy ratio (%)	13.67	13.37	12.02	11.76

Notes:

(1) The above are capital adequacy data and information of the Bank and the Group as measured based on the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBRC. Net core tier-one capital=core tier-one capital - core tier-one capital deduction items; net tier-one capital=net core tier-one capital + other tier-one capital - other tier-one capital deduction items; net total capital=net tier-one capital + tier-two capital - tier-two capital deduction items.

(2) According to the Regulatory Requirements for Disclosure of Capital Composition of Commercial Banks as promulgated by CBRC, the Bank discloses information of capital composition in the reporting period, explanations of relevant items and main features of capital instruments under the special column of investor relations on the official website (www.spdb.com.cn).

(3) Capital instruments enjoying preferential policy for transition period: According to relevant provisions in the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBRC, the unqualified tier-two capital instruments issued by commercial banks before 12 September 2010 can enjoy preferential policies, that is, a progressive decreasing of 10% each year since 1 January 2013. At the end of 2012, the book value of unqualified tier-two capital of the Bank was RMB38.6 billion, which was decreased by 10% progressively each year since 2013 to come to RMB15.44 billion as at the end of the reporting period.

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6.6.2 Leverage ratio

The leverage ratio indicators of the Group have been calculated in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) released by CBRC. As at the end of the reporting period, the Bank's leverage ratio was 6.68%, up 0.58 percentage point over the end of last year; and that of the Group was 6.40%, up 0.53 percentage point over the end of last year.

In RMB millions

Item	31 December 2018		31 December 2017	
	The Group	The Bank	The Group	The Bank
Net tier-one capital	465,398	438,346	418,425	396,841
Balance of on-and-off-balance sheet assets after adjustment	6,969,609	6,853,657	6,864,789	6,762,705
Leverage ratio (%)	6.68	6.40	6.10	5.87

The Bank discloses detailed information of the leverage ratio for the reporting period under the special column of investor relations on official website of the Bank (www.spdb.com.cn).

6.6.3 Liquidity coverage ratio

In RMB millions

The Group	31 December 2018
Quality liquidity assets	783,011
Net cash outflow	635,373
Liquidity coverage ratio (%)	123.24

6.6.4 Other regulatory financial indicators of the Bank for the past three years

Item (%)		standard value as at the end of reporting period	Actual value		
			31 December 2018	31 December 2017	31 December 2016
Capital adequacy ratio (%)		≥ 10.5	13.37	11.76	11.37
Tier-one capital adequacy ratio (%)		≥ 8.5	10.45	9.97	9.02
Core tier-one capital adequacy ratio (%)		≥ 7.5	9.73	9.21	8.23
Asset liquidity ratio (%)	RMB	≥ 25	56.05	58.87	37.67
	Total in local and foreign currencies	≥ 25	55.43	57.16	37.05
Proportion of borrowing and lending funds (%)	Proportion of borrowing funds (%)	≤ 4	3.42	3.35	2.01
	Proportion of lending funds (%)	≤ 8	4.47	2.75	4.16
Proportion of loans to the single biggest customer (%)		≤ 10	1.75	2.13	1.58
Proportion of loans to the top ten customers (%)		≤ 50	10.18	12.43	10.93
Allowance to NPL ratio		≥ 130	156.38	133.39	168.62
Allowance to total loans ratio		≥ 1.8	2.94	2.81	3.18

Discussion and Analysis of Business Operation

Notes:

(1) In the table, the capital adequacy ratio, liquidity ratio, proportion of borrowing and lending funds, proportion of loans to the single biggest customer, proportion of loans to the top ten customers, allowance to NPL ratio, and allowance to total loans ratio are calculated based on data submitted to the regulator, under the data standard of the Bank.

(2) According to the Notice of CBRC on Arrangement for Transition Period of the Capital Management Measures for Commercial Banks (Trial), the requirements in the transition period are: the capital adequacy ratio no lower than 10.5%, the tier-one capital adequacy ratio no lower than 8.5% and the core tier-one capital adequacy ratio no lower than 7.5% at the end of 2018.

(3) As per the provisions set out in the Notice on Adjusting Regulatory Requirements for Allowance for Loan Loss at Commercial Banks (Yin Jian Fa [2018] No.7) issued by CBIRC, all joint-stock banks shall adopt the regulatory standard of putting their allowance to NPL ratio and allowance to total loans ratio under differentiated and dynamic adjustment.

6.7 Business Overview of the Bank

6.7.1 Principal business

Approved by PBC and CBIRC, the main business of the Bank covers: absorption of public deposits, grant of short-term, middle-term and long-term loans, settlement, bill discounting, issuance of financial bonds, agency issuance, agency cashing and underwriting of governmental bonds, buy and sale of governmental bonds, inter-bank borrowing, L/C and L/G services, agency receipt and payment and agency insurance business, safe box business, foreign exchange proceeds deposits, foreign exchange loans, foreign exchange remittance, foreign currency exchange, international clearing, inter-bank foreign exchange borrowing, acceptance and discounting of foreign exchange instruments, foreign exchange loans, foreign exchange guarantee, settlement and surrendering of exchange, buy and sale of foreign negotiable securities other than stocks per se or as agent, self-operation of foreign exchange trading, foreign exchange trading on an agency basis, credit inquiry, consultation and attestation, offshore banking, portfolio investment and fund custody, national social security fund custody, and other business approved by PBC and CBRC.

6.7.2 Development of the banking industry

During the reporting period, the banking industry made vigorous efforts to support the development of real economy. As a result, the credit structure further improved, and the loans to small and micro-sized enterprises (SMEs) as well as “agriculture, rural areas and rural residents” met the targets for “two increases and two controls”. The growth rate of wealth management products returned to a fairly reasonable level. The off-balance-sheet wealth management products were included within the assessment scope of credit indicators, and the macro prudential assessment (MPA) had become an integral part of the financial regulation policy framework where monetary policy and macro-prudential policy served as two pillars. Large and medium-sized commercial banks established the departments of inclusive finance, piloted the green finance program, and promoted debt-to-equity swaps as needed by market laws. Assets and liabilities grew stably across the banking industry. According to statistical data of CBRC, as of the end of the reporting period, the total assets of domestic banking institutions reached RMB261.41 trillion, increasing by 6.36% compared with the same period of last year; and the total liabilities of them were RMB239.90 trillion, 5.98% more than the same period of last year.

6.7.3 Performance of main business lines

6.7.3.1 Corporate banking

During the reporting period, adhering to the customer-oriented approach, the Bank deepened the customer operation, worked hard to serve the real economy, and provided all-round financial services for customers including but not limited to financing, investment banking, cash management, electronic banking, offshore business, asset custody, and offshore business. Meanwhile, it vigorously operated corporate customers as a digital ecology, strengthened financial innovation, kept consolidating the customer base, and sought for transformative development. As at the end of the reporting period, the number of corporate customers reached 1,520,000, an increase of 160,000 or 11.76% over the end of 2017.

Strategic customer operation at the Head Office

During the reporting period, the Bank introduced systems to operate customers by different layers and categories, nailed down the program to overhaul how strategic customers of the Head Office would be operated, and put in place the mechanisms and systems fit for customers under direct administration of the Head Office. Thanks to these efforts, it managed to realize the full coverage of diversified business needs, upstream and downstream industries and ecosystems, and branches and subsidiaries at home and abroad.

Discussion and Analysis of Business Operation

As at the end of the reporting period, the corporate deposits denominated in local and foreign currencies from the first batch of strategic customers amounted to RMB364,450 million, up RMB84,065 million or 29.98% over the end of last year; and the corporate loans denominated in local and foreign currencies stood at RMB176,275 million, up RMB17,747 million or 11.19% over the end of last year.

Corporate deposits and loans

As at the end of the reporting period, the total corporate deposits of the Group posted RMB2,561,591 million, representing an increase of RMB33,277 million or 1.32% over the end of previous year; and its corporate loans (including discounted bills) stood at RMB2,055,908 million, representing an increase of RMB114,432 million or 5.89% over the end of previous year. The Bank further optimized the credit customer structure. Actively answering to state strategies, it supported the development of strategic emerging industries, traditional competitive industries, modern services, and eco-friendly industries, and gave a boost to the Belt and Road Initiative, the building of free trade zones, the integration of Yangtze River Delta, the coordinated development of the Beijing-Tianjin-Hebei region, and the construction of Guangdong-Hong Kong-Macao Greater Bay area. As at the end of the reporting period, the balance of green credit was RMB217,648 million, and the balance of syndicated loans was RMB182,287 million.

Investment banking

During the reporting period, the Bank underwrote 574 bonds worth RMB358,690 million as a lead underwriter, of which there were 465 debt financing instruments worth RMB321,533 million, 19 financial debts worth RMB10,435 million, 8 creditor's rights financing programs worth RMB1,670 million, 1 government-backed institutional bond worth RMB2,470 million, and 81 overseas bonds worth RMB22,582 million. Additionally, the balance of debt financing instruments in duration amounted to RMB853,600 million. The M&A finance business developed rapidly with a balance of domestic and overseas M&A loans growing by 5.97% to RMB80,793 million. Moreover, the pension business secured major breakthroughs, becoming the trustee of many central government agencies and administrative institutions. As at the end of the reporting period, the pension funds under trusteeship hit RMB108,692 million, up 42.45% year on year, of which the pension funds under trusteeship amounted to RMB24,510 million.

Transaction banking

During the reporting period, the Bank focused its attention on such key customer groups as "small enterprises and FinTech customers", and highlighted the role of product penetration, risk management, resource integration, and channel support, with a view to scale up the customer base rapidly. A shift from indiscriminate operation to hierarchical, classified operation took place at the end of liabilities, with deposit products exclusive for small enterprises rolled out. At the end of assets, customers were acquired in large numbers with core enterprises at the center. "JD-SPD e Account Express" and "JD-SPD e Commercial Loan" were put into operation. Besides, there emerged many innovative products such as the online supply chain finance "Government Procurement e Loan" and the bill pool-backed instant loan, as well as a host of treasury management-featured services, which included the Cloud-based Fund Supervision Service Version 2.0 and the "e Corporate Mobile" comprehensive service platform. During the reporting period, the transactions conducted through electronic channels posted a sales volume of RMB48.85 trillion, up 8.72% year on year. As at the end of the reporting period, the Bank had served more than 31,300 high-tech enterprises, and promoted the formation of 20 auto supply chains, with 864 related customers throughout the auto industry.

International business vehicles

In the reporting period, the Bank gripped market opportunities to develop international business vehicles (including offshore, free trade zone and overseas branches), with an emphasis placed on developing core customers and accelerating optimization of the business structure. As a result, all businesses were boosted and had good development. As at the end of the reporting period, total assets of all the international business vehicles amounted to RMB291,251 million, representing a year-on-year increase of 13.24% and accounting for 4.71% of the Bank's total assets. In the reporting period, these vehicles realized business revenues of RMB4,077 million.

6.7.3.2 Retail banking

During the reporting period, the Bank made vigorous efforts to develop retail banking business across the board. Spearheaded by the strategic objective of "developing into a top-notch bank operated as a digital ecology", it tried to establish a four-pole development pattern (where wealth management and liabilities would constitute the first pole; credit

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cards second pole; retail banking third pole; and private banking fourth pole). At the same time, staying at the forefront of FinTech, it continued to increase the application of digital means in customer services, product innovation, risk control system, management mechanism, and channel mechanism. As a result, the Bank saw its retail deposits growing sharply in scale, its personal wealth management programs exceeding the scale of RMB1 trillion, its retail loans (including credit cards) totaling more than RMB1.4 trillion, and its credit cards issued going beyond 35 million. Besides, the integrated operation was enhanced substantially in retail banking.

Personal customers and deposits

During the reporting period, the Bank prioritized on consolidating the foundation of retail operation, enhanced its ability to operate customers in a hierarchical way, and recruited a team of wealth managers, VIP wealth managers, and private banking managers for coordinated operation. At the same time, it started to directly operate basic customers online by virtue of big data and artificial intelligence (AI) technologies; upgraded related customer protection platforms, and rolled out an array of new operational modes including Customer Benefit Society, SPD Life Service, DG Small Gold Card, PP Sports Co-branded Card, Flower Joy Card, iQIYI Card, and Little SPD Customer Benefit Group Purchase. There were 76,889,300 personal customers across the Bank, an increase of 19.58%; the assets of retail customers under management kept growing steadily to a balance of RMB1,802,884 million, up RMB227,769 million or 14.46% over the beginning of 2018.

During the reporting period, the Bank worked harder to study and assess the overall situation, focused on expanding the scale of deposits, and set close eyes on the flow of personal funds. It launched the monthly-interest-payment large-amount CDs, established the salary affairs administration bureau, optimized the anniversary-based CDs, upgraded international remittance services, and introduced operating tools and activities targeted at agency payroll customer groups. At the Bank, the total personal deposits reached RMB631,539 million, an increase of RMB 157,441 million or 33.21% over the beginning of the year.

Retail credit business

During the reporting period, the Bank, with a view to improving people's livelihood, focused on retail credit, continuously innovated in housing mortgage, operation loans, consumer loans, and other aspects, and enhanced its capability of rendering inclusive finance services. As at the end of the reporting period, the Bank's total personal loans amounted to RMB1,470,754 million, an increase of 19.43% compared with that at the end of 2017. Of these, the balance of housing mortgages totaled RMB585,007 million. Practicing the service tenet of "enabling information to flow and serve customers at their home", the Bank continued to develop and promote more innovative inclusive finance products. A total of 87 housing provident fund loans by click programs went online, which covered 27 tier-one branches in 23 Chinese provinces. Combined with the data on payment of individual income tax, it creatively launched the wholly online consumer loans by click backed with individual income tax payment, a move further expanding the scope and capacity of services in inclusive finance.

Wealth management business

During the reporting period, the Bank, to actively implement the new regulatory requirements for asset management, transformed its personal wealth management business at a faster pace, and established a diversified net worth product lineup that integrated cash management, quasi-fixed income, bond, and project categories. It launched many new personal net worth wealth management products in the names of Tian Tian Ying Zeng Li No. 1, Xin Ying Li, Xin Ying Li Wen Li, and Yi Ying Li. The new Tian Tian Ying Zeng Li series had a scale close to RMB100 billion. The net worth wealth management products exceeded RMB400 billion, accounting for 48.68% of the total. In the meantime, it provided wealth managers with a variety of operational management tools, and enhanced their agency service capability for third parties. As a result, these managers saw their sales volume per capita increasing remarkably.

Debit card and payment settlement

Debit card business: During the reporting period, the Bank worked hard to deliver the online and offline closed-loop service that integrated account and payment. It simplified online account opening into a three-step process (information filling, authentication, and activation). Ahead of all other Chinese banks, it launched a service through which customers could apply for new cards or reissuing cards and have them mailed to home (namely "a simple process of online application, mailing to home, and offline activation"). Besides, the Bank worked with UnionPay to pilot and promote the "payment with your face" function in the first batch of banks to do so, with a view to optimizing customers' card use experience. During the reporting period, the Bank issued 8,555,700 new debit cards, up 10.06% year on year. As at the end of the reporting

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period, the total cards issued by the Bank came in a number of 66,769,000, a year-on-year increase of 12.98%. Merchant collection: The Bank rolled out the "Signing Pal" app, which supported the automatic review of application materials filed by merchants and the automatic push of statements. As a result, the service efficiency could be enhanced with the help of digitalized collection expansion tool. Additionally, the Bank optimized the UnionPay Card-not-present Fast Payment Channel function, and guaranteed that the requirements for cutting direct link with third-party payment agencies on all fronts could be implemented smoothly.

Credit card

During the reporting period, the Bank saw all indicators of credit card business picking up amid stability and risk control capability on the continuous rise. As at the end of the reporting period, the Bank cumulatively issued 56,505.4 thousand credit cards, up 37.26% year on year, of which 37,503.6 thousand were new ones, an increase of 39.50% over the end of last year; the number of accounts in circulation went up 28.68% year on year to 29,333 thousand; and the balance of credit card overdrafts increased by 3.65% year on year to RMB433,329 million. During the reporting period, the Bank's credit card transactions amounted to RMB1,806,570 million, a year-on-year increase of 51.42%; and the business generated a total income of RMB55,278 million, a year-on-year growth of 13.39%. As at the end of the reporting period, the balance of NPLs at the Bank was RMB7,832 million with an NPL ratio of 1.81%, up 0.49 percentage point over the end of 2017. The related risks stayed under control.

Private banking

During the reporting period, the private banking business line of the Bank focused on satisfying needs of services related to asset configuration and wealth heritage, integrated the Group's resources to innovate in investment and financing products, enhanced its capabilities of rendering asset configuration and comprehensive services, consolidated many aspects of work related to team building, mid-office support, risk management, market planning, data marketing etc., and formed a diversified, multi-layered product and service system, a professional, comprehensive, scheme-based marketing mode and a multi-level, sophisticated customer operation and management system. All these efforts were designed to increase the overall contribution of private banking customers. As at the end of the reporting period, the Bank had over 38,000 private banking customers, up 109.94%, and managed their financial assets worth nearly RMB500 billion. The customer asset quality and scale were on the steady rise.

6.7.3.3 Financial market and financial institution

In the reporting period, the Bank, in line with the regulatory requirements, enhanced the customer operation, stepped up product and business innovation, optimized the business structure, and grasped market opportunities to lift their business standards in financial market business, intensify investment & trading ability, and enhance its operating cost-effectiveness and risk control. As at the end of the reporting period, the scale of fund assets operated by the Bank reached RMB1.58 trillion.

Investment transaction

In terms of bond trading, the Bank worked harder to study macro economic conditions, improve investment strategies, refine the credit debt investment mechanism, and seize market opportunities to raise the bond investment and transaction capability denominated in local and foreign currencies. At the same time, it actively promoted business innovation, participated in Bond Express, institutional bond investments in the category of foreign central banks on an agency basis, counter bonds, and other business, in a move to help form a more comprehensive system relating to inclusive finance. With respect to foreign exchange trading, the Bank, while seizing opportunities brought by exchange rate fluctuations, laid emphasis on product and mode innovation, and intensified coordination and promotion. While developing traditional spot, forward and swap transactions steadily, it prioritized on making breakthroughs in risk-hedged product portfolios, and expanded the option portfolio and interest rate derivative businesses.

As to precious metal trading, the Bank set up basic platforms, dynamically adjusted trading strategies, and leveraged on the advantages in programmed quotation, further boosting its self-operated and agency transaction capability and continuing to lift its influence in market.

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Financial institution business

As at the end of the reporting period, the Bank had 592 credit customers of various Chinese-funded financial institutions, an increase of 11.49% over the end of last year; the asset and liability portfolios were optimized with a balance of non-deposit liabilities due to financial institutions in RMB1,051.3 billion; the scale of inter-bank agency business was further expanded and the number of inter-bank agency customers in the CIPS cross-border RMB payment system reached 170, up 51 over last year; the inter-bank online platforms were upgraded on all fronts, with “e Peers” version 2.0 launched officially, the customer base and business volume expanded incredibly, and the third-party quotation scale exceeding RMB1 trillion; and the cooperative securities and futures custody had a coverage ratio of over 96%. The “Bund No.12 Inter-bank Cooperation Salon” became increasingly influential. During the year, 34 salons of this kind were held in total, which involved banking, securities trader, fund, futures, insurance, trust, and other inter-bank customers.

Asset management

During the reporting period, new asset management provisions, detailed rules on wealth management, and measures for wealth management subsidiaries came out successively. In the face of new situation and challenges, the Bank worked hard to implement the work arrangements for “adjusting structure, securing stable income, conducting stricter management, and eliminating risks”, actively adapted itself to the new asset management provisions and detailed rules in this regard, gathered its pace in transforming business and management modes, creating the new product lineup of wealth management, turned the plan of standardizing assets into reality, optimized the structure of assets and liabilities, and sold wealth management products on an agency basis through more extensive channels. Through de-leveraging and scaling down, the Bank made orderly headway in rectifying existing issues. With more efforts made to dispose of risk assets, it managed to defuse existing risks and optimized management mechanisms. Meanwhile, it made preparations for establishing wealth management subsidiaries properly. During the reporting period, the wealth management business generated an income of RMB6,067 million.

Asset custody

During the reporting period, the Bank actively rose to external challenges, firmly erected the lines of defense for risk control, adjusted development strategies, set close eyes on market segments of opportunities, and sought for breakthroughs. Thanks to these efforts, the asset custody business of the Bank continued its momentum for sound development. At the end of the reporting period, the asset custody business had a scale of RMB11.93 trillion, an increase of 16.05% year on year. During the reporting period, the business generated a custody fee income of RMB3,167 million.

6.7.3.4 Channel and service

Network building

During the reporting period, the Bank newly established 20 service institutions, including 17 intra-city sub-branches, and three community and small & micro-sized sub-branches; renovated old outlets towards smart operation; and shut down 126 low-efficient outlets. At the end of the reporting period, it had established 41 tier-one branches and 1,693 banking outlets in 31 provinces, municipalities directly under the central government, and autonomous regions, Hong Kong Special Administration Region, Singapore and London.

To facilitate resource integration and efficiency improvement, sharpen regional competitiveness, and straighten out the relations of administration and affiliation, the Bank applied with CBRC Zhejiang Office, and since 24 March 2018, Wenzhou Branch was merged into Hangzhou Branch as a tier-two branch in the latter’s charge.

Electronic banking

During the reporting period, the Bank, centering on the strategic objective of “developing into a top-notch bank operated as a digital ecology”, released the Intelligent Voice Banking app and had it undergo rapid iteration and innovation; introduced the text and random number-based voiceprint certification ahead of any other in the industry; transformed the wealth management and fund channels towards digital operation; and enhanced the service efficiency of main channels. Relying on API technology and connecting type II and III accounts with external platforms, it managed to integrate its financial products and services into the internet scenarios, giving a boost to the construction of a digital ecosystem. At the same time, the Bank accelerated the construction of intelligent outlets, implemented the work plan for reducing manual service counters and increasing AI-enabled ones, innovatively launched i-Counter smart counters, optimized mobile paths

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in outlet lobbies, and promoted counter business migration and personnel reduction, with nearly 90% of retail business at outlets diverted online. Additionally, the Bank partnered with UnionPay to launch the “payment with your face” functions in the first batch, optimized card use experience, and forged the online and offline closed-loop service that integrated account and payment. Furthermore, it sped up empowering the telephone banking with AI technology, introduced innovative solutions for intelligent response and navigation, diverted more manual services to smart services continuously, and explored for how to transform customer service into a marketing practice. Based on risk control models, the Bank monitored online and offline channels for card issuers and merchants, built an intelligent transaction-oriented risk control system, and safeguarded customers’ transactions and funds.

As at the end of the reporting period, the Bank had 30,241 thousand personal online banking customers, who conducted 497 million transactions in a total amount of RMB9.38 trillion in the reporting period; and it had 34,663 thousand personal mobile banking customers, up 28.09% over the end of last year, who conducted 1,310 million transactions in a total amount of RMB7.29 trillion in the reporting period. The number of personal customers using card-bound internet payment service reached 30,374.7 thousand, up 41.10% year on year, and 3,552 million transactions in a total amount of RMB1.97 trillion were conducted during the reporting period. The Bank had 5,985 self-service cash devices in service and 3,603 self-service outlets with the e-channel trading substitution rate up to 98.12%.

Operation supports

During the reporting period, the Bank, centering on the strategic objective of “developing into a top-notch bank operated as a digital ecology”, launched the “smart operation” program on all fronts, in a bid to create a customer contact layer which was “ubiquitous and easily accessible”, an operation supporting layer that was “collaborative, shared, safe and efficient”, and an operation control layer that enabled “quick response and accurate judgment”. First, it stuck to innovation, continued to get ready for digital operation step by step, transformed various business flows towards end-to-end and online operation, enhanced customer experience, applied such cutting-edge technologies such as API, RPA, and OCR into more fields so as to improve business efficiency and quality and shore up customer acquisition ability. Second, courageous to take responsibilities, it worked harder to practice intensive operation, and initially built an integrated operation supporting system that vertically penetrated the Head Office, branches and sub-branches and horizontally connected all branches together, forming a network that was “logically centralized and physically dispersed”, and coordinating the operating resources available across the Bank for management as a whole. Third, it took the initiative to contact customers, enhanced the contribution of operational value, and boosted ability to provide differentiated service for strategic customers and group customers; supported the establishment of overseas branches, in a move to pursue international development; encouraged tellers to walk out of counters and come around customers, rendering mobile operation services; and continued to organize in-store sales skill competitions, so as to play the role of outlets as a type of channel. Fourth, it accurately monitored various risks, strictly withstood the bottom line for risk management, and steered the operational risk and internal control system as a whole through the construction and application of risk matrix; and introduced the behavior model, external data, image data, and others to get the inspection and supervision work done in a more efficient and quality way. Fifth, it gathered pace in transformation, recruited a composite operation team, continuously strengthened the comprehensive competence of operational personnel, accurately measured the requests for operational resources allocated, and established a pool of operational supervisors and a pool of tellers, with the annual operational personnel reduced by 17%. At the same time, while guaranteeing daily operation, it effectively supported the extended service and emergency response work.

6.7.3.5 Human resources management

During the reporting period, the Bank followed the main task of “intensifying the role of incentive and constraint scheme, optimizing related institutions and mechanisms, and pushing forward supervision management” in its human resources work, with all efforts achieving some effect. First, it adhered to the Party building as a guiding principle to promote development; second, it did a good job in total quantity control of employees and institutions and structural optimization; third, it implemented three reforms of post, salary, and organizational structure, and consolidated the management foundation for transformative development; fourth, it comprehensively pushed forward the management team management, supervision and training, the digital operation of human resources, the construction of human resources systems and related basic management; fifth, it did more to guarantee educational and training efforts could achieve expected effect, and continuously improved the quality of the talent team; and sixth, it consolidated the human resources-related basic infrastructure, and strengthened the meticulous and penetrating management.

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6.7.4 Analysis of major holding and participating companies

6.7.4.1 External equity investments

	In RMB millions
Investment balance of the Group at the end of the reporting period	7,134
Change of investment balance at the end of the reporting period compared with the previous year	3,891
Change of investment balance at the end of the reporting period (%)	119.98

	31 December 2018	31 December 2017
Investment balance in joint ventures	1,757	804
Investment balance in associates	211	202
Other equity investments	5,166	2,237
Total	7,134	3,243

Notes:

(1) Joint ventures include AXA SPDB and SPD Silicon Valley Bank;

(2) Associates include China Trust Registration Corporation Limited. Shanghai Trust, a subsidiary of the Bank, sent a director to China Trust Registration Corporation Limited.

(3) Other equity investments mainly include Shenlian International Investment and China UnionPay.

6.7.4.2 Interests in unlisted financial enterprises

Investee	Investment Balance	Stake in the company (%)	Carrying value at the end of the period	Profit/loss during the reporting period	Other changes in owner's equity during the reporting period	Accounting item
Shenlian International Investment Co., Ltd.	286	16.50	649	29	29	Financial investments: Other equity instrument investments
China UnionPay Co., Ltd.	104	3.07	697	10	593	Financial investments: Other equity instrument investments
National Financing Guarantee Fund Co., Ltd.	500	0.76	500	-	-	Financial investments: Other equity instrument investments
China Trust Protection Fund Co., Ltd.	500	4.35	500	25	-	Financial investments: Trading financial assets
AXA SPDB Investment Managers Co., Ltd.	974	51.00	1,247	154	-	Long-term equity investment
SPD Silicon Valley Bank	500	50.00	510	22	-	Long-term equity investment
China Trust Registration Corporation Limited	100	3.33	102	-	-	Long-term equity investment
Total	2,964		4,205	240	622	

Note: Profit/loss during the reporting period refers to the influence of the investment on profit of the Group during the reporting period.

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6.7.4.3 Analysis of major investee companies of the Group

(1) Shanghai Trust

Shanghai International Trust Co., Ltd., established in 1981, is one of the earliest trust companies in China. In March 2016, the Bank completed the purchase of Shanghai Trust's equity by issuing ordinary shares to Shanghai Trust's original shareholder, Shanghai International Group Co., Ltd. and became the controlling shareholder of Shanghai Trust. Shanghai Trust has a registered capital of RMB5 billion, in which the Bank holds 97.33% shares. By actively advancing the business transformation, making every effort to cultivate the active management capability and constantly innovating with business and management modes, Shanghai Trust built up its brand image on the market and witnessed a leading comprehensive strength among trust companies in China.

As at the end of the reporting period, assets under the consolidated management of Shanghai Trust amounted to RMB1,041,306 million. During the reporting period, Shanghai Trust achieved an operating income of consolidated statement in RMB3,913 million and a net profit of RMB1,644 million.

(2) SPDB Financial Leasing

SPDB Financial Leasing Co., Ltd., established in May 2012, is China's first financial leasing Company jointly incorporated by commercial bank, advanced manufacturing enterprise and comprehensive financial holding group. SPDB Financial leasing has a registered capital of RMB5 billion, in which the Bank holds 61.02% shares. SPDB Financial Leasing hinged around professionalized, internationalized and characterized guiding principles to enhance the professional level of leasing business and strive to build green finance and a characteristic business pattern in the entire industry chain of aviation.

As at the end of the reporting period, the total assets of SPDB Financial Leasing reached RMB61,134 million. During the reporting period, SPDB Financial Leasing achieved a net operating income of RMB1,693 million and a net profit of RMB680 million.

(3) AXA SPDB Investment Managers

AXA SPDB Investment Managers Co., Ltd. is a fund management joint venture established in August 2007. AXA SPDB Investment Managers has a registered capital of RMB1,910 million, in which the Bank holds 51% shares. During the reporting period, it actively optimized its business structure, refined its investment and research system, built its sales service system, and sought for innovative business development. As a result, it managed to lift its position in market steadily.

As at the end of the reporting period, assets under the management of AXA SPDB Investment Managers reached RMB533,382 million. During the reporting period, AXA SPDB Investment Managers achieved an operating income of RMB774 million and a net profit of RMB301 million.

(4) SPD Silicon Valley Bank

SPD Silicon Valley Bank Co., Ltd., established in August 2012, is the first bank owning an independent legal person status and committing itself to serving technological innovation enterprises in China and also the first Sino-US bank. SPD Silicon Valley Bank has a registered capital of RMB1 billion, in which the Bank holds 50% shares. SPD Silicon Valley Bank devotes itself to serving China's technological innovation enterprises and builds a "technological innovation eco-system" in China. It strives to become the premier bank of China's technological innovation enterprises and their investors.

As at the end of the reporting period, the total assets of SPD Silicon Valley Bank reached RMB12,657 million. Its operating income was RMB237 million and net profit was RMB51 million during the reporting period.

(5) SPD rural banks

SPD rural banks are banking financial institutions with an independent legal person status incorporated by the Bank by actively responding to the national call for supporting agriculture, farmers and rural areas and small and micro-sized enterprises. The Bank incorporated its first SPD rural bank in Mianzhu earthquake stricken area in Sichuan in 2008. As at the end of the reporting period, a total of 28 SPD rural banks were established in counties across 19 provinces and cities of the nation, two thirds of which are located in central and west areas of China. SPD rural banks are committed to serving

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agriculture, rural areas and farmers and supporting small and micro-sized enterprises in the county areas, with a focus on farmer households and small and micro-sized enterprises; in terms of market positioning, rural banks insist on targeting county economy, making positive efforts and contributions in alleviating the borrowing difficulties of farmers and small and micro-sized enterprises and expanding the reach of financial services to the countryside. In 2018, six SPD rural banks were named “China’s Top 100 Rural Banks”, and two SPD rural banks won the title of “Innovation Award of Financial Products and Services for Rural Banks Nationwide”. The Bank was rated as “the Exemplary Primary Founder of Rural Banks across China”. It continued to be the primary bank with the most awards.

As at the end of the reporting period, 28 SPD rural banks possessed total assets of RMB37,324 million. Their deposit balance was RMB30,706 million and loan balance was RMB22,444 billion. They had 916.5 thousand settlement customers and 45.9 thousand loan customers. With the agro-related loans and loans to SMEs accounting for over 90% of total loans, SPD rural banks faithfully practiced the inclusive finance policy. During the reporting period, 28 SPD rural banks achieved an operating income of RMB1,250 million and a net profit of RMB181 million.

(6) SPDB International

SPDB International Holdings Limited (“SPDB International”) was opened officially in Hong Kong in March 2015. SPDB International has licenses of Type 1 “dealing in securities”, Type 4 “advising on securities”, Type 6 “advising on corporate finance” and Type 9 “asset management” in regulated activities from Hong Kong SFC, is eligible to act as a listing sponsor in Hong Kong, and has established a full-licensed investment banking platform, capable of providing customers with a full package of whole-process financial services that cover shares, bonds and loans at home and abroad, as exemplified by listing sponsor, share underwriting and placement, bond issuance, asset management, and investment consultation.

As at the end of the reporting period, the total assets of SPDB International reached RMB7,460 million. During the reporting period, SPDB International achieved an operating income of RMB909 million and a net profit of RMB397 million.

6.8 Other Information Disclosed Pursuant to Regulatory Requirements

6.8.1 Interest receivables

As at the end of the reporting period, the details of interest receivables at the Group can be seen in the net interest receivable presented in Note 4.7 “Interest receivable” and Note 4.19 “Other assets”.

6.8.2 Repossessed assets and provision for impairment

In RMB millions				
The Group	31 December 2018		31 December 2017	
	Amount	Balance of allowance for impairment	Amount	Balance of allowance for impairment
Real estate	774	171	945	178
Others	2	–	1	–
Total	776	171	946	178

6.8.3 Financial assets and other assets measured at fair value

The internal control system in connection with measurement of fair value: For financial instruments traded in active markets, the determination of fair value is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques or third-party quotation.

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The valuation techniques include the techniques referring to prices used in market transactions recently conducted by all parties being familiar with the situation and are willing to make the transaction voluntarily, the current fair value of other financial instruments that are essentially the same, and the discounted cash flow method. The valuation techniques should make use of market parameters as much as possible. However, when there are no market parameters, valuation should be made for credit spread, market volatility and correlation of the counterparty. Variation of these relevant assumptions will have impact on fair value of these financial instruments.

In RMB millions

Items in connection with measurement of fair value	31 December 2017	1 January 2018 (restated)	Profit/loss on changes in fair value during the current period	Accumulated changes of fair value recorded into equity	Impairment accrued during the current period	31 December 2018
Financial assets						
1. Precious metals	10,261	10,261	348	-	-	10,475
2. Financial assets at fair value through profit or loss (excluding derivative financial assets)	162,866	N/A	N/A	N/A	N/A	N/A
3. Trading financial assets	N/A	401,493	3,155	-	-	395,668
4. Derivative financial assets	28,264	27,820	15,454	-	-	43,274
5. Loan at fair value through profit or loss	N/A	-	-	-	-	482
6. Loans at fair value through other comprehensive income	N/A	133,938	-	169	-207	249,153
7. Other creditor's rights investments	N/A	224,879	103	4,151	400	378,860
8. Other equity instrument investments	N/A	1,357	-	579	-	4,038
9. Available-for-sale financial assets	664,508	N/A	N/A	N/A	N/A	N/A
Total financial assets	865,899	799,748	19,060	4,899	193	1,081,950
Financial liabilities						
1. Trading financial liabilities	28,333	28,333	921	-	-	34,912
2. Derivative financial liabilities	30,034	30,034	12,759	-	-	42,793
Total financial assets	58,367	58,367	13,680	-	-	77,705

Note: This table has no consequent articulation.

6.8.4 Entrusted asset management, asset securitization and various agency and custody businesses as well as their profit or loss within the reporting period

6.8.4.1 Review on wealth management business in the reporting period

The Bank focused on enhancing meticulous management standards, kept improving the structure of products, and vigorously promoted the research, development and innovation of wealth management products. Such measures as enriching cash management products, transforming net-value products at a faster pace, launching products exclusive to well-divided customer groups, and forging consumer wealth management brands were adopted to promote the wealth management business towards stable, sound development.

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6.8.4.2 Asset securitization and its profit or loss in the reporting period

In the reporting period, the Bank actively facilitated credit asset securitization projects to further intensify active management of assets and liabilities by means of securitization. During the reporting period, it issued two NPA-backed securities in inter-bank market, which came in a scale of RMB900 million and involved the unpaid principal of NPAs in RMB7,893 million. Over the same period, it transferred the credit assets to structured entities in RMB22,049, all of which were confirmed for termination.

6.8.4.3 Custody business and its profit or loss in the reporting period

During the reporting period, the Bank carried out customer funds custody, trust custody, security investment funds custody, special QDII assets custody, insurance funds custody, custody for special fund accounts, custody for assets of securities companies, custody for assets of futures companies, private fund custody, direct equity custody, custody for banks' wealth management products, custody of financial products from internet platforms, enterprise annuity custody, and benefit scheme custody. At the end of the reporting period, the asset custody business had a scale of RMB11.93 trillion, an increase of 16.05% year on year. During the reporting period, the business generated a total of RMB3,167 million of custody fee income.

6.8.4.4 Funds and securities (agency) business and its profit or loss in the reporting period

In terms of agency funds and securities business, the Bank focused on marketing open-ended public fund products, "Intelligent Wealth Management Combination" online investment services, "Pu Fa Bao" business, and special account of standard asset funds. Personal agency fund business brought a non-interest income of RMB348 million from fund agency business with retail customers in the reporting period.

As for the agency insurance business, the agency retail insurance business generated a non-interest income of RMB393 million during the reporting period.

As for precious metal trading business, the Bank introduced account foreign exchange, two-way foreign exchange, "Gold Trading" and other featured businesses, which further enriched the product chain. The business generated an income of RMB165 million during the reporting period.

6.8.5 Off-balance-sheet items that might exert material impact on financial position and business performance of the Bank

In RMB millions		
The Group	31 December 2018	31 December 2017
Credit commitments	1,033,663	946,253
Incl.: Bankers' acceptance bill	419,815	396,414
Acceptance draft under L/C	147,587	144,602
Letters of guarantee issued	101,003	121,346
Letters of credit issued	13,533	14,143
Credit card and other commitments	351,725	269,748
Operating lease commitments	10,141	10,100
Capital commitments	3,423	6,428

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6.9 Discussion and Analysis on Future Development

6.9.1 2019 business plan of the Bank

1. The operating income is planned to reach about RMB164 billion, sustaining a positive growth rate over 2018;
2. The net profit is planned to reach around RMB54 billion, maintaining a positive growth compared with 2018;
3. NPL ratio is planned to be controlled at around 1.8% and allowance to NPL ratio will meet the regulatory requirement as at the end of 2019.

Special Reminding: The 2019 business plan does not constitute a substantial commitment of the Bank to investors. Investors should keep adequate awareness of risks and understand the difference between the plan, prediction and commitment.

6.9.2 Potential risks

From the perspective of economic and financial situation, the world has to deal with a complicated and severe political and economic landscape. Economies across the world are less likely to grow in step with each other; the global economy and finance become more vulnerable somewhat; major economies maintain their normalized monetary policy as they used to do; and the Sino-US trade frictions are expected to ease in the short term, but still present great uncertainty in the long run. The Chinese economy sustains its stability with changes and concerns accompanied throughout, thus incurring downward pressure. Moreover, the financial market is more volatile. Therefore, Chinese banks have to face a more complex and changeable operating environment, and they cannot afford to ignore the risks arising from some regions and sectors.

From the perspective of external shocks, with the divergence of monetary policies in major economies and the increasing volatility in international financial market, it will be more uncertain about the future trend of interest rates and exchange rates in the Chinese financial market, which puts forth more demanding requirements for commercial banks in terms of assets and liabilities allocation strategy and liquidity management. The banking industry will have to withstand the increasingly cut-throat competition in the context of the more inclusive financial industry, substantially accessible market, and rapidly developing FinTech.

6.9.3 Management measures in 2019

The Bank will earnestly implement the decisions made by the CPC Central Committee and the State Council, the core messages of the Central Economic Work Conference, and regulatory requirements; uphold the guiding principle of “seeking for growth without compromising stability”; actively serve the needs of real economy; and resolutely forestall financial risks. Following the main task of “adjusting structure, stabilizing growth; ensuring operational compliance, improving quality; and optimizing management, shoring up capability”, it will make headway in developing into a top-notch bank operated as a digital ecology, implementing the five-year period plan, and shifting to high-quality, sustainable development at a faster pace.

—Adjust structure, stabilize growth, and develop principal business with assured quality and efficiency. The Bank will adjust the structure of assets and liabilities, and make sure the interest income can get stabilized; speed up the adjustment of business structure, and increase the fee-based business income; and gather pace in adjusting customer structure, and lift comprehensive contribution of customers.

—Reinforce operational compliance, enhance quality, and promote robust, sustainable development as a whole. The Bank will intensify compliance, internal control and audit management, and promote the Bank towards normative operation across the board; shore up NPL recovery and reduction efforts, and operate NPAs better; reinforce risk policy and credit management, and promote business development with risks forestalled; and intensify basic management with various risks, and further lift operational quality.

—Optimize management, build up capability, and consolidate the foundation for long-standing development. The Bank will do better in assets and liabilities management, and promote the efficient resource allocation and bank-wide coordinated development; continue channel transformation and operational management, and further shore up supporting capability; propel the progress toward a bank operated as a digital ecology, and continue allowing innovation to give its leading role into full play; and intensify management and employee management, and increase the quality and competence of all persons at the Bank.

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6.10 Risk Management

6.10.1 Risks facing the Bank

As a special enterprise dealing in currencies and credit, the Bank faces the following major risks in operation: credit risk, liquidity risk, market risk (including interest rate risk and exchange rate risk), operational risk (including settlement risk, technical risk, and system risk) as well as compliance risk, legal risk, IT risk, strategic risk, reputational risk, country risk, etc.

6.10.2 Statement on credit risk conditions

6.10.2.1 Policy making

First, centering on the main task of “adjusting structure, securing stable income, conducting stricter management, and eliminating risks” and taking five action plans as the overall guidelines, the Bank developed the Annual Credit Orientation Policy for Corporate Customers and the Reminders of Branch Policy Implementation, updated credit policies for different sectors, and took the lead in adjusting the business structure.

Second, the Bank optimized the structure of assets and business lines, intensified the combined management in the industry dimension, and exercised the classified management of “advancing, protecting, controlling or compressing” for industries according to risk-adjusted returns and actual risk exposures. As a result, it witnessed the credit resources that went to the “actively supporting” and “moderately supporting” industries grew at a rate two times the overall speed, while the balance of assets invested in the “controlled and compressed” industries was cut down.

Third, the Bank made clear the predominating areas the new credit business would be concentrated. It drafted the standards for selecting preferentially supported customer groups in such sectors as steel, coal, cement, aluminum, new energy automobiles and traditional cars as well as their industry chains. It organized efforts to assemble the list of preferentially supported customers for the steel, coal and cement industries. Besides, it also distributed the Standard Values of Financial Performance by Industries fit for its corporate customers.

Fourth, the Bank made good use of policy management tools, to make sure related policies could be implemented strictly. It regularly tracked and evaluated the credit orientation management, and established the cross-functional credit orientation execution appraisal and communication mechanism. The pilot program on industry-specific quota control was put into operation. Besides, the Bank also distributed the annual industry quota management plan, broke down the control objectives by regions, and introduced a regular monitoring, analysis and evaluation mechanism. Also, it withdrew cash from risk customers, and conducted credit optimization measures against low-efficient customers.

Fifth, the Bank continued to grant preferential authorization to key branches and key business lines, and gave special authorization to some branches for their specific business forms, as a move to support business development on the premise of preventing risks. According to the principle of “gross capacity control, gradual withdrawal”, it supported some branches in defusing risks of existing customers, without risks extended.

6.10.2.2 Credit extension management

First, the Bank closely followed up with the macro economic situation and regulatory requirements of China, prudentially conducted credit review while reducing risks, and achieved some effect in structural adjustment.

Second, the Bank implemented the intensive management strategy, encouraged tire-one branches to get their credit applications approved in a centralized way, and lifted the credit review work across the Bank to a higher level at the pull of “six centralization” actions.

Third, the Bank conducted surveys and door-to-door visits with intensified efforts, and reinforced work in such fields as grassroots outlets, markets and customers based on the “Five One” project.

Fourth, guided by the process remaking concept, the Bank continued to optimize the timeliness management of various reviews and inspections, thus capable of conducting credit business across the board much more efficiently.

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Fifth, the Bank established a Head Office-branch personnel exchange mechanism that combined the top-down and bottom-up methods, and promoted the personnel of credit business line to make regular exchanges in batches, thus forming the unified risk appetite and well-integrated post setup.

Sixth, the Bank strengthened the professional competence-enhanced study and training sessions for its employees. A diversity of training and other activities such as the first loan application review skills competition, the Head Office-led team teaching session, and the excellent report sharing meeting were organized to help form a good style of study across the bank-wide credit business line. As a result, related personnel could enhance their professional competence and skills constantly.

6.10.2.3 Risk early-warning

First, the Bank continued to improve the functions of its risk early-warning system, worked harder to issue early warnings based on monitoring findings, and produced the risk management bulletins for overseas branches and institutions under consolidated management. Second, it stepped up efforts to put early-warning information into efficient application, introduced an interest pre-collection management mechanism, intensified interest pre-collection management, and prompted early warnings against risk customers efficiently. Third, it continued to adjust customer structure for optimization, and pushed forward cash withdrawal. Fourth, it continued to integrate onsite inspection and offsite monitoring, and worked harder to conduct early-warning inspections.

6.10.2.4 Asset preservation

During the reporting period, the Bank continued to take steps to preserve and recover assets, employed multiple measures to dispose of assets more efficiently, and made sure its asset quality remained robust.

First, it put NPLs under list-based classified management, and continued to recover and dispose of loans granted to key customers and major risk projects with intensified efforts.

Second, it made full use of various disposal means such as cash recovery, judicial litigation, debt repayment with non-cash assets, debt restructuring, loss write-off, securitization, debt-to-equity swap, risk elimination and exit, and spelled out the debt liquidation plan for each account and advanced the implementation.

Third, it intensified the management of risk dissolution of NPAs in key branches and business lines, continuously refined the asset preservation mechanism and strived to increase the results of NPA disposal.

6.10.3 Statement on liquidity risk conditions

The liquidity risk management objective is to ensure the Bank's ability to perform the obligations to provide funds when customers want to withdraw and to make payment to customers, as well as realize a balance between total assets and liabilities and the structure; through active management, the liquidity cost can be reduced, liquidity crisis can be avoided, and the systemic liquidity risk can be coped with effectively.

During the reporting period, the Bank kept layered beforehand balanced management of liquidity risk in line with the principle of aggregate balance and structural equilibrium; it carried out real-time monitoring on daily position accounts in local and foreign currencies, and made centralized allocation of positions in local and foreign currencies; it established a beforehand declaration system for large-amount positions, and established a monitoring mechanism for total liquidity level; it prepared a cash flow gap table on a daily basis, used the gap management method to predict cash flow gap changes in future assets and liabilities' on-and-off-balance sheet items, and regularly (irregularly in case of major events) conducted liquidity risk assessment for assets and liabilities' on-and-off-balance sheet items; the Bank also considered its own liquidity risk policies and risk limit requirements to make active financing arrangement and make adjustments to asset and liability portfolios, enabling it to realize a gross balance and structure equilibrium in the business development and effectively meeting the requirements for appropriate liquidity management goals.

The Bank kept a close eye on the macro-economic changes, kept abreast of the regulation effects of credit policies and monetary policies, took into consideration its own structure of asset and liability and general capital balance, timely adjusted the direction, size and structure of cash flow gap, and actively prevented liquidity risk, thereby realizing an overall sound business operation and keeping the liquidity at a reasonable and balanced level. Specifically, the Bank took accumulated cash flow gap as a tool for liquidity risk management to conduct centralized and dynamic management over cash flow

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changes, through calculating the size and direction of the accumulated cash flow gap. It made adjustment to its asset and liability portfolios and carried out market financing to mitigate cash flow fluctuations and manage liquidity risk.

As at the end of the reporting period, the proportion of liquidity in all currencies converted to RMB as calculated based on the regulation standard was 55.43%, a decrease of 1.73 percentage points over the end of 2017. The proportion of medium-to-long-term RMB loans was 48.30%, down 0.76 percentage point over the end of last year. The ratio of excessive allowance for loan losses was maintained at 2.49%, 1.20 percentage points higher as compared with the end of 2017, demonstrating an overall moderate and sound liquidity status.

6.10.4 Market risk management conditions

In 2018, the Board of Directors decided on the market risk appetite for 2018–2020. In the reporting period, the Bank closely tracked market risk exposures and market changes, stepped up dynamic monitoring and risk prejudgment, and managed to keep the market risk monitoring indicators within the scope of risk appetite. The stress test results showed that under an extreme unfavorable scenario, the Bank would face certain negative influences, which were within the controllable range.

During the reporting period, the Bank took further action to refine the market risk policy and system, and brought such risk under intensified monitoring and measurement. It revised the Administrative Measures for Trading Account Identification, in a move to improve the related identification standards and procedures. It drafted the Operating Manual for Market Risk Management at Overseas Branches, which set out the market risk management requirements and related operating norms for overseas branches. Besides, it optimized the functions of market risk-related internal model systems, thus making them operate more efficiently. It worked harder to monitor risks arising from derivative business, and increased the frequency of market-to-market operation and automatic degree of agency derivative business. Also, it carried out the latest regulatory requirements for measurement, and created the templates for counterparty credit risk measurement with standard approach.

As at the end of the reporting period, the Bank's consolidated market risk capital was RMB4,568 million under the standard approach, and capitals occupied by general risks and specific risks are as follows.

In RMB millions

Date	General risk capital					Specific risk capital	Total
	Interest rate risk	Exchange rate risk	Risk of futures	Risk of commodity	Risk of stock		
At the end of 2018	1,557	1,506	66	274	15	1,150	4,568

6.10.5 Statement on operational risk

Operational risk refers to the risk of losses caused by an imperfect or problematic internal procedure, staff or IT system and external events. Operational risk includes legal risk but excludes strategy risk and reputational risk.

In 2018, with increasing external fraud risk and regulatory punishments as well as increasingly rich and complicated businesses and business procedures, the Bank witnessed mounting operational risk. During the reporting period, the number of loss events and amounts involved went up compared with last year. Relevant departments and branches have developed corrective measures to address some key risk indicators with abnormal changes and weak links exposed by risk assessment. Operational risk was controllable in large.

6.10.6 Statement on other risks

6.10.6.1 Compliance risk

During the reporting period, the compliance management work at the Bank was conducted around the Bank's strategic plan for the 13th five-year period and along the operating theme of "intensifying management, reducing risks". With three key risk control links (that is, ex ante prevention, interim timely identification, and ex post efficient disposal) put at prominent positions, the Bank focused its attention on related systems, implementation, personnel and priority areas, lifted the bank-wide management to a higher level, guaranteed branches efforts produced effect as expected, and explored way to conduct digitalized management, in a bid to make sure the business could develop stably across the board. During the

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reporting period, the overall situation of the Bank's compliance risk management was good, without major risk events and major cases violating rules and laws.

6.10.6.2 AML

The Bank continuously improved the AML management system and mechanism, implemented the group-wide AML management measures, introduced the AML risk management system, strengthened the AML duty performance of departments along the three lines of defense, solidly promoted the identification of beneficial owners as prescribed by PBC, upgraded the AML data receiving platform (version 2.0), participated in the AML-themed onsite interviews conducted by FATF international organizations, continuously stepped up the basic management ability with respect to AML, and formed an AML governance synergy. At the same time, it actively fulfilled its social responsibilities, carried out various forms of AML publicity and education work, provided clues about the crackdown of new types of crimes for related authorities, and effectively prevented and controlled money laundering, terrorist financing and tax evasion risks.

6.10.6.3 Legal risk

The Bank continued to shore up its ability to identify, dispose of, prevent and control legal risk, and carried out management activities more efficiently according to its legal risk management policies. It brought legal risk management under further unified planning and guidance, continued to identify legal risk, amplified the supporting role of legal review services, optimized a set of standard contracts, and timely refined management policies and business systems. At the same time, it reinforced the inspection and supervision of legal risk management, so as to check how related risk management policies were executed. To put intellectual properties under coordinated management, it drafted proactive intellectual property management plans on the premise of safeguarding its legitimate rights and interests. Also, it carried out the "7th five-year" legal publicity and education plan in an orderly manner, actively fulfilled the responsibility of disseminating legal knowledge due to enterprises, and explored for ways to launch the "Internet + Rule of Law" publicity and education campaign, in a bid to improve the availability of legal education and raise the awareness of legal risk prevention among all employees.

6.10.6.4 IT risk

IT risk was on the rise as banks became increasingly dependent on information technology and there was a growing variety of IT means. In the reporting period, the Bank worked hard on improving its IT risk management system, conducted comprehensive risk assessments on every facet of IT work, and put forward the suggestions on enhancing related management. Efforts were put into continuously monitoring and reporting IT risk. It also further strengthened the Head Office and branches' business continuity management, completed its implementation at all branches, and conducted business continuity drills accordingly.

6.10.6.5 Strategic risk

Sticking to the strategic management model of "strategy-planning-budget-appraisal", the Bank, after completing the preparation of a new five-year development strategy and following the requirements for high-quality development, devised the objectives for the new round of strategic development, and made clear the strategic objective of "putting customers at the core, capitalizing on the driving role of technology, and developing into a top-notch bank operated as a digital ecology". It made efforts to promote the implementation of strategic measures by specifying the main business lines, priority tasks and key projects throughout the year. The Head Office established a quarterly strategy implementation evaluation and strategic risk assessment mechanism to timely identify, evaluate, and report the deviations identified in the implementation of related strategies. At the same time, it dynamically refined and pre-adjusted/fine-tuned the business management strategy in response to changes to internal and external situations. Consequently, the ability to control strategic risk across the Bank was enhanced continuously, and its strategic risk was stable and controllable overall.

6.10.6.6 Reputational risk

The Bank persistently improved its reputational risk management mechanism, strengthened whole-process management, and boosted the systemic management ability with respect to reputational risk. It properly responded to the reputational risks caused by the regulatory fine on Chengdu Branch, continued to carry out the bank-wide reputational risk screening campaign and related trainings, and enhanced the awareness and ability of all employees to control reputational risk. Centering on such themes as the 40th anniversary of reform and opening up, the financial support for private economy, the creation of four brands in Shanghai, and the building of a top-notch bank operated as a digital ecology, the Bank

increased the application of new media and made active publicity efforts, to fully demonstrate its business advantages and characteristics, re-establish its good reputation for seeking stable and long-standing development, and forge itself as a good corporate image.

6.10.6.7 Country risk

In 2018, the global political and economic landscape became more uncertain than it used to be in previous years. Coupled with the worsening Sino-US trade frictions, country risk tended to be increasingly complex. Against such a backdrop, the Bank continuously improved its country risk management structure, implemented a number of optimization measures in terms of system management, quota control, and management tools, and thus established a management system that “was guided by risk appetite, based on country ratings, and controlled through risk quota”. In addition to developing quota management policies, the Bank developed country quota based on risk levels and single-country quota within the risk appetite range, and carried out the related quota management in a more meticulous way. At the same time, it worked harder to devise the country risk management tools and systems to improve management efficiency and risk monitoring frequency. Also, it optimized the country risk management policies and enhanced the operability and guidance of related policies at the implementation level. In 2018, the Bank managed to control its country risk soundly as a whole. Countries with risk exposure maintained their ratings at stable levels. Risk appetite was executed as well as expected throughout the year. To sum up, country risk at the Bank remained stable and controllable.

6.11 Business Innovation, New Business Varieties Launched or Derivative Finance Business Conducted

i-Counter Smart Counter: As the first of its kind in China, it integrates a host of new technologies such as biological identification, audio and video, and 4G wireless, to re-engineer traditional banking business processes. Thanks to all-around services, ultimate experience and intelligence interaction, it would help outlets shift their focus from counters to intelligent equipment, improve the efficiency of customer service and network operation, and give a boost to the digital transformation and upgrade of outlets.

API open banking service: As the first API open banking service across the Chinese banking industry, it, through the API architecture, incorporates financial scenarios into the internet ecosystem, thus getting rid of the limitations confronting traditional physical outlets and mobile apps, and opening related products and services to the public. Embedded into partners’ platforms, it can proceed from customers’ demands and experience to turn the ready-to-use cross-border service into a reality, and shape a brand new banking business model.

SPD Personal Loan applet: As the first online integrated financial service platform that is based on WeChat applet across the Chinese banking industry, it integrates a variety of functions including online loan application, real estate valuation, and direct bank-related account opening. Primarily aimed to promote the digitalized operation, it can divert customers throughout various internet channels, promote industry aggregation, and create an interconnected, integrated ecosystem with unique characteristics in the finance sector.

“Knowledge Sharing, Intelligent Life” private butler service platform: Catering to the needs of high net worth customer groups, the one-stop non-financial butler service platform was firstly launched as part of SPD app. In addition to the existing eight channels including “Health Guardian”, it will soon unveil another four smart life channels (on elite education for children, consulting service, and fine life) bringing more than 30 sub-channels. Users, once logging into SPD app, can enjoy the free service options, special offers, and online surprises free of charge, and other activities offered by the platform.

Gathering of Premium Products: It aims to construct a one-stop trading platform that covers precious metals, commodities and foreign exchange products, a one-stop investment consultation service platform, and a one-stop trading training platform, with a view to operating and serving transaction businesses by digital means, and forging a trading ecosystem that features investment transactions and community interactions.

e Peers: An online platform for peer banks to team up with each other, it uses apps as vehicles to provide many financial institutional engaged in banking, securities, trust, insurance, fund, futures, and leasing with fund trading, online matchmaking, information acquiring, and instant communications channels. It delivers a more interactive, efficient and convenient cooperation experience to peer institutions.

SPD Risk Hedging: In response to changes in market, the Bank leveraged on its superior expertise in such fields as foreign exchange, currencies, creditor's rights, precious metals, and bulk commodities to roll out a host of products including SPD Connect, SPD Merchant Profit, and Commodity E Alliance, with a view to satisfying inter-bank, corporate and asset management customers' diverse needs for risk hedging.

Debit card-oriented online reissuing and direct mailing service: Ahead of any other in the Chinese banking industry, the Bank launched a service through which customers could apply for new cards or reissuing cards and have them mailed to home (namely "a simple process of online application, mailing to home, and offline activation"). As to female customers, the Flower Joy cards were invented to offer the closed-loop debit card service that combined online and office functions.

Knowledge Graph Version 1.0: The corporate anti-fraud system was developed and put into operation. Covering online and offline transactions, the system transforms the risk control over transaction anti-fraud from being dominated by expert rules to mainly relying on self-learning of models. With the neural network techniques, the Knowledge Graph Version 1.0 was introduced in a move to construct a smart transaction risk control system step by step.

6.12 Significant Impacts of Changes in Interest Rate, Exchange Rate, Tax Rate, and New Policies and Regulations on Commercial Banks' Operation and Profitability

First, the interest rate liberalization reform continued to go deeper. The Chinese central bank pushed forward the reform of interest rate market as it used to do, by bringing more liability products of financial institutions into the scope of market-based pricing, improving the interest rate conducting mechanism, and propelling the interest rate from double-track into one-track operation. By mentioning that the reform of liberalizing interest rates reached the deep-water area, it means that interest rates became more volatile, and their connection with real economy would become stronger gradually. This requires commercial banks should work harder to study and predict the trend of interest rate, boost their ability to proactively allocate liabilities, refine their pricing mechanism, and intensify their liquidity management.

Second, the market-based RMB exchange rate formation mechanism was further improved. In 2018, China saw a basic balance in its cross-border capital inflow and outflow and foreign exchange supply and demand. Exchange rates were expected to operate stably; and RMB exchange rate revealed a mixed trend of ups and downs. The central bank took a host of proactive measures like strengthening communication with market players, restarting the risk reserve policy for forward sales of foreign exchange, and re-adding the "countercyclical factors to the RMB/USD intermediate exchange rate, in a bid to keep the RMB exchange rate within a reasonable range. In 2019, faced with the uncertainty in domestic and international situations, RMB exchange rates may reflect greater flexibility, which will put forward higher requirements for commercial banks in terms of exchange rate risk management and cross-border operation capability. But the silver lining lies in that hedging, agency and other business lines will have a broader space for further development.

Third, the upcoming tax cuts and fee reductions are expected to ease the pressure on real economy. By the end of 2018, the Central Economic Work Conference expressly indicated the massive tax cuts and fee reductions would be rolled out so as to support the development of real economy. In 2019, as the related measures come out, the enterprises engaged in real economy will see their operating environment continuing to improve, a situation which is likely to ease the operating pressure the downward economy has put on companies. The improved corporate operations will not just reduce the risks faced by commercial bank's credit and other business lines, but also create a better business environment for these banks to serve the real economy.

Fourth, the macro prudential assessment (MPA) framework continued to improve. In 2019, the central bank will continue to exploit the role of MPA in countercyclical adjustment, and guide financial institutions to support the real economy with greater efforts. On the one hand, it will support eligible off-balance-sheet assets back to balance sheet, and encourage financial institutions to implement new asset management regulations, engage in debt-to-equity swaps, and conduct other related work. On the other hand, it will actively employ such policy instruments as re-lending, rediscounting, and targeted RRR cut, diversify capital replenishment channels for commercial banks, straighten out currency and credit conducting mechanisms, and guide financial institutions to give more support to private enterprises, small and micro-sized enterprises, and other fields. The countercyclical adjustment of MPA has not only aroused the initiative of commercial banks in serving the real economy, but also put forth more demanding requirements for them to do better.

The background features a blurred image of a person's face and shoulders in the upper left. Overlaid on this are stylized circuit lines in red and blue that flow across the page. On the right side, a portion of a globe is visible, showing continents and oceans. The overall color palette is dominated by dark blues, reds, and blacks.

Section VII

Important Matters



Important Matters

7.1 Plan on Ordinary Shares' Profit Distribution or Capitalization of the Capital Reserve

7.1.1 Making and implementation of cash bonus policy

In order to further implement the requirements of regulators including CSRC and SSE in respect of cash bonus of listed companies, and truly protect the legitimate interests of investors, the Articles of Association of the Bank defines the basic principle for profit distribution, the specific and decision making procedures, the organization and implementation and the profit distribution policy changes, and states that the Bank's cash bonus scheme shall meet relevant rules of the regulators, and except for special cases, the accumulated distribution of profit from the cash bonus in the past three years shall be no less than 30% of yearly average distributable profit realized in the past three years.

The Bank's decision making procedure for profit distribution met relevant requirements in the Articles of Association of the Bank and decisions made on the shareholders' meeting, and the cash bonus's criteria and proportions were clear and well defined, and all Independent Directors expressed opinions on the profit distribution scheme. The Bank listened to the opinions and claims of minority shareholders, and the profit distribution scheme considered the industry features, development stage, profitability, and capital needs of the Bank, as well as the investors' requirements for sharing the Bank's growth, and development achievements and obtaining reasonable return on investment.

7.1.2 Plan or scheme of the Bank for ordinary shares profit distribution and for conversion of capital reserve to ordinary shares in past three years

In RMB millions						
Bonus year	Number of bonus shares per 10 shares	Number of dividend payout per 10 shares (RMB) (tax inclusive)	Number of capital increase per 10 shares	Amount of cash bonus (tax inclusive)	Net profit attributable to the Bank's shareholders in the consolidated statements in the bonus year	Proportion of net profit attributable to the Bank's shareholders in the consolidated statements in the bonus year (%)
2018	-	3.50	-	10,273	55,914	18.37
2017	-	1.00	-	2,935	54,258	5.41
2016	-	2.00	3	4,324	53,099	8.14

Note: The 2018 profit distribution plan can be implemented only when it is approved by the shareholders' meeting.

7.1.3 2018 profit distribution plan of the Bank

The audited 2018 accounting statement showed that, the Bank's realized a total net profit of RMB53,625 million, and after deducting the preference stock SPDB P1 and SPDB P2 dividends of RMB1,725 million issued in the year, the actual profit distributable to ordinary shareholders this year would be RMB51,900 million. The Bank proposed the 2018 profit distribution plan as follows:

- (1) To withdraw discretionary surplus reserve at 30% of after-tax profit of the year, RMB16,088 million in total;
- (2) To distribute to all shareholders cash dividends at RMB3.5 (tax inclusive) per 10 shares based on the total number of ordinary shares of 29,352,080,397 at the end of 2018. The total distribution amount is RMB10,273 million.

After the above distribution plan was implemented, the remaining undistributed profit was retained as replacement capital according to requirements of the regulatory authority on capital adequacy of commercial banks.

Important Matters

7.2 Public Issuing of Convertible Corporate Bonds during the Reporting Period

In November 2017, the shareholders' meeting of the Bank reviewed and adopted the proposal of publicly issuing the convertible corporate bonds worth no more than RMB50 billion, to finance the future business development of the Bank, and replenish the core tier-one capital of the Bank as per regulatory requirements after the convertible bonds were concerted to shares.

On 28 September 2018, the Bank convened the 2018 First Extraordinary Shareholders' Meeting where the Proposal for Extending the Validity Period of the Resolution and Authorization Made at the Shareholders' Meeting Concerning the Issue of Convertible Corporate Bonds was reviewed and approved. The validity period of the resolution and authorization was extended to 16 November 2019 accordingly.

In December 2018, the Bank received the Reply of CBIRC on Consent with Issuance of A-share Convertible Corporate Bonds by SPD Bank (Yin Bao Jian Fu [2018] No.387), which outlined that the regulatory authority agreed that the Bank issued the A-share convertible corporate bonds worth no more than RMB50 billion, and booked them into tier-one core capital after they were concerted to shares as per applicable regulatory requirements.

This public issuance plan is still subject to verification and approval of CSRC and other regulatory authorities before implementation.

7.3 Issuing of Tier-two Capital Bonds during the Reporting Period

As approved by CBIRC and PBC, the Bank issued on the national interbank bond market the tier-two capital bonds in first and second phases on 7 September 2018 and 18 September 2018, which were worth RMB40,000 million with the term of ten years, the fixed coupon rate of 4.96%, and the redemption right exercisable at the end of the fifth year. Upon the completion of the issuance, the Bank lifted its CAR by nearly 1 percentage point.

7.4 No Change to Registered Capital during the Reporting Period

7.5 No Fund Occupied during the Reporting Period

7.6 Appointment of and Termination of Relationship with Accounting Firms

		In RMB10,000
Whether a new accounting firms is appointed:		No
Name of accounting firm	PricewaterhouseCoopers Zhong Tian LLP	
Remuneration for accounting firm		802
Years for audit of accounting firm		8

		In RMB10,000
	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	248

Given that PricewaterhouseCoopers LLP is to complete its eight years' auditing services, the Bank convened the 37th Session of the Sixth Board of Directors on 7 December 2018, to adopt the Proposal on the Engagement of External Auditor for 2019, which suggested that KPMG Huazhen LLP should be engaged to offer the Bank with such services as 2019 annual report audit, interim report review, and internal control audit with the total remuneration of RMB7.15 million, and submitted the proposal to the 2018 Shareholders' Meeting for review.

Important Matters

7.7 The Bank Had No Bankruptcy Reorganization during the Reporting Period

7.8 Influences of Changes in Accounting Policies on the Bank

Accounting policies were changed by the Bank for this time based on the following accounting standards for business enterprises that the Ministry of Finance revised in 2017: the Accounting Standard for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments (hereinafter referred to as “Standard No.22 (Revised)”), the Accounting Standard for Business Enterprises No. 23—Transfer of Financial Assets (hereinafter referred to as “Standard No.23 (Revised)”), the Accounting Standard for Business Enterprises No. 24—Hedging (hereinafter referred to as “Standard No.24 (Revised)”), the Accounting Standard for Business Enterprises No. 37—Presentation of Financial Instruments (hereinafter referred to as “Standard No.37 (Revised)”), and the Accounting Standard for Business Enterprises No.14—Revenue (hereinafter referred to as “Standard No.14 (Revised)”). The changed accounting policies took effect formally on 1 January 2018.

According to the Standard No.22 (Revised), Standard No.23 (Revised), Standard No.24 (Revised), and Standard No.37 (Revised), the “business modes” and “cash flow characteristics of contracts” of the held financial assets shall be used as criteria for classifying financial assets, and therefore financial assets can be grouped into the following three categories: “financial assets measured at amortized cost”, “financial assets measured at fair value through other comprehensive income”, and “financial assets measured at fair value through profit or loss”; the allowance for impairment losses on financial assets have been set aside through the expected loss method rather than the occurred loss method, and the scope of assets subject to set-aside has been expanded slightly; the principles for determining financial assets transfer and related accounting treatments have been further specified; the scope of eligible hedged items and hedging instruments has been expanded, to replace the quantitative hedging effectiveness test requirements with qualitative ones; the hedging relationship re-balancing mechanism has been introduced; and the disclosure requirements for financial instruments have been adjusted accordingly.

According to Standard No.14 (Revised), the two standards for existing income and contract establishment have been included into the unified income recognition model; control right transfer replacing risk compensation transfer serves as the criterion for income recognition time; more clearly-cut guidelines are available for the accounting treatments of contracts that contain multiple trading arrangements; and explicit provisions are set out for the income recognition and measurement with respect to some specific transactions (or issues).

As the Company disclosed, the adoption of the new financial instrument standards led to a reduction of RMB12,075 million in the Group’ s equity attributable to the Bank’ s shareholders in the beginning of the reporting period. Of these, the other comprehensive income rose by RMB3,015 million, and the retained profits in the beginning of the reporting period reduced by RMB15,090 million, which was mainly caused by the adoption of the expected credit loss model to set aside allowance for impaired loans.

7.9 Specific Changes in Presentation Format of Financial Statements and their Influences

As per the Notice on Revising and Distributing the Format of 2018 Financial Statements Prepared by Financial Enterprises (Cai Kuai [2018] No.36) issued by the Ministry of Finance, the Group has adopted the revised format to develop its financial statements, with comparable data in previous periods not restated any longer, since the accounting year starting from 1 January 2018.

The interest from the financial instruments set aside through the actual interest rate method is included in the book balance of related instruments, and their influences on the Group’ s financial statements are indicated as below:

Important Matters

In RMB millions

	31 December 2018	
	31 December 2018	31 December 2017
Cash and deposits with central banks	443,504	443,723
Due from banks and other financial institutions	93,883	94,284
Loans to other banks	140,987	142,251
Financial assets purchased under resale agreements	11,568	11,573
Interest receivables	34,402	-
Loans and advances	3,443,866	3,455,489
Creditor' s rights investments	1,129,439	1,144,249
Other creditor' s rights investments	373,988	378,860
Other assets	81,067	82,274
Due to central bank	217,740	221,003
Due to and placements from banks and other financial institutions	1,063,559	1,067,769
Placements from banks and other financial institutions	148,089	148,622
Financial assets sold under repurchase agreements	119,450	119,564
Deposits from customers	3,227,018	3,253,315
Interest payables	38,503	-
Debt securities issued	837,354	841,440

Changes in presented names of financial assets and liabilities:

In RMB millions

Items of balance sheet		31 December 2018
Before revision	After revision	
Financial assets at fair value through profit or loss	Trading financial assets	395,668
Financial investments measured at amortized cost	Creditor' s rights investments	1,144,249
Financial investments measured at fair value through other comprehensive income	Other creditor' s rights investments	378,860
	Other equity instrument investments	4,038
Financial liabilities at fair value through profit or loss	Trading financial liabilities	34,912

Changes in items of income statement

Influences of foreign exchange derivatives on profit or loss:

In RMB millions

Items of income statement	31 December 2018	
	Before revision	After revision
Profit or loss on investments	15,273	14,765
Profit or loss on changes in fair value	5,380	798
Exchange profit or loss	-3,935	1,155

Important Matters

Influences of the recognized impaired loans after the allowances were set aside for impaired losses on financial instruments:

In RMB millions			
Items of income statement	2018	Items of income statement	2018
Before revision		After revision	
Impairment losses on assets	60,420	Losses on impaired loans	60,417
		Losses on other impaired assets	3

7.10 Major Litigation and Arbitration

As at the end of the reporting period, the Bank as a plaintiff had 9,881 pending proceedings, which involved an amount of RMB53,241 million. As of the end of the reporting period, the Bank as a defendant (excluding the third person) had 93 pending proceedings, which involved an amount of RMB1,488 million.

7.11 Related-party Transactions

7.11.1 Overview of related-party transactions

According to relevant provisions in the Administrative Measures on Related-party Transactions of Commercial Banks and Insiders and Shareholders, the Accounting Standards for Business Enterprises and relevant provisions governing related-party transactions formulated by CBRC and SSE, the Bank developed its own Administrative Measures on Related-Party Transactions. According to the Measures, there are no related parties that are controlled by the Bank.

In the reporting period, the Bank further consolidated its related-party transaction management, identified related parties on a dynamic basis, built a database of related-party transactions, optimized the related-party transaction review procedure, pushed refined management of related-party transactions, and stepped up daily monitoring, statistics and analysis of related-party transactions to ensure the regularity of related-party transactions and compliance of information disclosure. Transactions between the Bank and its related parties observed the principles of integrity and equity, powerfully promoting the synergy of the Bank, other companies under the Group and related shareholders.

7.11.2 Conditions of material related party transactions

Counterparty	Transaction type	Amount	Approved by	Main contents of transactions
SPDB International Holdings Limited	Comprehensive credit line	HKD19,636 million	The 27th Session of the Sixth Board of Directors	A comprehensive credit line worth HKD19,636 million was extended to the company, with a term of two years. The credit was on terms not favorable than those available to unrelated parties in similar transactions.
Shanghai International Trust Co., Ltd.	Comprehensive credit line	RMB3 billion	The 29th Session of the Sixth Board of Directors	A comprehensive credit line worth RMB3 billion, a comprehensive credit line worth RMB13.3 billion, and a comprehensive credit line worth RMB1 billion were extended to Shanghai International Trust Co., Ltd., to SPDB Financial Leasing Co., Ltd., and to AXA SPDB Investment Managers Co., Ltd. respectively, each with a term of one year and on terms not favorable than those available to unrelated parties in similar transactions.
SPDB Financial Leasing Co., Ltd.		RMB13.3 billion		
AXA SPDB Investment Managers Co., Ltd.		RMB1 billion		

Important Matters

7.11.3 Related legal persons and transaction balance

Related legal persons of the Bank mainly comprise substantial legal person shareholders (i.e. legal person shareholders who directly, indirectly, and jointly hold or control 5% or more of shares or voting power in the Bank); groups to which legal person shareholders are affiliated and their subsidiaries; companies that are controlled or greatly influenced by related natural persons; and companies in which the Bank invests and have great influence. As at the end of the reporting period, related-party transactions between the Bank and its related legal persons were as follows:

7.11.3.1 Loans to other banks

In RMB millions		
	31 December 2018	31 December 2017
Other related parties: Group companies of major shareholders (excluding shareholders)	4,422	-
	2018	2017
Placements with banks and other financial institutions	109	-

7.11.3.2 Loans and advances

In RMB millions		
	31 December 2018	31 December 2017
Associates and joint ventures	-	61
Other related parties: Companies with significant influence by key management personnel (excluding shareholders)	10	-
Other related parties: Group companies of major shareholders (excluding shareholders)	239	500
Total	249	561
	2018	2017
Interest income from loans and advances	19	7

7.11.3.3 Deposits from customers

In RMB millions		
	31 December 2018	31 December 2017
Major shareholders	5,324	6,330
Other related parties: Companies with significant influence by key management personnel (excluding shareholders)	1,733	7,494
Other related parties: Group companies of major shareholders (excluding shareholders)	37,999	47,678
Total	45,056	61,502
	2018	2017
Interest expense	1,484	1,374

Important Matters

7.11.3.4 Due to and placements from banks and other financial institutions

	In RMB millions	
	31 December 2018	31 December 2017
Associates and joint ventures	1,058	2,430
Other related parties: Group companies of major shareholders (excluding shareholders)	5,113	14,798
Total	6,171	17,228
	2018	2017
Interest expense	124	223

7.11.3.5 Commission income

	In RMB millions	
	2018	2017
Associates and joint ventures	22	32
Other related parties: Group companies of major shareholders (excluding shareholders)	3	7
Total	25	39

7.11.3.6 Commission expenses

	In RMB millions	
	2018	2017
Other related parties: Group companies of major shareholders (excluding shareholders)	–	40

7.11.3.7 Operation and administrative expenses

	In RMB millions	
	2018	2017
Major shareholders	7	7
Other related parties: Group companies of major shareholders (excluding shareholders)	383	350
Total	390	357

7.11.3.8 Letters of guarantee issued

	In RMB millions	
	31 December 2018	31 December 2017
Associates and joint ventures	–	21
Other related parties: Group companies of major shareholders (excluding shareholders)	3,766	5,442
Total	3,766	5,463

Important Matters

7.11.3.9 Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank. Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

In RMB millions		
Year-end balance	31 December 2018	31 December 2017
Due from and placements with banks and other financial institutions	355	308
Interest receivables	N/A	69
Due to and placements from banks and other financial institutions	8,025	8,382
Interest payables	N/A	24
Deposits from customers	609	454
Loans to other banks	4,045	2,596
Loans and advances	991	1,096
Other	21	24

In RMB millions		
Transactions for the year	2018	2017
Interest income from due from and placements with banks and other financial institutions	10	28
Placements with banks and other financial institutions	108	83
Interest expenses on due to and placements from banks and other financial institutions	191	193
Interest income from loans and advances	114	45
Fee and commission income	21	25
Fee and commission expenses	41	40

7.11.4 Related natural persons and transaction balance

Related natural persons of the Bank include its directors, supervisors, senior management members of both the Head Office and the branches, other persons with authority to decide on or participate in credit extension and asset transfer and their close relatives, as well as directors, supervisors, senior management members and the like of the Bank's related legal entities (major shareholders).

As at the end of the reporting period, related-party transactions between the Bank and its related natural persons were as follows:

In RMB millions	
	31 December 2018
Number of related natural persons	5,511
Balance of related-party transactions	821

Important Matters

7.11.5 Significant related-party transactions with joint outward investment

In the reporting period, the Bank made no joint outward investments with related parties.

7.12 Disclosure of Undertakings by the Bank or its Shareholders Holding above 5% of Shares on the Designated Newspapers or Websites

In August 2017, the Bank issued non-public shares to Shanghai International Group and Shanghai Guoxin Investment Development Limited. The two companies undertook and agreed that the underlying shares they subscribed were subject to a lock-up period of 36 months, and they wouldn't trade such shares publicly or transfer the underlying shares or the shares derived from the underlying shares by any means within the lock-up period.

7.13 Punishment and Rectification Imposed on Listed Companies and Their Directors, Supervisors, Senior Management Members, Controlling Shareholders, Actual Controllers and Buyers

During the reporting period, neither the Bank nor any of its Directors, Supervisors, Senior Management members, or largest shareholder was subject to any investigation by competent authorities, coercive measures taken by judicial authorities or disciplinary inspection departments, transfer to judicial authorities or investigation for criminal responsibility, investigation or administrative penalty by CSRC, restricted access to market, identification as unqualified, penalty by other administrative authorities or public reprimand by the stock exchanges. During the reporting period, the Bank was not subject to any administrative supervision measures by CSRC or its agencies or request for rectification within a time limit.

On 18 January 2018, CBRC Sichuan Office imposed the following administrative penalties on Chengdu Branch of the Bank: the Branch was lawfully imposed with a fine of RMB461.75 million, due to its severe failure in internal control management, noncompliance in credit extension management, violation of regulations in handling credit business, and other misconducts in severe breach of prudential operation rules.

The above incident of Chengdu Branch drew the high attention of the Bank. With the guidance and support of the regulators and local government, the Bank made vigorous efforts to rectify related issues for operational compliance, and defuse risks in a solid, orderly way. So far, the Branch has finished the rectification process as required by the regulators. With its overall risk under control and customers' rights and interests unaffected, its operation and management has come back to the right track.

On this basis, the Bank drew lessons from this incident and applied them to its education and correction efforts flexibly, so as to make sober reflections, build up unified thinking, and learn from the past. In the future, it will regulate its operation with correct philosophy, continuously establish its compliance and internal control mechanisms, and focus efforts on enhancing executive forces and effectiveness of internal control measures, with a view to securing lawful, compliant and robust development across the board.

In 2019, the Bank will take further step to list "strict operational compliance" as one of the major business and management tasks. By doing so, it aims to base itself on the lawful and compliant operation, uphold it throughout the business and management process, and strive to realize the high-quality, sustainable development.

Important Matters

7.14 During the reporting period, the Bank has not implemented any stock ownership incentive plan, employee stock ownership plan or other employee incentive plans.

7.15 Major Contracts and Their Execution

i. Major custody, contracting and leasing items: during the reporting period, there was no major custody, contracting or leasing item.

ii. Major guarantee: during the reporting period, the Bank had no other major guarantee matters required to be disclosed, other than financial guarantee business within the business range as approved by CBRC.

iii. Other major contracts (including guarantee, etc.) and the performance: during the reporting period, various business contracts of the Bank were performed normally, without any major contract dispute.

7.16 Major Entrusted Wealth Management Affairs

During the reporting period, the Bank incurred no entrusted wealth management affairs outside the scope of normal business.

7.17 Material Assets Acquisition, Sale or Disposal and Enterprise Merger

During the reporting period, there was no material assets acquisition, sale or disposal or enterprise merger at the Bank.

7.18 Loss Verification Loans of the Bank during the Reporting Period

During the reporting period, based on the Administrative Measures of SPDB on Canceling Asset Loss after Verification, the total amount of loss loans imposed with accounting treatment for verification was RMB60,077 million. According to the principle of “account cancellation, case recording and existence of right”, the Bank continued to maintain the right of recourse to minimize the credit fund loss.

7.19 Active Performance of Social Responsibility

7.19.1 Poverty alleviation by the Bank

7.19.1.1 Targeted poverty relief planning

To substantively implement the CPC Central Committee’s strategic spirit of targeted poverty alleviation and shoulder corporate social responsibilities with integrity, the Bank kept improving the poverty reduction mechanism and came up with creative anti-poverty models with financial strength during the reporting period. Proceeding from local conditions and taking multiple measures, it carried out a total of 49 target poverty reduction projects and donated anti-poverty funds totaling RMB10,191.7 thousand. By doing so, it practiced the tenet of “improving the people’s wellbeing with financial strength”, and helped the economy to amplify its “blood-making” function.

Important Matters

7.19.1.2 Summary of targeted poverty relief in 2018

The Bank consolidated the foundation of “systematization, innovation and diversification”, pushing forward the regulation of public welfare donations and the innovation of employees’ volunteer day activity, continually carried out public welfare activities in the fields of supporting the old and raising the young, helping the poor, medical treatment and public health, cultural education and environment protection, and actively carried out public welfare initiatives like “Dream Chasing Fireflies” (further studying program for pediatricians), “Eyes for the World” (vision recovery operations for children from poor families) and “Love and Brightness” (guide dog aiding program). The long-term aiding mechanism was improved constantly, so as to promote the image of the Bank as an exemplary corporate citizen.

During the reporting period, the Bank conducted 41 poverty relief programs at designated sites nationwide involving funds of RMB9,268.5 thousand, so as to get the anti-poverty tasks done properly at the provincial and municipal levels; it carried out four education-enabled poverty reduction programs, involving a total input of RMB277.7 thousand; it unveiled one health-oriented poverty reduction program with an investment of RMB285.5 thousand; and it made preparations to launch the “Chasing Your Dream, Fireflies” (further studying program for 1,000 pediatricians) for the purposes of forging a long-lasting public welfare project mechanism, bringing more social benefits, contributing to the children’s health undertaking, practicing the corporate mission of “helping to create a better life with finance”, and serving the development of Chinese economy and society.

7.19.1.3 Targeted poverty alleviation projects by listed companies in 2018

In RMB10,000	
Indicator	Amount and details
1. Poverty relief through education	
Input to improve educational resources of poverty-stricken areas	27.77
2. Poverty relief through healthcare	
Input to improve healthcare resources of poverty-stricken areas	28.55
3. Basic guarantee	
Input that went to basic guarantee projects	–
4. Social poverty alleviation	
Input that went to targeted poverty reduction in joint efforts of Eastern and Western China	926.85
5. Other projects	
Input	36.00
Total	1,019.17

7.19.1.4 Subsequent targeted poverty relief plan

As required by the strategic plan for the 13th five-year period, the Bank will continue to undertake corporate social responsibilities. Following the established responsibility tenet, objectives, standards and fields, it will focus on key areas, pool together advantageous resources, and join hand in hand with stakeholders to realize the harmonious, mutually-beneficial and sustainable development from economic, social and ecological dimensions.

Important Matters

7.19.2 Social responsibilities

The Bank started to undertake corporate social responsibilities in a comprehensive and systemic way ahead of most peer banks in China. It released the first corporate social responsibility report in the Chinese banking industry. So far, it has done so for 13 consecutive years. Besides, it also drafted the strategic plan for corporate social responsibility earlier than many others, vigorously conducted a variety of practice in this regard, forged its responsibility brand with unique features, and shaped itself as an exemplary corporate citizen. During the reporting period, as required by the strategic plan for the 12th five-year period, the Bank continued to undertake corporate social responsibilities. Following the established responsibility tenet, objectives, standards and fields, it focused on key areas, pooled together advantageous resources, and joined hand in hand with stakeholders to realize the harmonious, mutually-beneficial and sustainable development from economic, social and ecological dimensions.

During the reporting period, the Bank tried to make innovations in factor market and financial services, and supported the undertakings that concerned the state strategies and people's welfare as well as economic development of the state and localities with financial services. At the same time, it actively facilitated the implementation of major state projects and strategies including the Belt and Road Initiative, the coordinated development of the Beijing-Tianjin-Hebei region, and the Yangtze River Economic Belt; did a good job in supporting the Xinjiang aid drive with financial strength, the re-rise of Northeast China, the development of Central and Western China, and the development of the marine economy-related industries. Besides, the Bank also helped Shanghai to develop into four centers, establish the scientific and technological innovation center and construct the free trade zone in innovative ways. Moreover, it continued to increase its support for the strategic emerging industries, the public undertakings concerning people's wellbeing, and the quality and efficiency enhancement in the real economy; rendered SMEs with better financial services; took the lead in developing green finance and boosting ecological progress; expanded the coverage of agro-related services; promoted the development of the inclusive finance system with internet finance platforms, community financial services and other features; and strove to enhance the standards of comprehensive financial services.

The Bank kept making more public welfare donations, diverted such funds to a wide range of fields including massive disaster rescue, education, environmental protection, and poverty reduction, managed the social responsibility practice in an up-to-standard way, and refined the corporate social responsibility system. In the meantime, it vigorously promoted the employees' voluntary initiative by organizing the volunteer day activity for 12 years in a row, with a view to creating a unique responsibility culture.

Social contribution value per share of the Group during the reporting period:

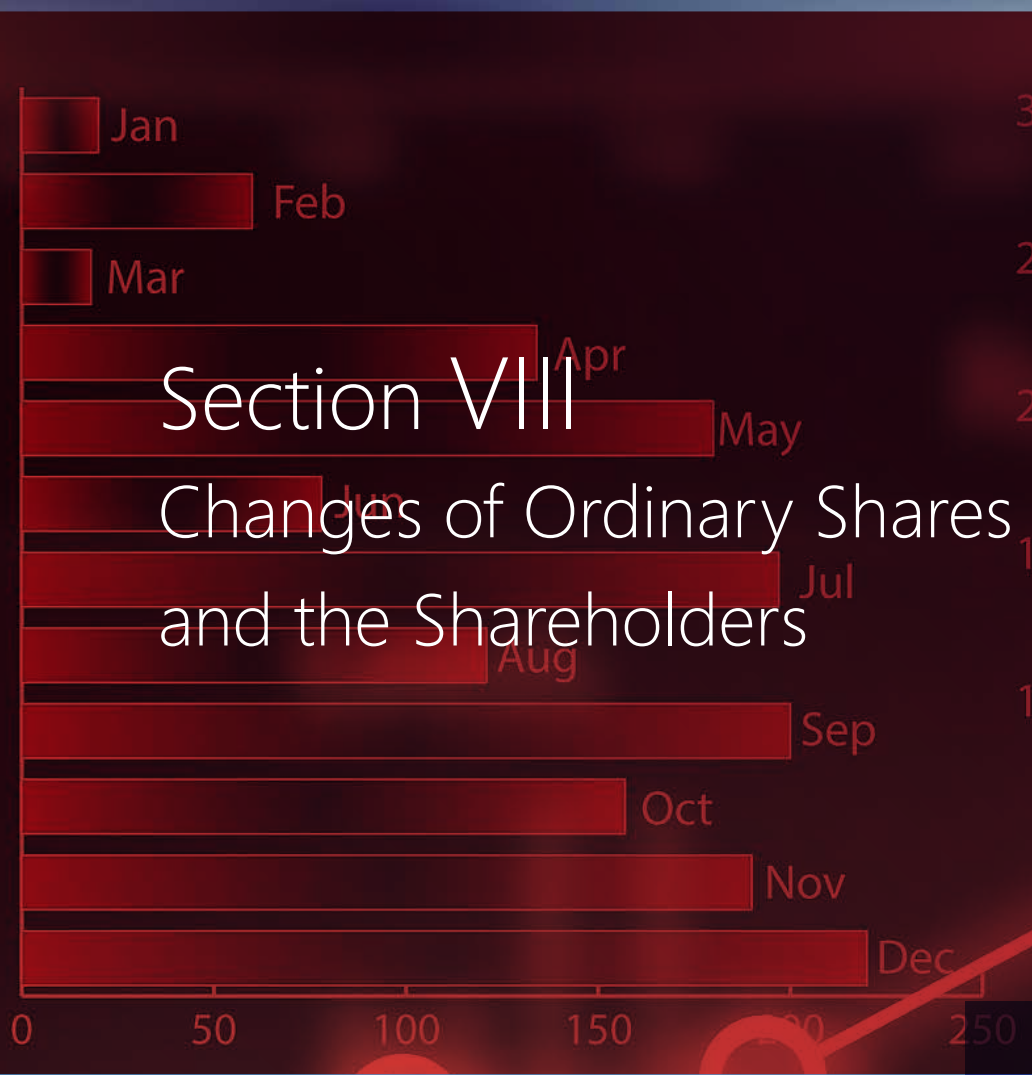
Year	2018	2017	2016
Social contribution value per share (based on weighted average)	RMB9.02	RMB8.60	RMB7.62

Notes:

(1) Social contribution value per share = earnings per share + (tax amount + employee expenses + interest expenditure + total amount of public welfare input)/weighted average of ordinary shares issued to the public during the reporting period.

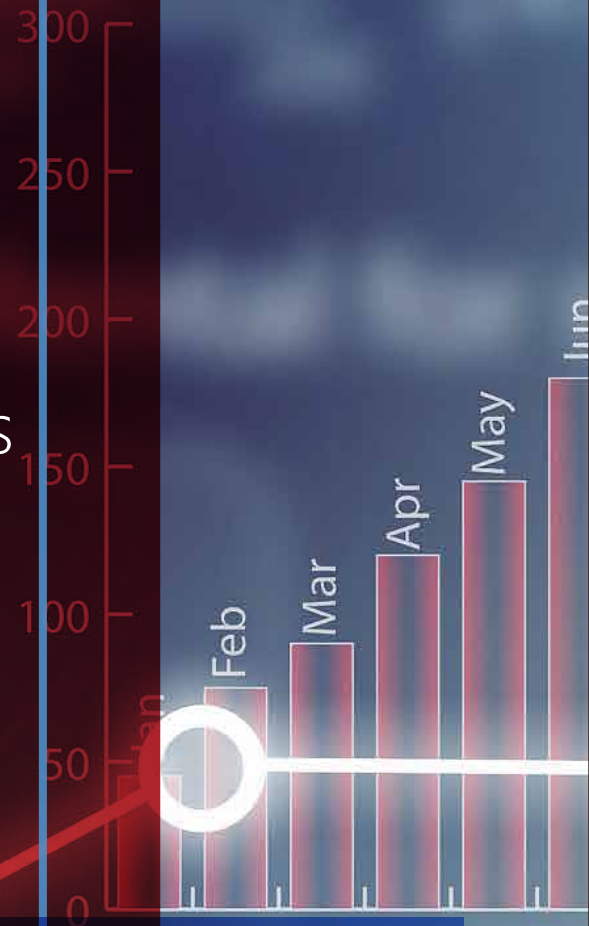
(2) Social contribution value per share during the reporting period is calculated as per the weighted average of 29,352,080,397 ordinary shares issued to the public.

Retail sales levels



Section VIII

Changes of Ordinary Shares and the Shareholders

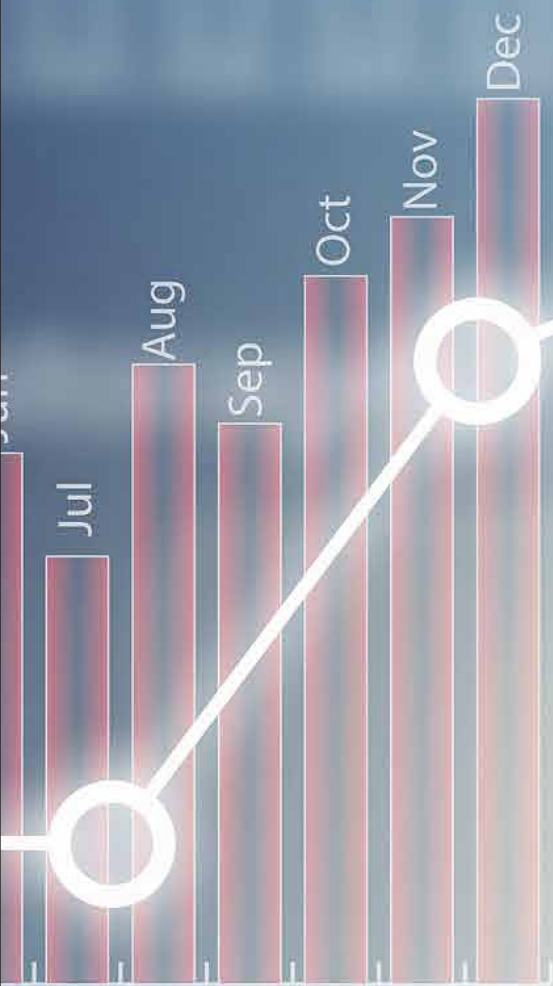


Rental for storage

Leeds

120

100



Birmingham

Changes of Ordinary Shares and the Shareholders

8.1. Overview of Equity Capital

8.1.1 Changes of ordinary shares

8.1.1.1 Changes of ordinary shares

As at the end of the reporting period, there was no change to the structure of ordinary shares at the Bank. Details are as follows:

Unit: Number of shares

	31 December 2018	
	Quantity	Percentage (%)
I. Shares with restricted sale conditions	-	-
1. Shares held by the state	-	-
2. Shares held by state-owned legal persons	1,248,316,498	4.25
3. Other domestically held shares	-	-
Incl.: Shares held by domestic legal persons	-	-
Shares held by domestic natural persons	-	-
4. Shares held by foreign shareholders	-	-
Incl.: Shares held by overseas legal persons	-	-
Shares held by overseas natural persons	-	-
II. Floating shares without restricted sale conditions		
1. RMB ordinary shares	28,103,763,899	95.75
2. Foreign shares listed domestically	-	-
3. Foreign shares listed overseas	-	-
4. Others	-	-
III. Total ordinary shares	29,352,080,397	100.00

8.1.2 Changes of restricted shares

As at the end of the reporting period, there was no change to restricted ordinary shares at the Bank. Details are as follows:

Unit: Number of shares

Shareholder name	Opening number of restricted shares	Number of new restricted shares in the reporting period	Closing number of restricted shares	Reason for restricted sale	Starting date of restriction
Shanghai International Group Co., Ltd.	842,003,367	-	842,003,367	Getting involved in the additional private placement, and not available for transfer within 36 months	4 September 2017
Shanghai Guoxin Investment Development Limited	406,313,131	-	406,313,131		4 September 2017

Changes of Ordinary Shares and the Shareholders

8.2 Proceeds from Fund-raising Activities

On 23 September 1999, the Bank publicly issued 400 million RMB ordinary shares, with issuing price per share of RMB10, and after the issuing cost is deducted, the fund actually raised was RMB3.955 billion.

On 8 January 2003, the Bank issued 300 million more RMB ordinary shares with issuing price per share of RMB8.45, and after the issuing cost was deducted, the fund actually raised was RMB2.494 billion.

On 16 November 2006, the Bank issued 439,882,697 more RMB ordinary shares with issuing price per share of RMB13.64, and after the issuing cost was deducted, the fund actually raised was RMB5.91 billion.

On 21 September 2009, the Bank privately issued 904,159,132 RMB ordinary shares, with issuing price per share of RMB16.59, and after the issuing cost was deducted, the fund actually raised was RMB14.827 billion.

On 14 October 2010, the Bank privately issued 2,869,764,833 RMB ordinary shares, with issuing price per share of RMB13.75, and after the issuing cost was deducted, the fund actually raised was RMB39.199 billion.

On 28 November 2014, the Bank privately issued 150 million preference shares, with carrying value per share of RMB100, and after the issuing cost was deducted, the fund actually raised was RMB14.960 billion.

On 3 March 2015, the Bank privately issued 150 million preference shares, with carrying value per share of RMB100, and after the issuing cost was deducted, the fund actually raised was RMB14.960 billion.

On 18 March 2016, the Bank issued 999,510,332 RMB ordinary shares to purchase 97.33% shares of Shanghai Trust with issuing price per share of RMB16.36 and a consideration of RMB16.352 billion.

On 4 September 2017, the Bank privately issued 1,248,316,498 ordinary shares, with issuing price per share of RMB11.88, and after the issuing cost was deducted, the fund actually raised was RMB14.817 billion.

All funds raised by the Bank have been used for making up its capital based on the approval of regulatory authorities, which increased the capital adequacy ratio, laid a foundation for the development of the Bank, and achieved great benefits.

8.3 Overview of Shareholders

8.3.1 Total number of shareholders

	Unit: Corporate
Total number of ordinary shareholders as at the end of reporting period	190,753
Total number of ordinary shareholders as at the end of the month before the annual report disclosure day	185,074
Total number of preference shareholders with recovered voting rights as at the end of the reporting period	0
Total number of preference shareholders with recovered voting rights as at the end of the month before the annual report disclosure day	0

Changes of Ordinary Shares and the Shareholders

8.3.2 Overview of shares held by the top ten shareholders and the top ten shareholders of circulating shares (or shareholders without restricted sale conditions) as at the end of the reporting period

Overview of shareholding by top ten shareholders

Shareholder name	Increase/ decrease during the reporting period	Number of shares by the end of the reporting period	Percentage (%)	Number of shares with restricted sale conditions	Number of pledged or frozen shares
Shanghai International Group Co., Ltd.	-	6,331,322,671	21.57	842,003,367	-
China Mobile Communication Group Guangdong Limited	-	5,334,892,824	18.18	-	-
Funde Sino Life Insurance Co., Ltd. - conventional	-	2,779,437,274	9.47	-	-
Funde Sino Life Insurance Co., Ltd. - capital	-	1,763,232,325	6.01	-	-
Shanghai Sitico Assets Management Co., Ltd.	-	1,395,571,025	4.75	-	-
China Securities Finance Corporation Limited	+ 91,015,308	1,307,994,759	4.46	-	-
Funde Sino Life Insurance Co., Ltd. - universal H	-	1,270,428,648	4.33	-	-
Shanghai Guoxin Investment Development Limited	-	945,568,990	3.22	406,313,131	-
Buttonwood Investment Platform Ltd.	-	886,131,340	3.02	-	-
Central Huijin Asset Management Ltd.	-	398,521,409	1.36	-	-

Overview of shareholding by top ten shareholders without sale restriction conditions

Shareholder name	Number of circulating shares without sale restriction	Stock class
Shanghai International Group Co., Ltd.	5,489,319,304	RMB ordinary shares
China Mobile Communication Group Guangdong Limited	5,334,892,824	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. - conventional	2,779,437,274	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. - capital	1,763,232,325	RMB ordinary shares
Shanghai Sitico Assets Management Co., Ltd.	1,395,571,025	RMB ordinary shares
China Securities Finance Corporation Limited	1,307,994,759	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. - universal H	1,270,428,648	RMB ordinary shares
Buttonwood Investment Platform Ltd.	886,131,340	RMB ordinary shares
Shanghai Guoxin Investment Development Limited	539,255,859	RMB ordinary shares
Central Huijin Asset Management Ltd.	398,521,409	RMB ordinary shares
Central Huijin Asset Management Ltd.	Shanghai International Group Co., Ltd. is the controlling company of Shanghai Sitico Assets Management Co., Ltd. and Shanghai Guoxin Investment Development Co., Ltd. Funde Sino Life Insurance Co., Ltd. - conventional, Funde Sino Life Insurance Co., Ltd. - universal H and Funde Sino Life Insurance Co., Ltd. - capital are under the name of the same legal person. Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.	

Changes of Ordinary Shares and the Shareholders

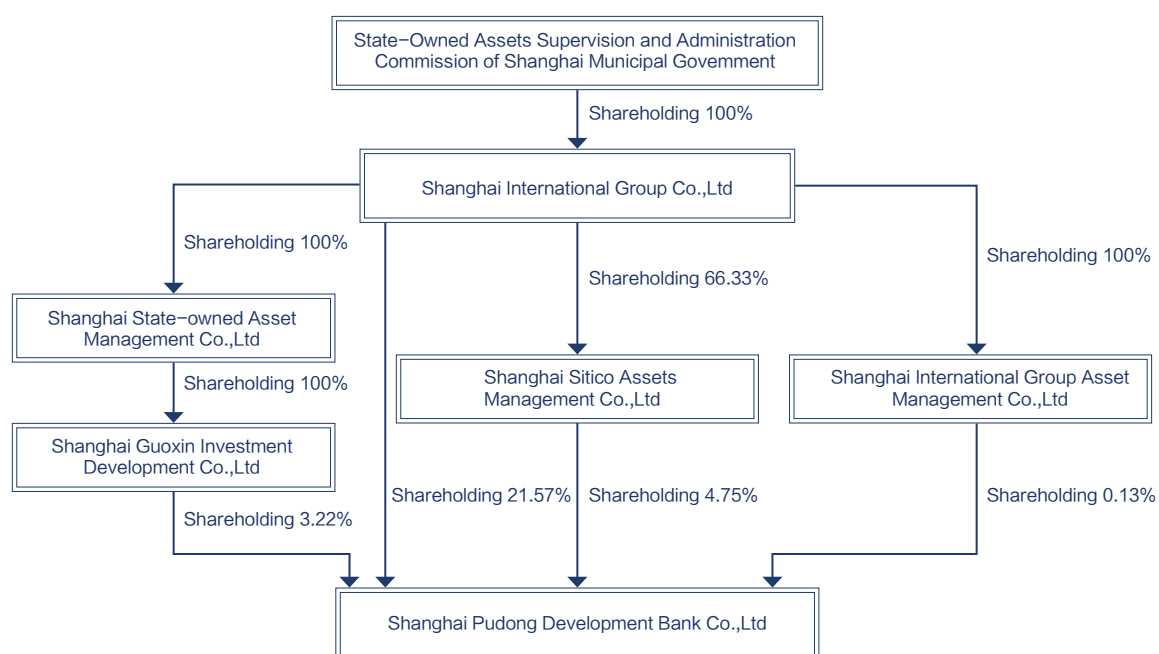
8.3.3 Overview of controlling shareholders and actual controllers

The Bank had no controlling shareholders or actual controllers.

The largest consolidated shareholder of the Bank was Shanghai International Group Co., Ltd., which was not changed during the reporting period. As at the end of the reporting period, Shanghai International Group Co., Ltd. and its controlling subsidiaries held 29.67% shares of the Bank on a consolidated basis.

Shanghai International Group Co., Ltd. was founded on April 20, 2000 with a registered capital of RMB10,558.84 million. Its registered address is No. 511 Weihai Road, Jing'an District, Shanghai, and its legal Representative is Yu Beihua. Its uniform social credit number is 91310000631757739E, and its business scope covers investment with finance business as the main direction and non-finance business as the supporting part, capital operation and asset management, financial research, social and economic consulting, etc.

Block diagram for property right and controlling relations between the Bank and its largest consolidated shareholder



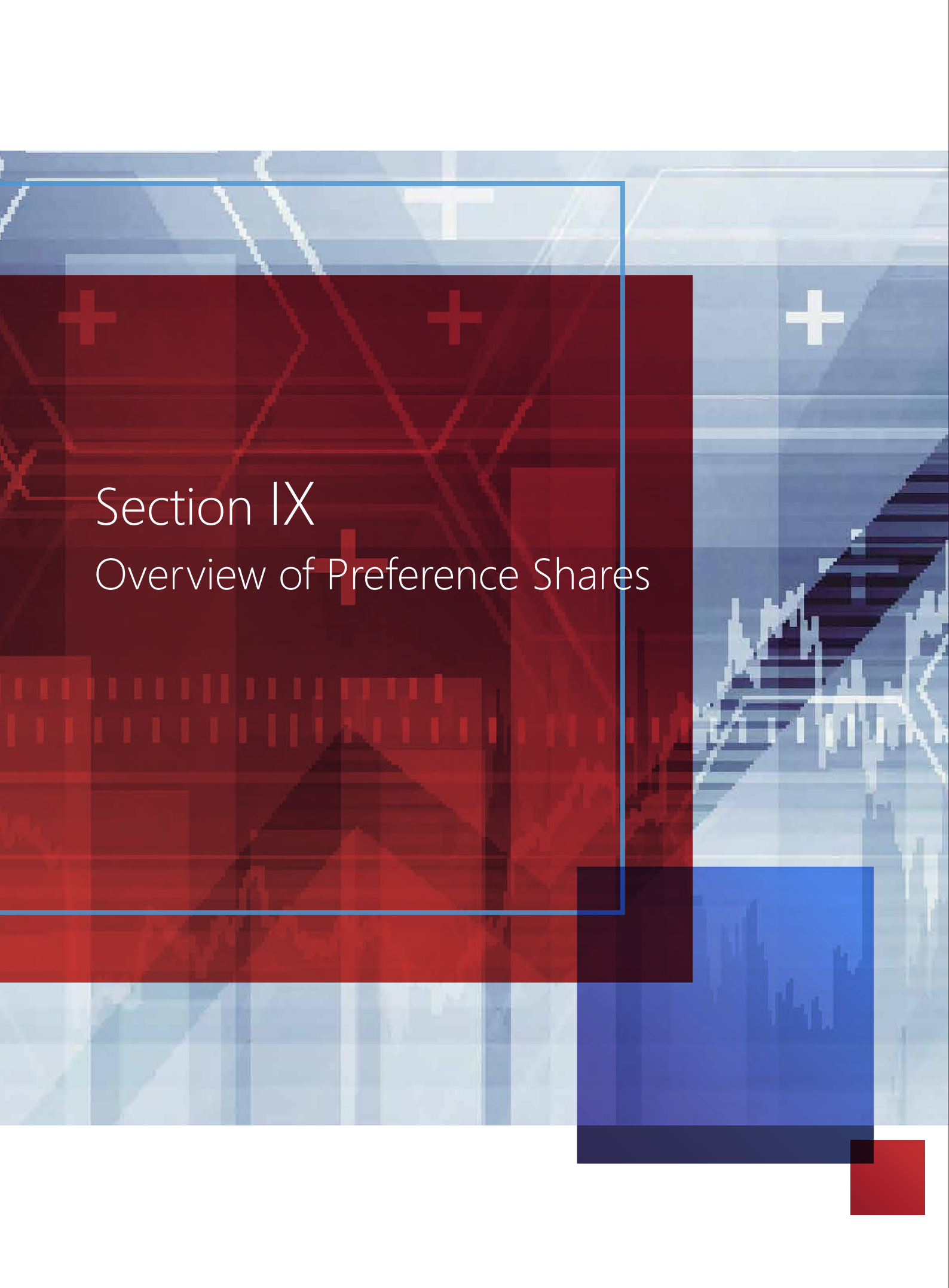
Changes of Ordinary Shares and the Shareholders

8.3.4 Other legal-person shareholders holding more than 10% shares of the Bank as at the end of the reporting period

1. Funde Sino Life Insurance Co., Ltd. was founded on 4 March 2002 with a registered capital of RMB11,752,005,497. Its registered address is 27, 28, 29 and 30/F Life Insurance Tower, No.1001 Fuzhong Road I, Futian District, Shenzhen and its legal representative is Fang Li. Uniform social credit number: 91440300736677639J. Business scope: personal accident insurance, personal fixed-term death insurance, personal mixed life insurance, personal whole life insurance, personal annuity insurance, personal short-term health insurance, personal long-term health insurance, group accident bodily injury insurance, group fixed term life insurance, group whole life insurance, group annuity insurance, group short-term health insurance, group long-term health insurance, other life insurances as approved by CIRC, reinsurance for the above insurances, concurrent-business insurance agency (by virtue of business license), and funds application businesses as approved by CBIRC.

2. China Mobile Communication Group Guangdong Limited was founded on 13 January 1998 with a registered capital of RMB5,594.84 million. Its registered address was Global building, No.11 Zhujiang West Road, Pearl River New City, Tianhe District, Guangzhou, and its legal representative was Wei Ming. Uniform social credit number: 91440000707653099T. Business scope: mobile communication business in Guangdong (including voice, data and multimedia); IP telephone and internet access; design, investment and construction of mobile communications, IP telephone and internet network; installation, engineering installation and maintenance of facilities of mobile communications, IP telephone and internet; system integration, roaming settlement, technology development, technical services and equipment sales in connection with mobile communications, IP telephone and internet; sale and rent of mobile phone terminal equipment, IP telephone equipment, internet equipment and spare parts, and after-sale services for them; satellite international private line service, internet data transmission service, and international data communication service; domestic communications facility service business; domestic very small-aperture terminal (VSAT) ground station communication service, and network custody business; online data processing and transaction processing business, domestic internet-based virtual private network services, internet data center services; information services (including mobile information services and internet information services; internet information services excluding news, publishing, education, healthcare, pharmaceuticals, medical devices, electronic bulletin services, etc.); fixed network-based local call service, fixed network-based domestic long-distance call service, fixed network-based international call service, public telegram and user telegraph service, professional wireless access (including 2G/3G/4G wireless access service and 3.5GHz wireless access service; 3.5GHz wireless access service not covering Guangzhou); (the above business types involving licensing operation shall be operated with licenses); design, production, release, agency of domestic and foreign advertising of all sorts; collection of water, electricity, and gas fees; ticketing agency service; sale of general merchandize, household appliances, electronic products, computers and accessories, wearable equipment, communication equipment and accessories, etc.; provision of professional trainings (excluding academic education and vocational trainings); provision of conference services; leasing of venues, self-owned houses, and counters; food and beverage services: production and sales of Chinese food, Western food and other ancillary services; and hotel-related services: provision of accommodation and other commercial services.

Changes of Ordinary Shares and the Shareholders

The background is a complex, abstract composition. It features a large, semi-transparent red rectangle on the left side, which contains the text. Overlaid on this and the rest of the page are various elements: a blue line graph with white data points, several white plus signs, and various shades of blue and red geometric shapes and patterns. The overall aesthetic is modern and financial.

Section IX

Overview of Preference Shares



Overview of Preference Shares

9.1 Issuance and Listing of Preference Shares in Recent Three Years as at the End of the Reporting Period

In 10,000 shares								
Code of preference share	Abbreviation of preference share	Issuance date	Issuance price (RMB)	Nominal dividend rate (%)	Number of issued shares	Listing date	Trade volume of listing	Date of delisting
360003	SPDB P 1	Nov. 28, 2014	100	6.00	15,000	Dec. 18, 2014	15,000	-
360008	SPDB P 2	Mar. 06, 2015	100	5.50	15,000	Mar. 26, 2015	15,000	-

Notes:

(1) SPDB P 1's nominal dividend rate for the first five years is 6.00%, which consists of 3.44% as the yield rate arithmetic mean of five-year government bond issued during the 20 trading days before the insurance date of the preference shares this time (excluding the issuance date) and the fixed premium of 2.56%. The nominal dividend rate would be adjusted once every five years according to change of the benchmark interest rate.

(2) SPDB P 2's nominal dividend rate for the first five years is 5.50%, which consists of 3.26% as the yield rate arithmetic mean of five-year government bond issued during the 20 trading days before the insurance date of the preference shares this time (excluding the issuance date) and the fixed premium of 2.24%. The nominal dividend rate would be adjusted once every five years according to change of the benchmark interest rate.

9.2 Overview of Shareholders of Preference Shares

9.2.1 Total number of shareholders of preference shares

	Code	Abbreviation	Total number of shareholders (accounts)
Total number of shareholders as at the end of the reporting period	360003	SPDB P 1	32
	360008	SPDB P 2	14
Total number of shareholders of preference shares at the end of the month before the date of annual report disclosure	360003	SPDB P 1	32
	360008	SPDB P 2	14

9.2.2 Shareholding of the top ten shareholders of preference shares and top ten shareholders without sale restriction conditions as at the end of the reporting period

Overview of Preference Shares

9.2.2.1 SPDB P 1

Unit: Number of shares

Shareholder name	Number of shares held at the end of the period	Percentage (%)
Bank of Communications Schroder Fund Management Co., Ltd.	11,540,000	7.69
China Ping An Property Insurance Co., Ltd. - conventional	11,470,000	7.65
China Ping An Life Insurance Co., Ltd. - bonus	11,470,000	7.65
China Ping An Life Insurance Co., Ltd. - universal	11,470,000	7.65
Maxwealth Fund	11,470,000	7.65
HWABAO TRUST Co., Ltd. - fund trust in No.2 investment	11,470,000	7.65
E Fund Management	11,470,000	7.65
Single fund trust of Jin Sheng Tian Li No.1 of Bank of Communications International Trust	9,180,000	6.12
Beijing Tiandi Fangzhong Asset Management	8,410,000	5.61
Zhonghai Trust Co., Ltd.	7,645,500	5.10
Statement on whether there is correlation among the top ten shareholders of preference shares and between the above shareholders and the top ten shareholders of ordinary shares, and whether they are persons acting in concert	1. China Ping An Property Insurance Co., Ltd. - conventional, China Ping An Life Insurance Co., Ltd. - bonus and China Ping An Life Insurance Co., Ltd. - universal are under the persons acting in concert. 2. Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.	

9.2.2.2 SPDB P 2

Unit: Number of shares

Shareholder name	Number of shares held at the end of the period	Percentage (%)
People's Insurance Company of China - conventional	34,880,000	23.25
China Ping An Life Insurance Co., Ltd. - bonus	20,360,000	13.57
China Ping An Life Insurance Co., Ltd. - universal	19,500,000	13.00
China Ping An Life Insurance Co., Ltd. - self-owned fund	19,500,000	13.00
Maxwealth Fund	10,460,000	6.97
Bank of China Limited Shanghai Branch	10,460,000	6.97
Bank of Communications Schroder Fund Management Co., Ltd.	6,970,000	4.65
Zhonghai Trust Co., Ltd.	6,970,000	4.65
Wisdom Asset Management	6,970,000	4.65
Huashang Fund Management Co., Ltd.	5,580,000	3.72
Statement on whether there is correlation among the top ten shareholders of preference shares and between the above shareholders and the top ten shareholders of ordinary shares, and whether they are persons acting in concert	1. China Ping An Life Insurance Co., Ltd. - bonus, China Ping An Life Insurance Co., Ltd. - universal and China Ping An Life Insurance Co., Ltd. - self-owned fund are under the same legal person. 2. Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.	

Overview of Preference Shares

9.3 Distribution of Dividend of Preference Shares

9.3.1 Distribution of dividend of preference shares during the reporting period

On 3 March 2018, the Bank disclosed the Announcement on Distribution of Dividend for Phase II Preference Shares. The equity registration date for distribution in this phase of preference shares' dividend is 9 March 2018, and the ex dividend date is 9 March 2018. The start date of interest accrual for dividend distribution is 11 March 2017 and the date of dividend distribution is 12 March 2018. Based on the nominal dividend rate 5.50% of SPDB P2, the cash dividend to be distributed per share would be RMB5.50 (tax inclusive), and the total dividend would be RMB825 million (tax inclusive).

On 23 November 2018, the Bank disclosed the Announcement on Distribution of Dividend for Phase I Preference Shares. The equity registration date for distribution in this phase of preference shares' dividend is 30 November 2018, and the ex dividend date is 30 November 2018. The start date of interest accrual for dividend distribution is 3 December 2017 and the date of dividend distribution is 3 December 2018. Based on the nominal dividend rate 6.00% of SPDB P1, the cash dividend to be distributed per share would be RMB6 (tax inclusive), and the total dividend would be RMB900 million (tax inclusive).

9.3.2 Distribution of dividend of preference shares in the recent three years

In RMB100 millions

Year	Distribution amount	Remarks
2018	17.25	Dividend distribution of SPDB P1 and SPDB P2
2017	17.25	Dividend distribution of SPDB P1 and SPDB P2
2016	17.25	Dividend distribution of SPDB P1 and SPDB P2

9.4 Repurchase and Conversion of Preference Shares of the Bank during the Reporting Period

The Bank had no repurchase and conversion of preference shares during the reporting period.

9.5 Voting Right on Preference Shares Resumed during the Reporting Period

The Bank had no voting right on preference shares resumed during the reporting period.

Overview of Preference Shares

9.6 Accounting Policy Adopted by the Bank for Preference Shares and the Reason

The Bank classified the preference shares into financial assets, financial liabilities or equity instruments at the time of initial confirmation, according to the rules of financial instruments, the provisions in contract for issuing preference shares, the economic essence reflected, and based on definitions of financial assets, financial liabilities and equity instruments. If the following conditions are met concurrently, the Bank will classify the financial instruments issued as equity instruments: (1) Such financial instruments do not involve delivering cash or other financial assets to other parties, or the contract obligations of exchanging financial assets or financial liabilities with other parties in potentially adverse conditions; (2) in case the Bank's own equity instruments are to be used or may be used for settling accounts for such financial instruments in the future, and such instruments are non-derivative instruments, there would be no contract obligation of delivering variable quantity of its own equity instruments for settlement; if the instruments are derivative instruments, only the fixed quantity of equity instruments can be used for exchanging for fixed amount of cash or other financial assets may be used for settling accounts of such financial instruments.

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the offering value of RMB30 billion in total to domestic investors. The proceeds were accrued to other equity instruments with issuance expense deducted. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval by CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on an annual basis at a fixed dividend rate which is adjusted every five years. The Bank has the right to not to declare or distribute the dividends of preference shares in part or in full.

Upon occurrence of any of the following triggering events and subject to the approval from CBIRC, the Bank's outstanding preference shares shall be mandatorily converted in part or in full to the Bank's ordinary shares: (1) when the core tier-one capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or in full at a pre-determined mandatory conversion price so as to bring the Bank's core tier-one capital adequacy ratio back to 5.125% and above; (2) when any triggering event of the Bank's tier-two capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from the regulator, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB7.62 per share when meeting the mandatory conversion triggering conditions. Following the date of approving the preference share issuance plan by the Board of Directors, if the Bank subsequently appropriates bonus shares, converts capital reserve to share capital, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible corporate bonds) or issues rights, the conversion price shall be adjusted subject to the set formula based on the order of occurrence of the above conditions.

Pursuant to the relevant laws and regulations as well as the Approval from CBRC on SPD Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Articles of Association (Yin Jian Fu No.564, 2014), the proceeds from the issuance of preference shares shall be used to supplement other tier-one capital of the Bank. Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

The Bank confirmed the preference shares issued this time as other equity instruments based on the contract terms and economic substance of the issuance.

Section X

Directors, Supervisors,
Senior Management Members,
Employees, Branches and Outlets



Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.1 Basic Information on Directors, Supervisors and Senior Management Members

10.1.1 Changes to shareholding and remuneration of Directors, Supervisors and Senior Management members of the Bank who were incumbent or left office during the reporting period

Name	Position	Gender	Year of birth	Tenure	No. of shares held Note 1	Remuneration received from the Bank (in RMB10,000) (before-tax) during the reporting period
Gao Guofu	Chairman of the Board of Directors, Executive Director	Male	1956	31-May-2017 to 27-Apr.-2019	–	79.86
Liu Xinyi	Vice Chairman, Executive Director, President	Male	1965	28-Apr.-2016 to 27-Apr.-2019	80,000	109.52
Pan Weidong	Executive Director, Vice President, CFO	Male	1966	28-Apr.-2016 to 27-Apr.-2019	55,000	98.57
Fu Fan	Non-Executive Director	Male	1964	02-Jun.-2017 to 27-Apr.-2019	–	–
Gu Jianzhong ^{Note8}	Non-Executive Director	Male	1974	28-Apr.-2016 to 11-Jan.-19	–	–
Sha Yuejia ^{Note 4}	Non-Executive Director	Male	1958	28-Apr.-2016 to 27-Aug.-18	–	–
Zhu Min ^{Note 3}	Non-Executive Director	Female	1964	28-Apr.-2016 to 11-Jul.-18	–	–
Dong Xiuming ^{Note9}	Non-Executive Director	Male	1970	28-Apr.-2016 to 16-Jan.-19	–	–
Hua Renchang ^{Note 5}	Independent Director	Male	1950	28-Apr.-2016 to 30-Oct.-18	–	25.83
Wang Zhe	Independent Director	Male	1960	28-Apr.-2016 to 27-Apr.-19	–	31.00
Tian Suning ^{Note 2}	Independent Director	Male	1963	28-Apr.-2016 to 14-Mar.-18	–	6.50
Qiao Wenjun	Independent Director	Male	1970	28-Apr.-2016 to 27-Apr.-19	–	26.00
Zhang Ming	Independent Director	Male	1958	28-Apr.-2016 to 27-Apr.-19	–	28.00
Yuan Zhigang	Independent Director	Male	1958	28-Apr.-2016 to 27-Apr.-19	–	34.00
Chen Weizhong ^{Note 6}	Independent Director	Male	1954	2-Jun.-17 to 16-Nov.-18	–	24.00
Sun Jianping	Chairman of the Board of Supervisors, External Supervisor	Male	1957	28-Apr.-2016 to 27-Apr.-2019	–	–
Chen Zheng'an	Vice Chairman of the Board of Supervisors, Employee Supervisor	Male	1963	16-Mar.-17 to 27-Apr.-2019	–	71.86
Sun Wei	Shareholder Supervisor	Male	1970	25-Apr.-17 to 27-Apr.-2019	–	–
Chen Bichang	Shareholder Supervisor	Male	1959	28-Apr.-2016 to 27-Apr.-2019	–	–
Li Qingfeng	Shareholder Supervisor	Male	1971	28-Apr.-2016 to 27-Apr.-2019	–	–
Zhao Jiusu	External Supervisor	Male	1954	28-Apr.-2016 to 27-Apr.-2019	–	28.00
Chen Shimin ^{Note7}	External Supervisor	Male	1958	28-Apr.-2016 to date	–	28.00
Wu Guoyuan	Employee Supervisor	Male	1961	28-Apr.-2016 to 27-Apr.-2019	–	352.09
Geng Guangxin	Employee Supervisor	Male	1961	28-Apr.-2016 to 27-Apr.-2019	–	352.09
Xu Haiyan	Vice President	Female	1960	29-Apr.-2016 to 27-Apr.-2019	48,000	88.17
Liu Yiyang	Vice President	Male	1964	29-Apr.-2016 to 27-Apr.-2019	52,500	91.30
Wang Xinhao	Vice President	Male	1967	29-Apr.-2016 to 27-Apr.-2019	60,000	88.40
Cui Bingwen	Vice President	Male	1969	29-Apr.-2016 to 27-Apr.-2019	51,700	83.20
Xie Wei	Vice President, Secretary to the Board of Directors	Male	1971	29-Apr.-2016 to 27-Apr.-2019	53,000	88.40

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Notes: (1) Senior Management members of the Bank purchased A-share stocks of the Bank with their own funds from secondary market on 11, 12 and 17 July 2018, respectively. The transaction prices ranged between RMB9.35 and RMB9.58. They voluntarily undertook that the purchased stocks would be subject to a lock-up period of two years since the date of purchase.

(2) On 14 March 2018, the Bank received a resignation letter from Independent Director Tian Suning. Due to personal reasons, Mr. Tian submitted his resignation from the positions of Independent Director, member of the Strategy Committee and member of the Remuneration and Appraisal Committee under the Board of Directors. His resignation took effect on 14 March 2018.

(3) On 11 July 2018, the Bank received a resignation letter from Director Ms. Zhu Min. Due to job transfer, Ms. Zhu submitted her resignation from the positions of Director, member of the Audit Committee, and member of the Risk Management and Related Party Transactions Control Committee under the Board of Directors. Her resignation took effect on 11 July 2018.

(4) On 27 August 2018, the Bank received a resignation letter from Director Mr. Sha Yuejia. Due to age reason, Mr. Sha submitted his resignation from the positions of Director, member of the Strategy Committee, and member of the Nomination Committee under the Board of Directors. His resignation took effect on 27 August 2018.

(5) On 30 October 2018, the Bank received a resignation letter from Independent Director Mr. Hua Renchang. Due to the expiration of his 6-year tenure, Mr. Hua hereby submitted the resignation from the positions of Independent Director, Chairman of the Risk Management and Related Party Transactions Control Committee, member of the Nomination Committee, and member of the Remuneration and Appraisal Committee under the Board of Directors. His resignation took effect on 30 October 2018.

(6) On 16 November 2018, the Bank received a resignation letter from Independent Director Mr. Chen Weizhong. Due to age reason, Mr. Chen submitted his resignation from the positions of Independent Director, Chairman of the Risk Management and Related Party Transactions Control Committee, and member of the Capital and Operation Management Committee under the Board of Directors. His resignation took effect on 16 November 2018.

(7) On 16 November 2018, the Bank received a resignation letter from External Supervisor Mr. Chen Shimin. Due to the expiration of his 6-year tenure, Mr. Chen submitted his resignation from the positions of External Supervisor, Chairman of the Supervision Committee, and member of the Nomination Committee under the Board of Supervisors. After his resignation, External Supervisors would account for less than one third of the total members of the Board of Supervisors. According related regulatory provisions, Mr. Chen would continue performing his duties under the new External Supervisor comes to office.

(8) On 11 January 2019, the Bank received a resignation letter from Director Mr. Gu Jianzhong. Due to job transfer, Mr. Gu Jianzhong submitted his resignation from the positions of Director, member of the Audit Committee, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors. His resignation took effect on 11 January 2019.

(9) On 16 January 2019, the Bank received a resignation letter from Director Mr. Dong Xiuming. Due to job transfer, Mr. Dong Xiuming submitted his resignation from the positions of Director, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors. His resignation took effect on 16 January 2019.

(10) The final remunerations of Directors, Supervisors and Senior Management members of the Bank who are on the payroll of the Bank are under confirmation, and the rest will be disclosed after being confirmed.

10.1.2 Remuneration received by Directors, Supervisors and Senior Management members after the assessment and confirmation by competent departments in 2017

(unit: RMB10,000)

Name	Position	Compensation payable (1)	Employer's contribution to social security, enterprise annuity, supplemental medical insurance and housing allowance (2)	Other monetary income (noted with specific items and listed separately) (3)	Total (4) = (1) + (2) + (3)
Gao Guofu	Chairman	70.53	12.25	-	82.78
Liu Xinyi	Vice Chairman, President	265.52	18.16	-	283.68
Chen Zheng'an	Vice Chairman of the Board of Supervisors	82.80	17.00	-	99.80
Pan Weidong	Director, Vice President, CFO	238.97	17.67	-	256.64
Xu Haiyan	Vice President	212.97	17.67	-	230.64
Liu Yiyan	Vice President	223.90	17.39	-	241.29
Wang Xinhao	Vice President	221.00	17.00	-	238.00
Cui Bingwen	Vice President	221.00	18.37	-	239.37
Xie Wei	Vice President, Secretary to the Board of Directors	221.00	17.00	-	238.00
Wu Guoyuan	Employee Supervisor	356.30	16.80	-	373.10
Geng Guangxin	Employee Supervisor	356.30	17.01	-	373.31

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.1.3 Main work experience and service information of Directors, Supervisors and Senior Management members

10.1.3.1 Directors

Gao Guofu, male, born in 1956, Doctorate degree and Senior Economist. He previously served as General Manager and Party Committee Secretary of Shanghai Waigaoqiao Free Trade Zone Development (Holding) Company, Deputy Director of Shanghai Waigaoqiao Free Trade Zone Management Committee, Acting President of Shanghai Wanguo Securities Co., Ltd., General Manager and Deputy Party Committee Secretary of Shanghai Jiushi (Group) Co., Ltd., General Manager and Party Committee Secretary of Shanghai Chengtou Corporation, and Chairman and Party Committee Secretary of China Pacific Insurance (Group) Co., Ltd. He currently works as Party Committee Secretary and Chairman of SPD Bank.

Liu Xinyi, male, born in 1965, Master's degree and Senior Economist. He previously served as Deputy Head (in charge) of the SPD Bank Airport Sub-branch, Party Committee Member and Deputy General Manager of SPD Bank Shanghai Headquarters and Chief of Financial Institutions Service Division and Assistant Director of Shanghai Municipal Financial Service Office (temporary posts), Vice President of SPD Bank and Party Committee Secretary and General Manager of SPD Bank Shanghai Headquarters, Vice President of SPD Bank and Party Committee Secretary and Head of its Shanghai Branch, Vice President and CFO of SPD Bank and President and Deputy Party Committee Secretary of Shanghai Guosheng Group Co., Ltd. He currently works as Deputy Party Committee Secretary, Vice Chairman and President of SPD Bank, and Chairman of the SPD Silicon Valley Bank.

Pan Weidong, male, born in 1966, Master's degree and Senior Economist. He previously served as Deputy Manager of Corporate Business Department I of Ningbo Securities Company, General Manager of Asset and Finance Department of SPD Bank Ningbo Branch, Director of SPD Bank Beilun Sub-branch, Deputy General Manager of Ningbo Branch, General Manager of SPD Bank's Product Development Department, General Manager and Party Leadership Group Secretary of SPD Bank Kunming Branch, Chief of the Financial Institutions Service Division of Shanghai Municipal Financial Service Office (temporary post), Party Committee Member, General Manager Assistant and Deputy General Manager of Shanghai International Group, and Party Committee Secretary and Chairman of Shanghai International Trust Co., Ltd. (Shanghai Trust). He currently works as Party Committee Member, Director, Vice President and CFO of SPD Bank, and Chairman of Shanghai Trust.

Fu Fan, male, born in 1964, Master of Engineering and Economist. He previously served as General Manager Assistant and Deputy General Manager of Shangtou Industrial Investment Company, Director of the Office of the Board of Shanghai International Group Co., Ltd., Deputy General Manager of China International Fund Management Co., Ltd., Deputy General Manager, General Manager, Deputy Party Committee Secretary, Vice Chairman of Shanghai Trust, Party Committee Member, Director, and Vice President of Shanghai International Group Co., Ltd., and Party Committee Secretary and Chairman of Shanghai State-owned Assets Operation Co., Ltd. He currently works as Deputy Party Committee Secretary, Director and President of Shanghai International Group Co., Ltd., Chairman of Shanghai International Group (Hong Kong) Co., Ltd., Chairman of Sailing Capital International Co., Ltd., Chairman of Sailing Capital International Investment Fund (Shanghai) Co., Ltd., Chairman of Shanghai Equity Exchange Co., Ltd., Chairman of Shanghai Technology Innovation Center Equity Investment Fund Management Co., Ltd., and Director of Guotai Junan Securities Limited.

Wang Zhe, male, born in 1960, MBA and Economist. He previously served as Deputy Head of PBC General Administration Department, Manager of Shenzhen Centre of China Gold Coin Incorporation, Deputy General Manager of China CITIC Bank Shenzhen Branch, Chairman of Dapeng Securities, Deputy General Manager of China Gold Coin Incorporation, General Manager, Party Committee Secretary and Chairman of Shanghai Gold Exchange and Party Committee Secretary of China Foreign Exchange Trade System. He currently works as Secretary General of Association of Shanghai internet Finance Industry and concurrently Vice Chairman of Shanghai Financial Association.

Qiao Wenjun, male, born in 1970, Master's degree. He previously served as Legal counsel to the package and decoration company of Shanghai light industry bureau and oversea Chinese affairs of Shanghai, Legal Counsel to the Overseas Chinese Affairs of Shanghai Mu, Lawyer of Shanghai International Economic Law Firm, Partner of Shanghai Pudong Law Office, Managing Partner of Shanghai Office of Zhong Lun Law Firm, and Deputy Chairman of Shanghai Bar Association. He is now executive director/partner of Zhong Lun Law Firm, legal advisor of Shanghai Municipal People's Government, arbitrator of Shanghai International Arbitration Center, member of the Managing Committee and arbitrator of Shanghai Arbitration Commission, specially engaged dean and professor of the Lawyers' School of East China University of Political Science and Law and Chairman of Pudong Legal Services Association.

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Zhang Ming, male, born in 1958, Doctorate degree and CPA. He previously served as Deputy Dean of School of Accountancy of Shanghai University of Finance and Economics. Currently, he is Dean, Professor, Tutor to PhD students, and Senior Researcher in the School of Accountancy of Shanghai University of Finance and Economics ("CUFE"). He concurrently works as Deputy Head of Shanghai Business Accounting Society as well as member of Accounting Society of China, Banking Accounting Society of China, Accounting Society of Shanghai and other academic institutions, and member of the Academic Council of Accounting Society of China.

Yuan Zhigang, male, born in 1958, Doctorate degree, Specially Engaged Professor of "Changjiang Scholars" launched by the Ministry of Education. He once served as Dean of School of Economics of Fudan University. He now serves as Professor and Doctorate Supervisor of School of Economics of Fudan University and also Director of Employment and Social Security Research Center of Fudan University, Director of the Academic Council of the Faculty of Economics and Management of East China Normal University, member of Discipline Review Group, Expert Member of Shanghai Education Decision Advisory Commission and Vice Chairman of Shanghai Macro-economist Association.

10.1.3.2 Supervisors

Sun Jianping, male, born in 1957, Doctorate degree in Management Science. He previously served as Director of the Secretariat and Chief of the Communications Division of the General Office of Shanghai Municipal People's Government, Deputy Director and Party Committee Member of Shanghai Municipal Information Office, Deputy Party Committee Secretary and Mayor of Songjiang District Government, Party Committee Secretary of Hongkou District Government and Party Committee Secretary of Jing'an District Government. He now serves as Chairman of SPD Bank Board of Supervisors.

Chen Zheng'an, male, born in 1963, Bachelor's degree. He previously served as Party Leadership Group member, Deputy Procurator General and Member of Procuratorial Committee of Shanghai Jing'an Procuratorate, Deputy Secretary of Party Working Committee, Director of Representative Office and Secretary of Party Working Committee of Shimenerlu Street of Shanghai Jing'an District, Party Leadership Group Secretary and Director of Shanghai Jing'an Real Estate Bureau, Deputy Mayor, Party Committee Standing Member and Head of the Organization Department of Shanghai Jinshan District and Deputy Secretary of CPC Shanghai Financial Working Committee. He currently works as Deputy Party Committee Secretary, Secretary of Party Discipline Committee, and Vice Chairman of the Board of Supervisors of SPD Bank.

Sun Wei, male, born in 1970, Master's degree. He previously served as Deputy General Manager of Shanghai Faiveley Transport Vehicle Equipment Co., Ltd., Manager of Industry Development Department of Shanghai Electric Group Company Limited, General Manager Assistant and Deputy General Manager of Shanghai Rail Traffic Equipment Co., Ltd., General Manager of Screen Door Engineering Company under Shanghai Rail Traffic Equipment Co., Ltd., Deputy Head and Head of Strategic Planning Department of Shanghai Electric (Group) Corp., and Head of Industry Development Department of Shanghai Electric Group Company Limited. He currently works as Vice President of Bailian Group Co., Ltd.

Chen Bichang, male, born in 1959, Master's degree and Professor-level Senior Engineer. He previously served as Director of Electronic Post Office of the State Post Bureau, Head and Deputy Party Committee Secretary of Shenzhen Post Office, Deputy Director General and Party Member of Guangdong Provincial Postal Administration, Party Committee Secretary and Director of Shandong Provincial Postal Administration, and Party Committee Secretary and General Manager of Shandong Post Company. He currently works as Party Committee Secretary and General Manager of China Post Group Corporation Shanghai Branch, General Manager of Shanghai Branch of China Postal Express & Logistics Co., Ltd., and General Manager of China Post Group Corporation in charge of Shanghai Municipal Delivery Business Department. Besides, he is also a standing member of the 15th Shanghai Municipal People's Congress, and a member of its Supervisory and Judicial Affairs Committee.

Li Qingfeng, male, born in 1971, Master's degree. He previously served as General Manager of Shanghai Jiuheng Futures Brokerage Limited, Chief Economist, Deputy General Manager and Deputy Secretary of General Party Branch of Shanghai Jiulian Group Limited. He currently works as Party Committee Secretary and General Manager of Shanghai Jiulian Group Limited and General Manager of Shanghai Petroleum Exchange.

Zhao Jiusu, male, born in 1954, Doctorate degree. He previously served as Lawyer of Coudert Brothers Law Firm, Partner of Clifford Chance Law Firm and Partner of Jones Day Law Firm Shanghai Representative Office, Partner of McDermott Will & Emery Law Firm and Senior Legal Counsel of MWE China Law Offices (strategic partner of MWE in China). He currently works as Senior Vice President and Chief Legal Officer of Yangtze River Storage Technology Co., Ltd.

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Chen Shimin, male, born in 1958, Doctorate degree and US Certified Management Accountant. He was a lecturer in a number of domestic and overseas universities, including Shanghai University of Finance and Economics, Hong Kong Lingnan University, Hong Kong Polytechnic University, Clarion University of Pennsylvania and Lafayette Campus of University of Louisiana. He also served as Professor of Accountancy, Sub-dean and MBA Director of China Europe International Business School. He now works as Professor of Accountancy and Director of Case Center at China Europe International Business School.

Wu Guoyuan, male, born in 1961, MBA and Senior Economist. He previously served as Director of Hongqiao Banking Department and Head of the Planning Department of Agricultural Bank of China Jiangyin Sub-branch, Head and Party Committee Secretary of SPD Bank Jiangyin Sub-branch, Head and Party Committee Secretary of SPD Bank Nanjing Branch, Chairman of SPD Liyang Community Bank, Chairman of SPD Bank Trade Union, and Chairman of SPDB International Holdings Limited. He currently works as Trade Union Chairman and Inspection Team Lead of the Party Committee of SPD Bank.

Geng Guangxin, male, born in 1961, MBA and Senior Economist. He previously served as Chief of Credit Section at PBC's Ju County Sub-branch, Deputy Chief of the Planning and Personnel Department of PBC's Central Sub-branch in Linyi, Director of PBC Rizhao Branch, Head and Party Committee Secretary of ICBC Rizhao Branch, Head and Party Committee Secretary of SPD Bank Ji'nan Branch, and Chairman of Zouping SPD Rural Bank. He now serves as Party Committee Secretary and General Manager of SPD Rural Bank Administration Center.

10.1.3.3 Senior Management members

Xu Haiyan, female, born in 1960, EMBA and Senior Economist. She previously served as the person in charge of preparation for building of China Investment Bank Ningbo Branch, Chief of the Planning Department of China Construction Bank Ningbo Branch, Party Committee Member and Deputy General Manager of SPD Bank Ningbo Branch, General Manager of Corporate Banking Department of SPD Bank, General Manager of Corporate and Investment Banking Headquarter of SPD Bank. She currently works as Party Committee Member and Vice President of SPD Bank.

Liu Yiyuan, male, born in 1964, Doctorate degree and Senior Economist. He previously served as Party Committee Member and Vice President of Bank of Communications Changchun Branch, Party Committee Secretary and Head of SPD Bank Changchun Branch, General Manager of Personal Banking Headquarter of SPD Bank, and General Manager of human resources department of SPD Bank. He currently works as Party Committee Member and Vice President of SPD Bank.

Wang Xinhao, male, born in 1967, Doctorate degree. He previously served as General Manager of the Asset Management Department, General Manager of the Customer Managers' Department and General Manager of the Corporate Banking Department of China Everest Bank Dalian Branch, Party Committee Member and Deputy Head, and then Party Committee Secretary and Head of SPD Bank Dalian Branch. He currently works as Party Committee Member and Vice President of SPD Bank, Chairman of SPDB International Holdings Limited, Party Committee Secretary and Chairman of SPDB Financial Leasing Co., Ltd., and Vice Chairman of SPD Silicon Valley Bank.

Cui Bingwen, male, born in 1969, Doctorate degree and Senior Economist. He previously acted as Deputy Head of Jinxi Sub-branch, Deputy Head (in charge) of Dongli sub-branch of ICBC Tianjin Branch, Head of the Human Resources Department, General Manager of the Corporate Banking Department, Party Committee Member, Head Assistant, Deputy Head, Party Committee Secretary and Head of SPD Bank Tianjin Branch, Party Committee Secretary and Head of SPD Bank Beijing Branch and concurrently General Manager of the Group Customer Department and General Manager of the Financial Markets Department (Beijing) of SPD Bank Head Office. He currently works as Party Committee Member and Vice President of SPD Bank.

Xie Wei, male, born in 1971, Master's degree and Senior Economist. He previously acted as Deputy Head of Jinshui Sub-branch of China Construction Bank (CCB) Zhengzhou Branch, General Manager of Corporate Banking Department of CCB Henan Branch, Party Committee Secretary and General Manager of CCB Xuchang Branch, General Manager of Development Management Department of Corporate and Investment Banking Headquarter of SPD Bank, Deputy General Manager of Corporate and Investment Banking Headquarter of SPD Bank and concurrently General Manager of Investment Banking Department, Development Management Department and Key Client Department, Party Committee Secretary and General Manager of SPD Bank Fuzhou Branch, General Manager of SPD Bank Treasury Headquarters, General Manager of SPD Bank Asset Management Department, and General Manager of SPD Bank Financial Market Department. He currently works as Party Committee Member, Vice President, Secretary of the Board, and Director of Financial Market Business (latter two of which are concurrent positions) of SPD Bank, and Chairman of AXA SPDB Investment Managers Co., Ltd.

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.2 Overview of Service in the Shareholders

Name	Name of shareholder	Current position
Fu Fan	Shanghai International Group Co., Ltd.	Deputy Party Committee Secretary, Director, President
Sun Wei	Bailian Group Co., Ltd.	Vice President
Chen Bichang	China Post Group Corporation Shanghai Branch	Party Committee Secretary, General Manager
	Shanghai Municipal Delivery Business Department of China Post Group Corporation	General Manager
Li Qingfeng	Shanghai Jiulian Group Limited	Party Committee Secretary, General Manager

10.3 Overview of Service in Other Entities

Name	Name of entity	Current position
Fu Fan	Shanghai International Group (Hong Kong) Co., Ltd.	Chairman
	Sailing Capital International Co., Ltd.	Chairman
	Sailing Capital International Investment Fund (Shanghai) Co., Ltd.	Chairman
	Shanghai Equity Exchange Co., Ltd.	Chairman
	Shanghai Technology Innovation Center Equity Investment Fund Management Co., Ltd.	Chairman
	Guotai Junan Securities	Director
Wang Zhe	Association of Shanghai internet Financial Industry	Secretary General
	China Everbright Bank Company Limited	External Supervisor
	Boill Healthcare Holdings Limited	Independent Director
Qiao Wenjun	Zhong Lun Law Firm	Partner
	Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.	Independent Director
Zhang Ming	Shanghai University of Finance and Economics	Professor
	Haitong Securities Co., Ltd.	Independent Director
	Shanghai Jinqiao Export Processing Zone Development Co., Ltd.	Independent Director
	Wuxi Commercial Mansion Corp., Ltd.	Independent Director
	Shanghai Shensi Enterprise Development Co., Ltd.	Director
Yuan Zhigang	Fudan University	Professor
	JIC Trust Co., Ltd.	Independent Director
	Bank of Shanghai Co., Ltd.	External Supervisor

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Name	Name of entity	Current position
Sun Wei	Shanghai Bailian Li' an Foods Co., Ltd.	Chairman
	Shanghai Baiji Foods Co., Ltd.	Chairman
	Changsha Bailian Baipai Business Management Co., Ltd.	Chairman
	Shanghai No.1 Pharmacy Co., Ltd.	Vice Chairman
	Shanghai Industrial Development Co., Ltd.	Vice Chairman
	Bailian Group Properties Co., Ltd.	Director
Chen Bichang	Shanghai Branch of China Postal Express & Logistics Co., Ltd.	General Manager
	Shanghai Postal Company	Legal Representative
	Shanghai Stamp, Coin and Card Exchange Co., Ltd.	Chairman, Legal Representative
	Shanghai Jieshiba Postal Delivery Company	Legal Representative
	Shanghai Post International Mail Order Co., Ltd.	Executive Director, Legal Representative
	Shanghai Orient Books and Newspapers Service Co., Ltd.	Chairman, Legal Representative
	Shanghai Post Real Estate Development Management Co., Ltd.	Chairman, Legal Representative
	Shanghai Post & Telecommunications Hotel	Legal Representative
	Shenzhen Bright Future Industry Co., Ltd.	Chairman, Chief Executive Officer
Li Qingfeng	Shanghai Petroleum Exchange	General Manager
Zhao Jiusu	Yangtze River Storage Technology Co., Ltd.	Senior Vice President and Chief Legal Officer
	Australia and New Zealand Bank (China) Company Limited (ANZ China)	Independent Director
	Yangtze Memory Technologies, Inc.	Director
Chen Shimin	China Europe International Business School	Professor of Accountancy and Director of Case Center
	Zhuhai Huafa Industrial Share Co., Ltd.	Independent Director
	Oriental Pearl New Media Co., Ltd.	Independent Director
	Sun.King Power Electronics Group Limited	Independent Director
	Lianchu Securities Co., Ltd.	Independent Director
	Shanghai Treasure House Cultural Development Co., Ltd.	Independent Director
	Anhui Huaheng Biotechnology Co., Ltd.	Independent Director
	Anxin Trust Co., Ltd.	Independent Director

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.4 Remuneration of Directors, Supervisors and Senior Management Members

Decision-making procedure for remunerations of Directors, Supervisors, and Senior Management members	Remunerations for Directors, Supervisors, and Senior Management members will be reviewed by the Remuneration and Appraisal Committee under the Board of Directors, be submitted to Board of Directors for approval, and be sent to the Shareholders' Meeting for deliberation and reporting.
Remuneration of Directors, Supervisors and Senior Management members	Directors, Supervisors, Senior Management members as leaders in state-owned enterprises will be included in the corresponding remuneration management system, and their remuneration will be appraised and decided as per the applicable provisions and by the competent department based on the assessment results. Other persons will be subject to the remuneration distribution plan of the Bank as approved by the Board of Directors and its Remuneration and Appraisal Committee.
Remunerations payable to Directors, Supervisors and Senior Management members	The appraisal for Directors, Supervisors and Senior Management members receiving remuneration has not completed, so the remunerations during the reporting period are not the remunerations to be distributed as approved in the appraisal.
Total remunerations actually received by all Directors, Supervisors and Senior Management members as at the end of the reporting period	The final competent department in charge of remunerations for Directors, Supervisors and Senior Management members is under confirmation, and the total remunerations paid by the Bank at present is RMB15,034.6 thousand (before-tax).

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.5 Changes in Directors, Supervisors and Senior Management Members

Date	Name	Change	Reason
14 March 2018	Tian Suning	Mr. Tian Suning resigned from the positions of Independent Director, member of the Strategy Committee, and member of the Remuneration and Appraisal Committee under the Board of Directors.	Personal reason
12 July 2018	Zhu Min	Ms. Zhu Min resigned from the positions of Director, member of the Audit Committee, and member of the Risk Management and Related Party Transactions Control Committee under the Board of Directors.	Job Transfer
27 August 2018	Sha Yuejia	Mr. Sha Yuejia resigned from the positions of Director, member of the Strategy Committee, and member of the Nomination Committee under the Board of Directors.	Retirement
28 September 2018	Dong Xin	Mr. Dong Xin was elected as Director of the Bank on the 2018 First Extraordinary Shareholders' Meeting, with his tenure consistent with that of the Sixth Board of Directors. His qualifications as Director are yet to be submitted to competent regulatory authorities.	Supplement of directors
28 September 2018	Xia Bing	Mr. Xia Bing was elected as Director of the Bank on the 2018 First Extraordinary Shareholders' Meeting, with his tenure consistent with that of the Sixth Board of Directors. His qualifications as Director are yet to be submitted to competent regulatory authorities.	Supplement of directors
30 October 2018	Hua Renchang	Mr. Hua Renchang resigned from the positions of Independent Director, Chairman of the Risk Management and Related Party Transactions Control Committee, member of the Nomination Committee, and member of the Remuneration and Appraisal Committee under the Board of Directors.	Expiration of his 6-year tenure as Independent Director of the Bank
16 November 2018	Chen Weizhong	Mr. Chen Weizhong resigned from the positions of Independent Director, Chairman of the Risk Management and Related Party Transactions Control Committee, and member of the Capital and Operation Management Committee under the Board of Directors.	Age reason
16 November 2018	Chen Shimin	Mr. Chen Shimin resigned from the positions of External Supervisor, Chairman of the Supervision Committee, and member of the Nomination Committee under the Board of Supervision. After his resignation, External Supervisors would account for less than one third of the total members of the Board of Supervisors. According related regulatory provisions, Mr. Chen would continue performing his duties until the new External Supervisor comes to office.	Expiration of his 6-year tenure as External Supervisor of the Bank

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

10.6 Information of Employees of the Parent Company and Main Subsidiaries

10.6.1 Information of employees

		Unit: Person
Total in-service employees of the parent company and main subsidiaries		55,692
Incl.: In-service employees of the parent company		53,019
In-service employees of main subsidiaries		2,673
Retired employees in the parent company and main subsidiaries		1,106
Disciplines of employees of the parent company		
Incl.: Senior Management members		330
Banking staff		50,287
Technical staff		2,402
Education level of employees in the parent company		
Incl.: Junior college and vocational school		11,103
Bachelor' s degree		33,762
Master' s degree and Doctorate degree		8,154

10.6.2. Remuneration policy

During the reporting period, the Bank actively advanced the building of an internationalized remuneration system and improved the remuneration mechanism for overseas institutions and persons sent to foreign countries. It advanced remuneration management of subsidiaries according to requirements for conglomeration development and continued to improve the incentive mechanism linking performance growth with professional post performance remuneration. The Bank intensified accountability management and effectively exerted the effect of restraining the deferred remuneration payment risks.

10.7 Level-to-level Administration of the Bank, and the Quantity and Regional Distribution of Branches at All Levels

The Bank implements a first-class legal entity system and adopts a mechanism of Head Office and branches. According to principles of economic efficiency and economic divisions and based on the layout of commercial banks across the nation, the Bank established branches and sub-branches in medium and large cities, and important central cities in coastal areas, the northeast, the central and west areas. As at the end of the reporting period, the Bank had a total of 1,693 branches and sub-branches, which are shown in detail in the following table:

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

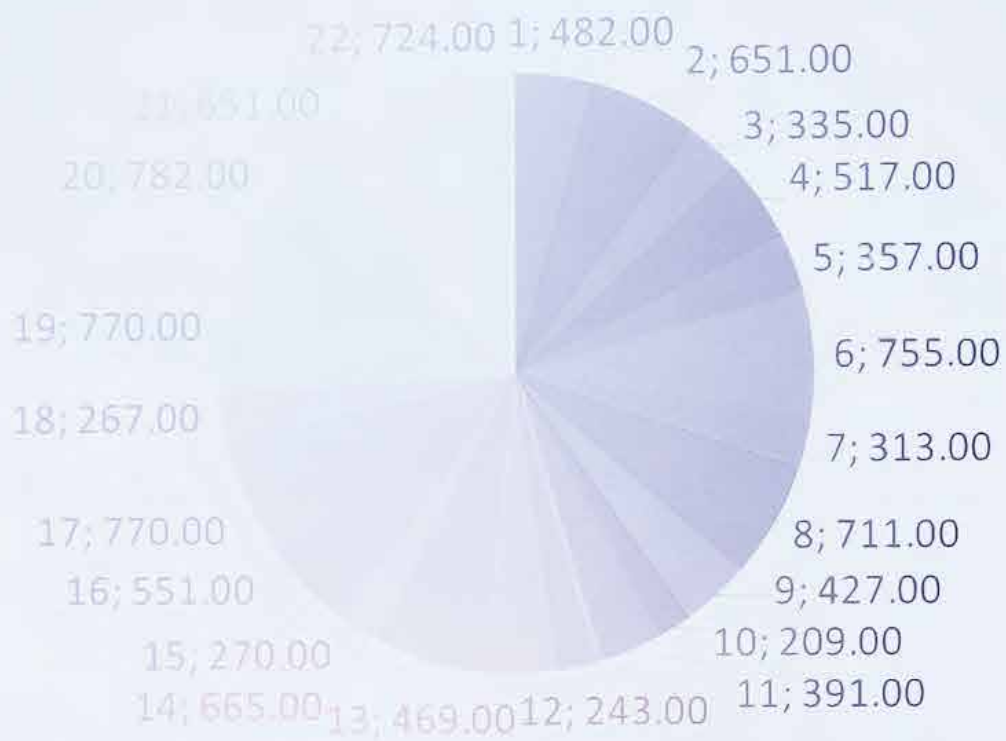
Region	Institution name	Address	Number of employees (Person)	Asset size (RMB million)	Number of organs under its jurisdiction
Head Office	Head Office	No.12, Zhongshan Dongyi Road, Shanghai	5,011	2,530,609	1,692
	Credit Card	SPD Bank Building, No.588 Pudong	11,124	425,589	–
Yangtze River Delta Region	Shanghai Branch	No.588 Pudong South Road, Shanghai	4,221	772,079	192
	Hangzhou Branch	No.129 Yan' an Road, Hangzhou	2,746	351,185	106
	Ningbo Branch	No.21 Jiangxia Street, Ningbo	1,342	102,208	39
	Nanjing Branch	No.90, Zhongshan East Road, Nanjing	2,816	295,140	97
	Suzhou Branch	No.718, Zhongyuan Road, Industrial Park, Suzhou	862	106,481	32
	Shanghai Free Trade Zone Branch	Floor 22, SPD Bank Building, No.588 Pudong South Road, Shanghai	25	34,843	–
Pearl River Delta and West Side of Taiwan Straits	Guangzhou Branch	No.12, Zhujiang West Road, Tianhe District, Guangzhou	1,665	202,987	56
	Shenzhen Branch	International Commerce Center, Fuhua Third Road, Futian District, Shenzhen	1,298	216,521	45
	Fuzhou Branch	No.222, Hudong Road, Fuzhou	709	50,997	71
	Xiamen Branch	No.666–1 Xiahe Road, Xiamen	263	13,520	15
Bohai Rim	Beijing Branch	No.18, Taipingqiao Avenue, Xicheng District, Beijing	1,626	414,963	72
	Tianjin Branch	Block D, No.9+ Binshui Avenue, Hexi District, Tianjin	1,315	147,874	44
	Ji' nan Branch	No.139, Heihuquan West Road, Ji' nan	1,324	83,320	66
	Qingdao Branch	No.188 Haier Road, Laoshan District, Qingdao	726	54,096	33
	Shijiazhuang Branch	101 Fangbei Shopping Mall, Yuhua East Road No.133, Chang' an District, Shijiazhuang	733	50,725	35
Central Region	Zhengzhou Branch	No.299, Jinshui Road, Zhengzhou	1,919	184,326	84
	Wuhan Branch	No.218 Xinhua Road, Jiangnan District, Wuhan	837	74,809	41
	Taiyuan Branch	No.5, Qingnian Road, Taiyuan	769	61,415	54
	Changsha Branch	No.102, Chazishan East Road, Binjiang New Town, Changsha, Hunan	932	64,754	57
	Nanchang Branch	No.1402, Hongguzhong Avenue, Nanchang	636	46,148	36
	Hefei Branch	No.2608 Hangzhou Road, Binhu New Area, Hefei	1,025	105,026	35
	Haikou Branch	No.26, Yusha Road, Haikou	198	13,877	8

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Region	Institution name	Address	Number of employees (Person)	Asset size (RMB million)	Number of organs under its jurisdiction
Western China	Chongqing Branch	No.78, Star Avenue, High-tech Park, Northern New District, Chongqing	676	55,344	26
	Kunming Branch	No.156, Dongfeng West Road, Kunming	704	43,075	40
	Chengdu Branch	No.22 East II Section, 2nd Ring Road, Chenghua District, Chengdu	705	99,921	29
	Xi' an Branch	No.6 Jinye Road, High-tech Zone, Xi' an	886	79,869	52
	Nanning Branch	No.22, Jinpu Road, Nanning	542	50,667	28
	Urumqi Branch	No.379, Xinhua South Road, Urumqi	404	30,346	21
	Hohhot Branch	Block B Dongfang Junzuo, No.18 Chilechuan Street, Hohhot	570	32,947	28
	Lanzhou Branch	No.101, Guangchang South Road, Lanzhou	479	40,987	31
	Guiyang Branch	East Tower 4, Eastern Zone, Financial Business District, Part B of Zhongtian Exhibition Town, Guanshanhu District, Guiyang, Guizhou	341	31,500	20
	Xining Branch	Yanan Building, 1-7 No.1 Weiibo Lane, Chengxi District, Xining	207	15,186	9
	Yinchuan Branch	No.51, Xinhua East Street, Xingqing District, Yinchuan	156	9,292	5
	Lhasa Branch	No.1 Commerce Building, Beijingzhong Road No.48, Chengguan District, Lhasa	106	6,197	1
North-east China	Dalian Branch	No.45, Huizhan Road, Shahekou District, Dalian	936	70,887	60
	Shenyang Branch	No.326 Fengtian Street, Shenhe District, Shenyang	745	44,385	28
	Harbin Branch	No.226, Hongqi Street, Nangang District, Harbin	653	61,774	32
	Changchun Branch	No.3518, Renmin Street, Changchun	487	35,534	23
Overseas	Hong Kong Branch	15th Floor, Bank of America Tower, No.12 Harcourt Road, Central Hong Kong	215	146,448	-
	Singapore Branch	12 Marina Boulevard, #34-01, MBFC Tower 3, Singapore	51	17,689	-
	London Branch	19th floor, 1 Angel Court London, EC2R 7HJ	34	4,857	-
Aggregate adjustment				-1,097,529	-
Total			53,019	6,182,868	1,693

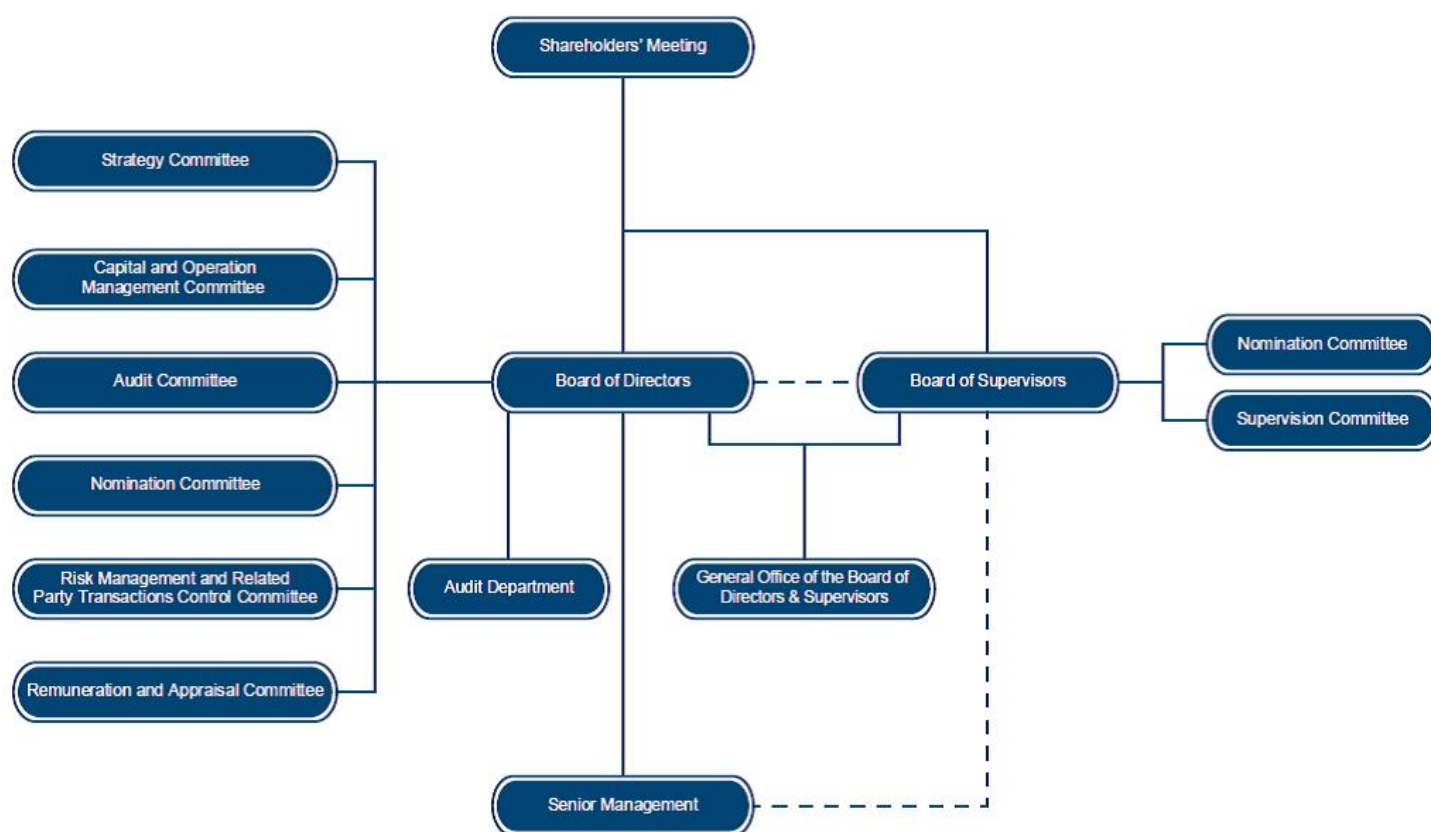
Note: The total number of employees, total assets and total number of institutions under the jurisdiction do not include that of the holding subsidiaries.

Section XI
Corporate Governance



\$500.00
\$116.00
\$175.00
\$108.00
\$188.00
\$290.00
\$194.00
\$235.00





11.1 Basic Situation of Corporate Governance

During the reporting period, the Bank further improved the corporate governance structure, guaranteed the Party could play its role as the core leader, defined the responsibility boundaries of all subjects of the corporate governance to realize the equalization and maximization of interests of all stakeholders, thus protecting interests of depositors, winning returns for shareholders, creating values for the society, and striving to build itself into a modern financial service provider with adequate capital, strict internal control, safe operation, good benefits and core competitive edge. With all these efforts, it put customers at the core, capitalized on the driving role of technology, tried to develop into a top-notch bank operated as a digital ecology, and strove to realize sustainable, high-quality development at a faster pace.

In the Articles of Association that CBIRC verified and approved on 27 August 2018, the Bank made it clear that Party organization shall play its leading role as a direction-setter and supervisor in corporate governance.

11.1.1 Shareholders and Shareholders' Meeting

The Bank convoked and convened shareholders' meetings according to provisions in the Articles of Association of the Bank and the Rules of Procedures of Shareholders' Meeting. In 2018, the Bank held one shareholders' meeting and one extraordinary shareholder's meeting, passed 11 resolutions, and listened to three reports, ensuring that shareholders had rights to know, participate in and vote for major matters of the Bank, and that all shareholders enjoyed equal status and all shareholders could fully exercise their own rights.

11.1.2 Directors and Board of Directors

As at the end of the reporting period, the Sixth Board of Directors of the Bank had 10 Directors, including three Executive Directors, three Non-Executive Directors and four Independent Directors. All the Independent Directors are influential professionals in law, economics, finance, accounting, technology and other fields. During the reporting period, the Board of Directors held 13 meetings, including 3 onsite meetings and 10 meetings via written resolutions. On these meetings, 71 resolutions were passed and 28 special reports were reviewed. The six special committees convened 21 meetings. Of these, the Strategy Committee held one meeting, the Capital and Operation Management Committee held two meetings, the Risk Management and Related Party Transactions Control Committee held eight meetings, the Audit Committee held six meetings, the Nomination Committee held two meetings, and the Remuneration and Appraisal Committee

Corporate Governance

held two meetings. A total of 52 resolutions were made on these meetings. The Bank's Directors leveraged on their extensive knowledge, experience and professional ethics to make a lot of efforts in determining the Bank's operation and development strategies, appointing Senior Management members, formulating the Bank's annual financial budget plan, and profit distribution plan, improving bank risk management, internal control, and capital adequacy management, and supervising effective performance of the Senior Management and the completeness and accuracy of financial report of the Bank, thus promoting that the Bank obeys laws, regulations, rules and effectively protecting the legitimate interests of the shareholders, paying close attention to and protecting the benefits of depositors and other stakeholders and effectively performing the trusteeship.

11.1.3 Supervisors and the Board of Supervisors

As at the end of the reporting period, the Sixth Board of Supervisors of the Bank had nine supervisors, including three Shareholder Supervisors, three External Supervisors and three Employee Supervisors. The Board of Supervisors has set up the Nomination Committee and the Supervision Committee.

The supervisors of the Bank diligently and dutifully brought the role of the Board of Supervisors in supervising the implementation of operational decisions and strategic plans as well as the duty performance in accounting, compliance, risk management, internal control, fraud prevention of Directors and Senior Management members. During the reporting period, the Board of Supervisors held 13 meetings, including three onsite meetings and ten meetings with voting through communication means. A total of 72 resolutions were passed; the special committees under the Board of Supervisors held five meetings, among which the Nomination Committee held two meetings and the Supervision Committee held three meetings. Eight resolutions were passed.

11.1.4 Senior Management

As at the end of the reporting period, the Bank's Senior Management had one President and six Vice Presidents (two of which concurrently serving as CFO and Secretary of the Board of Directors, respectively). Under the leadership of the Board of Directors, the Senior Management of the Bank observed the principle of good faith and prudently exercised its duties within its range of authority. The Senior Management vigorously acted on the core messages convened on the 19th CPC National Congress and the National Financial Work Meeting, and helped to promote the development of real economy, prevention and control of financial risks, and advancement of financial reform; it actively implemented the macro regulation policy of the state, closely grasped the favorable opportunity of economic development mode transformation, carefully implemented the requirements of regulators, strove to cope with the complicated and changeable economic trend both at home and abroad, and worked hard to develop into a top-notch bank operated as a digital ecology by practicing the customer-focused principle and capitalizing on the driving role of technology; it intensified innovation driving, accelerated the transformation and development, optimized the business structure, and enhanced the income level, ensuring the operations of the Bank could be in line with the development strategies, risk appetite, various policies, procedures and processes as approved by the Board of Directors; and it completed the operating plans and tasks assigned by the Board of Directors, hence further lifting the competitiveness, social influence, and corporate unity of the Bank as a whole. The Bank's Senior Management has established the Asset and Liabilities Management Committee, the Sales Promotion Committee, the Risk Management Committee and the Information-based Development Committee under it.

11.1.5 Information disclosure and transparency

The Bank truly, accurately, completely and timely disclosed relevant information in strict accordance with laws, regulations, Articles of Association of the Bank and information disclosure system of the Bank and ensured that all shareholders have equal opportunity to acquire such information. During the reporting period, the Bank completed four times of disclosure by regular report, 54 times of disclosure by temporary announcement, and made timely announcements for resolutions passed on "three meetings" of the Bank and major matters such as the implementation of profit distribution and distribution of dividend for preference shares. On 6 January 2019, the Bank disclosed 2018 Preliminary Earnings Estimate, which helped the public including shareholders understand the operation and financial status of the Bank in 2018 on a timely basis. This is the 14th consecutive year for the Bank to disclose the Preliminary Earnings Estimate in the first week of a year on both Shanghai and Shenzhen stock markets.

11.2 Brief Introduction to Shareholders' Meeting

During the reporting period, the Bank held one annual shareholders' meeting and one extraordinary shareholders' meeting.

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Shareholders' meeting of the Bank for 2017 was held in Shanghai on 28 May 2018. 168 shareholders and authorized proxies (including those participating in online voting) were present, holding 15,530,188,987 voting shares, accounting for 52.91% of total voting shares of the Bank. Based on the joint voting via onsite registered ballot and online voting, the meeting reviewed and approved seven resolutions and debriefed three reports.

The first Extraordinary Shareholders' Meeting of the Bank for 2018 was held in Shanghai on 28 September 2018. 63 shareholders and authorized proxies (including those participating in online voting) were present, holding 15,537,297,111 voting shares, accounting for 52.93% of total voting shares of the Bank. Based on the joint voting via onsite registered ballot and online voting, the meeting reviewed and approved four resolutions.

Number of session	Date	Query index of the website designated for publishing the decision	Disclosure date for publishing the decision
Annual Shareholders' Meeting of 2017	28 May 2018	http://www.sse.com.cn	29 May 2018
First Extraordinary Shareholders' Meeting of 2018	28 September 2018	http://www.sse.com.cn	29 September 2018

11.3 Performance of Duties by Directors

11.3.1 Attendance of Directors at Board meetings

Director name	Independent Director Y/N	Overview of attendance at Board meetings						Number of attendance times at shareholders' meetings
		Number of attendance times at board meetings	Number of attendance times in person	Number of attendance times via communication means	Number of attendance times by proxy	Number of absence times	No attendance in person for two consecutive times Y/N	
Gao Guofu	No	13	13	10	-	-	No	2
Liu Xinyi	No	13	13	10	-	-	No	2
Pan Weidong	No	13	13	10	-	-	No	1
Fu Fan	No	13	12	10	1	-	No	1
Gu Jianzhong	No	13	12	10	1	-	No	-
Sha Yuejia	No	7	7	6	-	-	No	-
Zhu Min	No	6	4	4	2	-	Yes	-
Dong Xiuming	No	13	10	10	3	-	Yes	-
Hua Renchang	Yes	9	9	6	-	-	No	-
Wang Zhe	Yes	13	13	10	-	-	No	1
Tian Suning	Yes	2	2	2	-	-	No	-
Qiao Wenjun	Yes	13	12	10	1	-	No	1
Zhang Ming	Yes	13	13	10	-	-	No	1
Yuan Zhigang	Yes	13	13	10	-	-	No	1
Chen Weizhong	Yes	9	9	6	-	-	No	-

Corporate Governance

Number of Board meetings held in the year	13
Incl.: Number of onsite meetings	3
Number of meetings held via communication means	10
Number of meetings held onsite with attendance via communication means	

11.3.2 Objection raised by Independent Directors against relevant matters of the Bank

During the reporting period, the Independent Directors of the Bank did not raise objection against any proposal on Board meetings in the year.

11.3.3 Performance of duties by Independent Directors

As at the end of the reporting period, the Board of Directors of the Bank had four Independent Directors, which constituted more than one third of the members of the Board of Directors. The Risk Management and Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Appraisal Committee and the Audit Committee of the Board of Directors were all chaired by independent directors. Independent directors were accounting, financial and legal professionals who were highly acclaimed at home and abroad. In 2018, the Board of Directors held 13 meetings, and the rate of attendance of independent directors in person reached 99%. The special committees of the Board of Directors held 21 meetings, and the number of independent directors accounted for more than half of the members of the special committees, who played a great role; one independent Board meeting was held, with one resolution passed, and the independent directors expressed 10 special independent opinions. With the attitude of being responsible for all shareholders, all these Independent Directors carefully performed their duties of good-faith and diligence, which protected the overall interests of the Bank and the legitimate interests of minority shareholders from being impaired, and exerted positive role for scientific decision making by the Board of Directors.

11.3.4 Independent opinions of the Independent Directors about external guarantees

According to relevant provisions and requirements in the CSRC Zh.J.F. [2003] No.56, and with the attitude of justice, fairness and objectiveness, the independent directors examined the Group's external guarantees. As at 31 December 2018, the Group's all external guarantee businesses were approved by PBC and CBRC, and the external guarantee business was one of its normal businesses, and the Articles of Association of the Bank clearly defines the approval authority, specific management measures, operating flow and approval procedure based on the risk features of the guarantee business, thus effectively controlling risks of such business.

All external guarantees of the Bank are of normal off-balance sheet business, and the condition of off-balance-sheet liabilities is as follows:

Item	In RMB millions	
	31 December 2018	31 December 2017
Banker's acceptance draft	419,815	396,414
Acceptance draft under L/C	147,587	144,602
Letters of guarantee issued	101,003	121,346
Letters of credit issued	13,533	14,143
Credit card and other commitments	351,725	269,748

The Group made no special guarantee to related parties. During the reporting period, it prudently implemented regulations of Zh.J.H. [2003] No.56 Document and made no guarantee violating laws or regulations.

Corporate Governance

11.4 Duty Performance of the Special Committees of the Board of Directors

The Board of Directors of the Bank has established six special committees, namely, the Strategy Committee, the Capital and Operation Management Committee, the Audit Committee, the Nomination Committee, the Risk Management and Related Party Transactions Control Committee and the Remuneration and Appraisal Committee.

11.4.1 Strategy Committee

As at the end of the reporting period, the Strategy Committee of the Bank consisted of five directors, including Mr. Gao Guofu (Chairman), Mr. Liu Xinyi, Mr. Pan Weidong, Mr. Fu Fan, and Mr. Yuan Zhigang.

During the reporting period, the Strategy Committee held one meeting and considered the Proposal on Revising the Strategic Planning Management Measures, and the Proposal Concerning the Assessment Report on the Implementation of 2016–2020 Mid-term Strategic Development Plan.

11.4.2 Capital and Operation Management Committee

As at the end of the reporting period, the Capital and Operation Management Committee of the Bank consisted of five directors, including Mr. Liu Xinyi (Chairman), Mr. Pan Weidong, Mr. Gu Jianzhong, Mr. Dong Xiuming, and Mr. Zhang Ming. During the reporting period, the Capital and Operation Management Committee convened two meetings, considered eight proposals including the Proposal on Issuing the Capital Bonds without Fixed Terms and Related Authorization, the Proposal for Extending the Validity Period of the Resolution and Authorization Made at the Shareholders' Meeting Concerning the Issue of Convertible Corporate Bonds, the Proposal for Extending the Validity of Authorization to Issue Financial Bonds, the Proposal on Adjusting the Plan for Establishment of Asset Management Subsidiaries, the Proposal on Storage and Actual Use of Proceeds from Fundraising Activities in 2017, and the Proposal on the 2017 Corporate Social Responsibility Report, and listened to two reports including the Summary Report on the Development of New-generation Information System.

11.4.3 Audit Committee

As at the end of the reporting period, the Audit Committee of the Bank consisted of four directors, including Mr. Zhang Ming (Chairman), Mr. Gu Jianzhong, Mr. Qiao Wenjun and Mr. Yuan Zhigang.

During the reporting period, the Audit Committee convened six meetings, considered 16 proposals which included the Proposal on the 2017 Annual Report and Its Abstract, the Proposal on the 2017 Final Accounts and 2018 Financial Budget, the Proposal on 2017 Profit Distribution, the Proposal on Re-engagement of Accounting Firm in 2018, the Proposal on the Audit System Reform Plan, the Proposal on 2018 Q1 Report, the Proposal on 2018 Interim Report and Its Abstract, the Proposal on 2018 Q3 Report, the Proposal on the Matters Relating to the Appointment of Accounting Firm for 2019, and the Proposal on Revising the Administrative Measures for Information Disclosure Affairs, and listened to seven reports including the Report on the Bank Operation in 2017, the Report on 2017 Final Accounts and 2018 Financial Budget, the Internal Control Evaluation Report for 2017, and the Report on Internal Audit Work for the First Half of 2018.

11.4.4 Nomination Committee

As at the end of reporting period, the Nomination Committee consisted of four directors, including Mr. Yuan Zhigang (Chairman), Mr. Gao Guofu, Mr. Liu Xinyi, and Mr. Wang Zhe.

During the reporting period, the Nomination Committee held two meetings, and considered the Proposal on Nominating Director Candidates and the Proposal on Appointment of Chief Audit Officer.

11.4.5 Risk Management and Related Party Transactions Control Committee

As at the end of the reporting period, the Risk Management and Related Party Transactions Control Committee consisted of three Directors, including Mr. Fu Fan, Mr. Wang Zhe, and Mr. Qiao Wenjun.

During the reporting period, the Risk Management and Related Party Transactions Control Committee convened eight meetings, considered 17 proposals which included the Proposal on Write-off of Asset Losses, the Proposal on Annual Credit Scheme for Major Investee Enterprises, the Proposal on Related-party Transactions in 2017, the Proposal on Determining Related Legal and Natural Persons in 2018, the Proposal on Annual Review and Adjustment of Risk Appetite

Corporate Governance

for 2016–2018, the Proposal on Authorization for the Write-off of Asset Losses in 2018, the Proposal on Revising the Code of Conduct for Employees, the Proposal on Adding More Annual Write-off Authorization to the Senior Management, and the Proposal on Exempting Related-party Transactions from Review and Information Disclosure, and listened to 19 reports which included the Report on Implementing Corrective Measures as per CBRC's Regulatory Circular for 2017, the Report on the Write-off of Asset Losses in 2017, the Comprehensive Risk Management Report for 2017, the Risk Appetite Implementation Report for 2017, the Report on Consolidated Risk Management for 2017, the Local and Foreign Currency-denominated Liquidity Stress Test Report for 2017, the Compliance Risk Management Report for 2017, the 2017 CBRC Series Special Governance Work Evaluation Report, the Accountability Work Report for 2017, and the Report on Rectification of Chengdu Branch Risk Incident.

11.4.6 Remuneration and Appraisal Committee

As at the end of the reporting period, the Remuneration and Appraisal Committee consisted of four directors, including Mr. Wang Zhe (Chairman), Mr. Gu Jianzhong, Mr. Dong Xiuming, and Mr. Yuan Zhigang.

During the reporting period, the Remuneration and Appraisal Committee held two meetings and considered seven proposals including the Proposal on the Duty Performance Appraisal Report of Directors in 2017, the Proposal on Remuneration of Senior Management Members in 2017, the Proposal on the Remuneration System Reform, and the Proposal on Appraisal Objective and Responsibility Statement for Senior Management Members (Professional Managers) in 2018.

11.5 Duty Performance of Supervisors

As at the end of the reporting period, the Sixth Board of Supervisors of the Bank had nine supervisors, including three Shareholder Supervisors, three Employee Supervisors and three External Supervisors (including Chairman of the Board of Supervisors).

During the reporting period, the supervisors of the Bank diligently and dutifully performed its supervisory responsibilities as per the provisions of the applicable laws, regulations, rules and the Articles of Association, by supervising the duty performance of the Board of Directors and the Senior Management in terms of accounting, risk management, compliance, internal control and other aspects, building up the corporate governance system constantly, and striving to promote the Bank towards healthy, sustainable development.

During the reporting period, the Board of Supervisors held 13 meetings, adopted 72 resolutions of all sorts, and reviewed 27 special reports. The special committees to the Board of Supervisors convened five meetings and approved eight proposals after consideration. The rate of attendance of supervisors in person reached 95.73%. All supervisors considered and reviewed all proposals and reports in earnest, and voiced their opinions and suggestions on these proposals.

During the reporting period, the Board of Supervisors convened 40 special meetings, visited nine tier-one branches, nine tier-two branches and one domestic subsidiary in seven provinces (autonomous regions and municipalities directly under the central government), three overseas institutions, and 11 business segments (departments) of the Head Office for research, surveying and inspection. Thanks to these visits, it kept abreast of state strategies, regulatory requirements, corporate strategies/plans, annual operational tasks, and requirements for risk internal control and management, timely identified the challenges, problems and deficiencies existing in operating entities, and fed back these findings to the Board of Directors and the Senior Management through appropriate methods.

During the reporting period, the Board of Supervisors intensified the supervision of how the Board of Directors, the Senior Management and its members performed their duties, supervised how the Board of Directors and the Senior Management made major operational and management decisions and got them implemented by participating in as non-voting attendees the meetings the Party Committee, the meetings of the Board of Directors, and the Presidents' executive meetings, focused its attention on whether the decision-making process conformed to related norms, and checked whether Directors performed duties diligently, attended meetings in person, and voiced opinions independently. Besides, it made special efforts to oversee and inspect how priority tasks were conducted in the year, and listened to the reports on the fulfillment of annual work by eight business segments and departments (corporate banking, retail banking, financial market, risk, operation, legal compliance, information technology, and disciplinary inspection), thus providing basis for the annual duty performance appraisal.

Corporate Governance

During the reporting period, the Board of Supervisors oversaw the operating results and financial position of the Bank, organized special inspections and supervisory activities, and focused attention on the major financial decisions, activities incurring financial income and expense, and control of financial risks. At the same time, it earnestly considered the proposals and reports on the regular reports, annual final accounts and financial budget, and annual profit distribution plan, and issued review opinions, conducted special inspections/supervisory activities to check how investment management plans and financial budgets were executed, and made dedicated efforts to examine how the Bank implemented the opinions on reply to final accounts in 2017.

During the reporting period, the Board of Supervisors carried out its supervisory inspections in such key fields as regulatory priorities, risk management and compliance-related internal control. It attached great importance to comprehensive risk management. Specifically, it circulated the results of regulatory inspections conducted by CBIRC, intensified the supervision of how financial market disorders were cracked down, and assessed the rectification efforts made based on the regulatory opinions for 2015–2016; it continued to track the rectification efforts based on the post evaluation results after risk internal control, evaluated the implementation of the asset loss write-off management measures, paid close attention to the establishment and improvement of the bank-wide internal control system, strengthened the supervision of compliance-related internal control, AML, and internal audit, and fully leveraged on the supervisory synergy of compliance and audit forces.

11.6 Duty Performance of the Special Committees of the Board of Supervisors

The Board of Supervisors of the Bank has established the Nomination Committee and the Supervision Committee.

Nomination Committee

As at the end of reporting period, the Nomination Committee consisted of five Supervisors, including Mr. Zhao Jiusu (Chairman), Mr. Sun Jianping, Mr. Chen Bichang, Mr. Chen Shimin and Mr. Geng Guangxin.

During the reporting period, the Nomination Committee held two meetings, and considered four proposals including the Assessment Report on Duty Performance by Directors in 2017, the Assessment Report on Duty Performance by Supervisors in 2017, the Assessment Report on Duty Performance by Senior Management Members in 2017, and the Proposal on Appraisal Objective and Responsibility Statement for Senior Management Members (Professional Managers) in 2018.

11.6.2 Supervision Committee

As at the end of reporting period, the Supervision Committee consisted of five supervisors, including Mr. Chen Shimin (Chairman), Mr. Sun Jianping, Mr. Chen Zheng'an, Mr. Sun Wei, and Mr. Zhao Jiusu.

During the reporting period, the Supervision Committee convened three meetings, and considered four proposals including the Proposal Concerning the Report on Analysis of Strategy Implementation in 2017, the Proposal Concerning the Report on the Rectification Based on the Post Evaluation Results after Risk Internal Control in 2016, the Report on Rectification Efforts Made Based on the Regulatory Opinions for 2015–2016, and the Supervision Evaluation Report for 2017.

11.7 Independence of the Bank from the Controlling Shareholders in Terms of Business, Personnel, Assets, Organization and Finance

The Bank has no controlling shareholder. The largest consolidated shareholder of the Bank was Shanghai International Group Co., Ltd. Shanghai International Group Co., Ltd. and its controlling subsidiaries held 29.67% shares of the Bank on a consolidated basis. Shanghai International Group Co., Ltd. and the Bank were totally independent in assets, personnel, finance, organization and business. Important decisions of the Bank were made and implemented by the Bank independently, and large shareholders did not occupy funds of the Bank by any means or require the Bank to provide guarantee for others.

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	Independent and integral or not	Description	Influence on the Bank	Improvement measures
Business independence and integrity	Yes	The Bank runs business independently and features a complete business structure.	—	—
Personnel independence and integrity	Yes	The Bank remains independent in terms of labor, personnel, salary management, and other aspects. President, Vice Presidents, Secretary of the Board of Directors, CFO, and other Senior Management members all are paid by the Bank. None of them receives salaries from the largest shareholder unit.	—	—
Asset independence and integrity	Yes	The Bank possesses the independent premise and supporting facilities.	—	—
Institutional independence and integrity	Yes	The Bank sets up the comprehensive organizational structure. The Board of Directors, the Board of Supervisors, functional departments and other bodies can operate independently, none of which is affiliated to any functional departments of the largest shareholder.	—	—
Financial independence and integrity	Yes	The Bank has its independent financial department, and follows the independent accounting system and financial management policies.	—	—

11.8 Establishment and Implementation of Performance Appraisal and Incentive Mechanisms for Senior Management Members during the Reporting Period

In 2018, the Bank proceeded from its actual conditions, and continued to act on the requirements set out in the Work Plan on the Pilot Remuneration System Reform for Professional Managers at State-owned Enterprises of Shanghai Municipal Government. During the reporting period, while implementing the performance assessment and remuneration system for professional managers, the Bank further revised and refined its performance assessment and remuneration distribution plan for other managerial personnel, and got related systems and programs adopted by the Board of Directors and put into operation formally.

11.9 Internal Control Self-appraisal Report

The Bank prepared the 2018 Internal Control Appraisal Report and disclosed it on SSE' s website www.sse.com.cn. Based on the identification of material deficiencies in the internal control over financial reporting of the Bank, the Bank' s internal control over financial reporting contained no material deficiencies as at the base date of internal control appraisal report. In the opinions of the Board of Directors, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the requirements of Enterprise Internal Control Regulations and relevant regulations. Based on the identification of materials deficiencies in the internal control over non-financial reporting, the Bank' s internal control over non-financial reporting contained no material deficiencies as at the base date of internal control appraisal report.

11.10 Relevant Information about Internal Control Audit Report

The Bank prepared and disclosed the Report on the Internal Control Appraisal in 2018. PricewaterhouseCoopers China LLP audited the effectiveness of the internal control over financial reporting of the Bank as of 31 December 2018, and issued the Internal Control Audit Report. Full text of the above report has been published on SSE' s website www.sse.com.cn.

11.11 Investor Relations Management

During the reporting period, the Bank employed various means to actively implement policies and requirements for investor relations management, continuously improved the major information reporting system and joint information disclosure policies for different markets, proactively made information disclosure with related standards and quality enhanced constantly, and continued to actively disclose important information that was in the center of investors' attention, so as to ensure that all investors could timely, accurately and equally obtain the public information about the Bank. In the meantime, the Bank conducted investor relations management in a legal and compliant manner, actively answered to investors'

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surveys and communicated with them properly, continuously expanded ways to communicate with small and medium-sized investors, intensified the promotion and publicity efforts targeted at domestic and foreign investors, and built a corporate culture that aimed to serve and respect investors.

In 2018, the Bank received 55 visits from domestic and overseas investment banks, funds, shareholders and rating agencies, and conducted face-to-face or teleconference communication with about 310 institutional investors. Of these, 20 visits were made by institutional visitors in more-than-five-person delegations. At the same time, it also took part in 18 strategic meetings convened by domestic and overseas institutions, and held talks with about 250 institutional investors to brief them on the overview and highlights of SPD Bank. Throughout the year, the Bank answered 550 calls made by investors, and replied over 80 online messages. Besides, it also convened the Online Performance Review Meeting for 2017 and 2018 Q1 at which Senior Management members and related departmental heads were present to make communication and exchange views.

11.12 Index for Information Disclosure

During the reporting period, the Bank disclosed the following information on journals designated by CSRC including China Securities Journal, Shanghai Securities News and Securities Times, and the SSE website (www.sse.com.cn):

Items	Date of publication
Announcement of the Bank on the resolutions in the 37th Session of the Sixth Board of Supervisors	29-Dec.-18
Announcement of the Bank on the resolutions in the 38th Session of the Sixth Board of Directors	29-Dec.-18
Announcement of the Bank on remuneration for Senior Management members in 2017	28-Dec.-18
Reply of CBIRC on Consent with Issuance of A-share Convertible Corporate Bonds by SPD Bank	20-Dec.-18
Announcement of the Bank on the resolutions in the 37th Session of the Sixth Board of Directors	8-Dec.-18
Announcement of the Bank on the resolutions in the 36th Session of the Sixth Board of Supervisors	8-Dec.-18
Independent opinions of independent directors	8-Dec.-18
Announcement of the Bank on distribution of phase I dividend of preference shares	23-Nov.-18
Announcement of the Bank on the resolutions in the 35th Session of the Sixth Board of Supervisors	20-Nov.-18
Announcement of the Bank on the resolutions in the 36th Session of the Sixth Board of Directors	20-Nov.-18
Announcement of Bank on the resignation of External Supervisors	17-Nov.-18
Announcement of the Bank on the resignation of Independent Directors	17-Nov.-18
Announcement of the Bank on the resignation of Independent Directors	31-Oct.-18
2018 Q3 report of the Bank	31-Oct.-18
Announcement of the Bank on the resolutions in the 35th Session of the sixth Board of Directors	31-Oct.-18
Announcement of the Bank on the resolutions in the 34th Session of the Sixth Board of Supervisors	31-Oct.-18
Legal opinions of the Bank for the 2018 First Extraordinary Shareholders' Meeting	29-Sep.-18
Announcement of the Bank on the resolutions made on the 2018 First Extraordinary Shareholders' Meeting	29-Sep.-18
Announcement of the Bank on the completion of issuance of phase II tier-two capital bonds in 2018	20-Sep.-18
Materials of the Bank for the 2018 First Extraordinary Shareholders' Meeting	20-Sep.-18
Notice on Convening the 2018 First Extraordinary Shareholders' Meeting	12-Sep.-18
Announcement of the Bank on the completion of issuance of phase I tier-two capital bonds in 2018	8-Sep.-18
2018 Interim Report	30-Aug.-18

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Items	Date of publication
Abstract of 2018 Interim Report	30-Aug.-18
Articles of Association	30-Aug.-18
Announcement of the Bank on the resolutions in the 33rd Session of the Sixth Board of Supervisors	30-Aug.-18
Announcement of the Bank on extending the validity period of the resolution and authorization made at the shareholders' meeting concerning the issue of convertible corporate bonds	30-Aug.-18
Announcement of the Bank on the revised Articles of Association approved by CBIRC	30-Aug.-18
Announcement of the Bank on the resolutions in the 34th Session of the Sixth Board of Directors	30-Aug.-18
Announcement of the Bank on the Establishment of SPD Asset Management Co., Ltd.	30-Aug.-18
Independent opinions of independent directors	30-Aug.-18
Announcement of the Bank on the resignation of Directors	28-Aug.-18
Announcement of the Bank on approval of tier-two capital bond issuance by the People's Bank of China	24-Aug.-18
Announcement of the Bank on approval of tier-two capital bond issuance by CBIRC	25-Jul.-18
Announcement of the Bank on the resolutions in the 32nd Session of the Sixth Board of Supervisors	19-Jul.-18
2017 global systemically important bank appraisal indicators of the Bank	19-Jul.-18
Announcement of the Bank on the resolutions in the 33rd Session of the Sixth Board of Directors	19-Jul.-18
Announcement of the Bank on purchase of its stocks by its Senior Management members	18-Jul.-18
Announcement of the Bank on purchase of its stocks by its Senior Management members	13-Jul.-18
Announcement of the Bank on the resignation of Directors	12-Jul.-18
Announcement of the Bank on change in the head of the Assets Custody Department	12-Jul.-18
Announcement of the Bank on annual dividend distribution for 2017	6-Jul.-18
Independent opinions of independent directors on related-party transactions	28-Jun.-18
Announcement of the Bank on the resolutions in the 31st Session of the Sixth Board of Supervisors	28-Jun.-18
Announcement of the Bank on the resolutions in the 32nd Session of the Sixth Board of Directors	28-Jun.-18
Legal opinions of the Bank for the 2017 Shareholders' Meeting	29-May-18
Announcement of the Bank on the resolutions in 2017 Shareholders' Meeting	29-May-18
Announcement of the Bank on the resolutions in the 30th Session of the Sixth Board of Supervisors	24-May-18
Announcement of the Bank on the resolutions in the 31st Session of the Sixth Board of Directors	24-May-18
2017 Shareholders' Meeting materials	19-May-18
2017 continuous supervisory opinions and summary report of HAITONG Securities Company Limited about the issuance of shares by SPD Bank for the purpose of buying assets and related-party transactions	10-May-18
Annual report of 2017	28-Apr.-18
2017 financial statements and audit report of the Bank	28-Apr.-18
2017 duty performance report of the Audit Committee of the Board of Directors	28-Apr.-18
Attestation report of the Bank on the use of funds previously raised	28-Apr.-18

Corporate Governance

Items	Date of publication
Abstract of 2017 annual report	28-Apr.-18
Special report about the occupation of funds by controlling shareholders and other related parties in 2017	28-Apr.-18
2017 duty report of independent directors	28-Apr.-18
2017 internal control appraisal report of the Bank	28-Apr.-18
Announcement of the Bank on the resolutions in the 30th Session of the Sixth Board of Directors	28-Apr.-18
Announcement of the Bank on the resolutions in the 29th Session of the Sixth Board of Supervisors	28-Apr.-18
2018 Q1 Report of the Bank	28-Apr.-18
2017 internal control audit report of the Bank	28-Apr.-18
2017 Corporate Social Responsibility Report of the Bank	28-Apr.-18
Notice of the Bank on online performance review meeting for 2017 and 2018 Q1	28-Apr.-18
Continuous supervision report of the joint sponsor on the privately issued ordinary shares of SPD Bank in 2017	28-Apr.-18
Independent opinions of independent directors	28-Apr.-18
Special report and attestation report of the Bank on the storage and actual use of funds raised in 2017	28-Apr.-18
Notice on convening the 2017 Annual Shareholders' Meeting	28-Apr.-18
Special verification report of the joint sponsor on the storage and actual use of funds raised by SPD Bank in 2017	28-Apr.-18
Special report on the storage and actual use of the funds raised in 2017	28-Apr.-18
Announcement of the Bank on the resolutions in the 29th Session of the Sixth Board of Directors	30-Mar.-18
Announcement of the Bank on the resolutions in the 28th Session of the Sixth Board of Supervisors	30-Mar.-18
Prior approval of independent directors on the affairs of related-party transactions	30-Mar.-18
Independent opinions of independent directors on related-party transactions	30-Mar.-18
Announcement of the Bank on the resignation of Independent Directors	15-Mar.-18
Announcement of the Bank on the resolutions in the 27th Session of the Sixth Board of Supervisors	3-Mar.-18
Announcement of the Bank on the resolutions in the 28th Session of the Sixth Board of Directors	3-Mar.-18
Announcement of the Bank the phase II dividend distribution of preference shares	3-Mar.-18
Announcement of the Bank on the resolutions in the 26th Session of the Sixth Board of Supervisors	13-Feb.-18
Announcement of the Bank on the resolutions in the 27th Session of the Sixth Board of Directors	13-Feb.-18
Prior approval of independent directors on the affairs of related-party transactions	13-Feb.-18
Independent opinions of independent directors on related-party transactions	13-Feb.-18
Announcement of the Bank on commencement of London Branch for business	8-Feb.-18
Announcement of the Bank on change of registered capital being approved by CBRC	25-Jan.-18
Announcement of the Bank on Chengdu Branch being imposed with regulatory penalties	20-Jan.-18
Announcement of the Bank on the preliminary earnings estimate in 2017	6-Jan.-18

Corporate Governance

Items	Date of publication
2016 annual report of the Bank	01-Apr.-2017
Announcement of the Bank on extending the validity period of resolution and authorization concerning the private issuing of ordinary shares	01-Apr.-2017
Summary of 2016 annual report of the Bank	01-Apr.-2017
Independent opinions of independent directors	01-Apr.-2017
2016 internal control appraisal report of the Bank	01-Apr.-2017
Notice of the Bank on holding 2016 Annual Meeting	01-Apr.-2017
Announcement of the Bank on the resolutions in the 17 th Session of the Sixth Board of Directors	01-Apr.-2017
2016 duty performance report of the Audit Committee of the Board of Directors	01-Apr.-2017
2016 duty report of independent directors	01-Apr.-2017
Announcement of the Bank on the resolutions in the 17 th Session of the Sixth Board of Supervisors	01-Apr.-2017
Prior recognition opinions of independent directors on extending the validity period of resolution and authorization concerning the private issuing of ordinary shares	01-Apr.-2017
Notice of the Bank on holding 2016 online performance review meeting	01-Apr.-2017
Independent opinions of independent directors on extending the validity period of resolution and authorization concerning the private issuing of ordinary shares	01-Apr.-2017
Announcement of the Bank on CSRC Issuance Appraisal Committee's approving its application for private issuing of ordinary shares	28-Mar.-2017
Clarification announcement of the Bank	23-Mar.-2017
Announcement of the Bank on office-taking of employee representative supervisors	18-Mar.-2017
Announcement of the Bank on the resolutions in the 16 th Session of the Sixth Board of Supervisors	16-Mar.-2017
Announcement of the Bank on the resolutions in the 16 th Session of the Sixth Board of Directors	16-Mar.-2017
Verification opinions of HAITONG Securities Company Limited about the circulation of restricted shares issued by SPD Bank for the purpose of buying assets and the related party transactions	14-Mar.-2017
Announcement of the Bank on the circulation of restricted shared issued for the purpose of buying assets	14-Mar.-2017
Announcement of the Bank the phase II dividend distribution of preference shares	03-Mar.-2017
Announcement of the Bank on the resolutions in the 15 th Session of the Sixth Board of Supervisors	01-Mar.-2017
Reply of the Bank to feedback opinions on the application for privately issuing ordinary shares by SPD Bank	01-Mar.-2017
Announcement of the Bank on the reply to feedback opinions concerning application for privately issuing ordinary shares	01-Mar.-2017
Announcement of the Bank on the resolutions in the 15 th Session of the Sixth Board of Directors	01-Mar.-2017
Announcement of the Bank on the completion of issuance of phase I financial bonds in 2017	28-Feb.-2017
Announcement of Bank on the resignation of directors and vice presidents	26-Jan.-2017
Announcement of the Bank on the resolutions in the 14 th Session of the Sixth Board of Directors	14-Jan.-2017
Announcement of the Bank on the resolutions in the 14 th Session of the Sixth Board of Supervisors	14-Jan.-2017
Announcement of the Bank on CSRC's accepting the application for administrative permission to the private issuing of ordinary shares	11-Jan.-2017
Announcement of the Bank on the preliminary earnings estimate in 2016	04-Jan.-2017

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Section XII

Financial Report



Financial Report

12.1 2018 Financial Statements and Audit Report Prepared Based on ASBE (See the Appendix)

12.2 2018 Financial Statements and Audit Report Prepared Based on IFRS (See the Appendix)

12.3 Supplementary Data

Return on equity and earnings per share calculated based on No.9 Rules for Preparation of Information Disclosure Documents by Companies Issuing Public Securities published by CSRC:

Profit in the reporting period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic	Fully diluted
Net profit attributable to the Bank's ordinary shareholders	12.27	13.14	1.85	1.85
Net profit attributable to the Bank's ordinary shareholders deducting the non-recurring profit or loss	12.21	13.08	1.84	1.84

Catalogue of Documents for Inspection

13.1 Accounting Statements Bearing Signatures and Stamps of the Legal Representative, the President, the CFO and the Person in Charge of the Accounting Institutions

13.2 Original of the Audit Report Bearing Stamp of the Accounting Firm as well as Signature and Stamp of the CPAs

13.3 Originals of all Articles and Announcements Disclosed by the Bank during the Reporting Period on Shanghai Securities News, Securities Times, and China Securities Journal

13.4 2018 Internal Control Assessment Report of SPD Bank and 2018 Corporate Social Responsibility Report of SPD Bank

Chairman: Gao Guofu



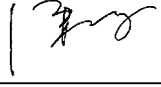
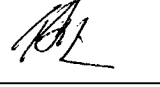
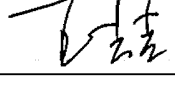
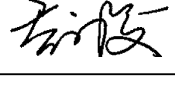
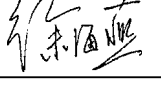
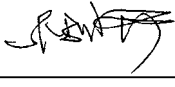
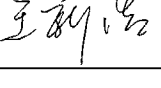
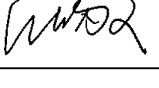
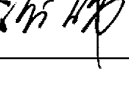
Board of Directors of Shanghai Pudong Development Bank Co., Ltd.
22 March 2019

Written Confirmation of Directors and Senior Management Members on the Annual Report 2018

According to relevant provisions and requirements in the Securities Law and the No.2 Norm for Content and Format of Information Disclosure by Companies Issuing Public Securities “Content and Format of Annual Report” (revised in 2017), Directors and Senior Management members of the Bank fully studied and audited the Bank’s annual report 2018 and its abstract and then gave the following opinions:

1. The Bank is operated in strict accordance with Accounting Standards for Business Enterprises and related norms, and the Bank’s annual report 2018 and its abstract fairly reflect the financial situation and operating results of the Bank during the reporting period.
2. All data involved in the annual report have been checked and affirmed, reflecting soundness, objectiveness, authenticity, accuracy and comprehensiveness. We believe that, the Bank’s annual report 2018 and its abstract have no misrepresentation, misleading statement or major omission, which meet requirements of regulators including CSRC and are in line with the actual situation of operation and management of the Bank.
3. The 2018 financial statements prepared by the Bank in accordance with the Accounting Standards for Business Enterprises and the International Financial Reporting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP who issued a standard unqualified opinion.

Signature by Directors and Senior Management members

Gao Guofu		(signature)	Liu Xinyi		(signature)
Pan Weidong		(signature)	Fu Fan		(signature)
Wang Zhe		(signature)	Qiao Wenjun		(signature)
Zhang Ming		(signature)	Yuan Zhigang		(signature)
Xu Haiyan		(signature)	Liu Yiyan		(signature)
Wang Xinhao		(signature)	Cui Bingwen		(signature)
Xie Wei		(signature)			

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Shanghai Pudong Development Bank Co., Ltd.

Financial Statements and Auditor's Report
For the Year Ended 31 December 2018

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Auditor's Report

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To the Shareholders of Shanghai Pudong Development Bank Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Shanghai Pudong Development Bank Co., Ltd (hereinafter “the Bank”), which comprise:

- the Consolidated and the Bank's balance sheets as at 31 December 2018;
- the Consolidated and the Bank's income statements for the year then ended;
- the Consolidated and the Bank's cash flow statements for the year then ended;
- the Consolidated and the Bank's statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and the bank's financial position of the Bank as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises (“CASs”).

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

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

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

- Measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments
- Consolidation assessment of structured entities
- Impairment of goodwill

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments Please refer to Notes 2.10, 2.31(1), 4.8, 4.12(b), 4.20, 4.30, 11.1(1), 11.1(3), 11.1(4), 11.1(5), and 11.1(7) to the financial statements. As at 31 December 2018, the Group's principal of loans and advances to customers amounted to RMB 3,549,205 million, and loss allowance amounted to RMB 105,339 million; the principal of financial investment - debt investments amounted to RMB 1,136,889 million, and loss allowance amounted to RMB 7,488 million; the exposure of financial guarantees and loan commitments amounted to RMB 1,033,663 million, and provision amounted to RMB 4,747 million. The balances of loss allowances for loans and advances to customers, financial investment - debt investments and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under ECL models of the CAS 22 - Recognition and Measurement of Financial Instruments.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, primarily including: (1) Governance over ECL models, including the selection, approval and application of modelling methodology; (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, determination of defaults and credit impairments, and forward - looking adjustments; (3) Internal controls relating to the accuracy and completeness of key inputs used by the models; (4) Internal controls relating to the information systems for model - based measurement. The substantive procedures we preformed, primarily including: We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgments and assumptions in relation to the models. We examined the measurement of the models on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group assesses whether the credit risk of loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments have increased significantly since their initial recognition, and applies a three - stage impairment model to measure their ECL. For loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments, management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Criteria for determining a significant increase in credit risk, default and credit impairments; (3) Economic indicators for forward - looking measurement, and the application of economic scenarios and weightings. The Group established controls for the ECL measurement. For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investment - debt investments, exposures of financial guarantees and loan commitments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit - impaired loans. For forward - looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed; we assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. For corporate loans and advances and financial investment - debt investments in stage 3, we examined, on a sample basis, the difference of loss allowance between the allowance from ELC models and the allowance from the discounted forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, the models, key parameters, significant judgment and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of structured entities Refer to Note 2.6, 2.31.4 and 6 to the financial statements. The Group managed or invested in a number of structured entities. As of 31 December 2018, structured entities of approximately RMB 67,167 million were consolidated by the Group; structured entities of RMB 2,533,543 million managed by the Group and structured entities of RMB 745,127 million invested by the Group were not consolidated. We focused on this area because the number of structured entities was significant and the assessment of whether the Group should consolidate these structured entities involved significant judgments, including the judgments regarding the Group's power over the structured entities' relevant activities, the Group's variable returns generated from the structured entities, and the Group's ability to affect these returns.	The audit procedures we performed regarding consolidation assessment of structured entities included: We understood, evaluated and validated the design and operating effectiveness of the relevant controls over the completeness of managed or invested structured entities, and the controls relating to management's assessment on whether or not to consolidate the structured entities. We checked the completeness of the list of structured entities. We verified the Group's assessment on whether the Group controlled the structured entities by examining supporting documents of selected samples of structured entities managed or invested by the Group by performing the following procedures: 1. Evaluating whether the Group has power over structured entities' relevant activities by analyzing business structures and related contractual terms; 2. Reviewing contractual terms regarding variable returns of structured entities, including management fee relating to the Group's compensation in the investment contracts, the rate of return from the investments' contracts made by the structured entities and the investors' investment contracts to the structured entities, and the returns from lending support. We also checked these terms against the information in the management's list of structured entities.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	We recalculated the magnitude and variability of returns to the Group from these structured entities. We assessed whether the Group acted as principle or agent based on our analysis of the Group's power, the Group's variable returns generated from the structured entities, and the Group's ability to affect the returns, and compared our assessment result with management's assessment result. Based on the audit work performed, we found management's judgments in relation to the consolidation of structured entities acceptable.
Impairment of goodwill Refer to Note 2.20, 2.31.5 and 4.16 to the financial statements. In March 2016, the Group acquired Shanghai International Trust Investment Company and recognised goodwill amounted to RMB 6,981 million. In the impairment test of goodwill, the Group allocated carrying amount of goodwill to each of the cash-generating units ("CGUs"), forecasted the future cash flows of each CGU, and applied appropriate discount rate for the calculation of present value of future cash flows. The future cash flow of CGUs is estimated based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term average growth rates. The key assumptions used by the management in the calculation of present value of future cash flow including: (1) Forecast period growth rate; (2) Stable period growth rate; (3) Discount rate.	The audit procedures we performed regarding impairment test of goodwill included: Based on industry practice, we assessed the appropriateness of valuation techniques used by the management to forecast present value of future cash flows. We compared the actual performance of the CGUs for the year ended 31 December 2018 with the previous forecast data to assess whether the management's forecast of cash flows are reliable. We compared the main data used in cash flow models with the corresponding approved budget. We evaluated management's key assumptions by performing the following procedures: (1) Compare the five-year detailed forecast period growth rate with the historical growth rate of the CGUs and the industry historical data;

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
We focus on this area because the calculation of recoverable amount of CGUs requires significant judgment, including forecasting future cash flows of each CGU and selecting discount rate to calculate discounted future cash flows.	(2) Compare growth rate beyond the five-year period with our independent expectations based on economic data; (3) In consideration of the market risk-free interest rate and asset-liability ratio, we assess the reasonableness of the discount rate used by management by recalculating the weighted average cost of capital of the CGUs and comparable companies in the same industry. For the sensitivity analysis prepared by management, we focus on the assumptions that have a significant impact on the present value of cash flows and assess the magnitude and likelihood that such changes will result in goodwill impairments. We tested the accuracy of the calculation of the net present value of future cash flows and compared the calculated results with the carrying amount of related goodwill. Based on the audit work performed, we found that the parameters and the key assumptions used in the goodwill impairment test are acceptable.

Other Information

Management of the Bank is responsible for the other information. The other information comprises all of the information included in 2018 annual report of the Bank other than the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China
22 March 2019

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**CONSOLIDATED AND THE BANK'S BALANCE SHEETS
AS AT 31 DECEMBER 2018**

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

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Assets					
Cash and balances with central bank	4.1	443,723	486,531	439,900	482,118
Due from banks and other financial institutions	4.2	94,284	96,348	87,274	89,696
Placements with banks and other financial institutions	4.3	142,251	80,839	145,642	82,885
Precious metals		10,475	10,261	10,475	10,261
Financial assets at fair value through profit or loss	4.4	NA	162,866	NA	157,268
Derivative financial assets	4.5	43,274	28,264	43,274	28,264
Financial assets purchased under resale agreements	4.6	11,573	13,974	11,573	13,974
Interest receivable	4.7	NA	31,094	NA	30,294
Loans and advances to customers	4.8	3,455,489	3,103,853	3,434,578	3,083,728
Available-for-sale financial assets	4.9	NA	664,508	NA	654,837
Investment securities – held-to-maturity	4.10	NA	444,726	NA	444,726
Investment securities - loans and receivables	4.11	NA	832,598	NA	817,939
Financial investments:	4.12				
Trading assets		395,668	NA	382,492	NA
Debt investments		1,144,249	NA	1,133,993	NA
Other debt investments		378,860	NA	374,171	NA
Other equity investments		4,038	NA	4,038	NA
Long-term equity investments	4.13	1,968	1,006	26,064	23,860
Fixed assets	4.14	26,492	25,140	14,885	15,190
Intangible assets	4.15	9,962	3,299	7,655	899
Goodwill	4.16	6,981	6,981	-	-
Long-term deferred charges	4.17	1,168	1,363	1,110	1,298
Deferred income tax assets	4.18	36,877	29,022	36,078	28,381
Other assets	4.19	82,274	114,567	29,666	69,415
Total assets		6,289,606	6,137,240	6,182,868	6,035,033

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

CONSOLIDATED AND THE BANK'S BALANCE SHEETS (CONTINUED)
AS AT 31 DECEMBER 2018

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

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Liabilities					
Due to central bank		221,003	182,387	220,263	181,500
Due to banks and other financial institutions	4.21	1,067,769	1,314,318	1,075,607	1,322,621
Placements from banks and other financial institutions	4.22	148,622	138,782	109,726	100,873
Trading liabilities	4.23	34,912	28,333	24,504	15,121
Derivative financial liabilities	4.5	42,793	30,034	42,793	30,034
Financial assets sold under repurchase agreements	4.24	119,564	184,464	119,564	184,464
Deposits from customers	4.25	3,253,315	3,037,936	3,222,589	3,006,604
Employee benefits payable	4.26	10,487	7,911	9,311	6,880
Taxes payable	4.27	21,595	20,034	20,014	19,354
Interests payable	4.28	NA	35,064	NA	34,422
Bonds issued	4.29	841,440	686,296	832,873	682,109
Deferred income tax liabilities	4.18	643	680	-	-
Provision	4.30	4,747	NA	4,742	NA
Other liabilities	4.31	44,336	40,016	36,742	30,927
Total liabilities		5,811,226	5,706,255	5,718,728	5,614,909
Equity					
Ordinary shares	4.32	29,352	29,352	29,352	29,352
Other equity instruments	4.33	29,920	29,920	29,920	29,920
<i>Preference shares</i>		<i>29,920</i>	<i>29,920</i>	<i>29,920</i>	<i>29,920</i>
Capital surplus	4.34	81,760	81,760	81,710	81,710
Other comprehensive income	4.35	4,659	(5,335)	4,627	(5,289)
Surplus reserves	4.36	109,717	94,198	109,717	94,198
General risk reserve	4.37	75,946	75,702	74,900	74,900
Retained earnings	4.38	140,208	119,807	133,914	115,333
Equity attributable to the Bank's shareholders		471,562	425,404	464,140	420,124
Minority interests	4.39	6,818	5,581	-	-
Total equity		478,380	430,985	464,140	420,124
TOTAL LIABILITIES AND EQUITY					
		6,289,606	6,137,240	6,182,868	6,035,033

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

The financial statements are signed by:

Chairman: Guofu Gao	Governor: Xinyi Liu	Chief Financial Officer: Weidong Pan	Head of finance and accounting department: Peidong Pan

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**CONSOLIDATED AND THE BANK'S INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	Note	Group		Bank	
		2018	2017	2018	2017
Operating income		171,542	168,619	163,868	161,059
Interest income		267,488	245,818	263,315	241,698
Interest expense		(155,644)	(138,906)	(153,198)	(136,696)
Net interest income	4.40	111,844	106,912	110,117	105,002
Fee and commission income		46,205	50,773	42,247	46,732
Fee and commission expense		(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income	4.41	39,009	45,580	35,047	41,520
Investment income	4.42	14,765	13,585	14,575	12,631
Including: Income from joint ventures and associates		164	97	176	100
Income from derecognition of financial assets at amortized cost		(22)	NA	(68)	NA
Gains or losses from change of fair value	4.43	798	(3,797)	435	(3,428)
Foreign exchange gains	4.44	1,155	2,723	1,138	2,737
Other operating income		3,405	2,612	2,321	1,795
Gains or losses on disposal of assets		51	516	52	517
Other income		515	488	183	285
Operating expense		(106,199)	(98,344)	(102,365)	(95,059)
Tax and surcharges	4.45	(1,852)	(1,610)	(1,755)	(1,540)
Operating expenses	4.46	(43,094)	(41,047)	(39,960)	(38,085)
Impairment on credit losses	4.47	(60,417)	NA	(59,820)	NA
Impairment losses on other assets		(3)	NA	(3)	NA
Impairment loss on assets	4.48	NA	(55,285)	NA	(55,037)
Other operating expense		(833)	(402)	(827)	(397)
Operating profit		65,343	70,275	61,503	66,000
Add: Non-operating income		104	197	101	97
Less: Non-operating expenses		(163)	(644)	(153)	(639)
Profit before income tax		65,284	69,828	61,451	65,458
Less: Income tax expenses	4.49	(8,769)	(14,826)	(7,826)	(13,728)
Net profit for the year		56,515	55,002	53,625	51,730
1. Classification according the ability of going concern					
- Going concern net profit		56,515	55,002	53,625	51,730
2. Classification according to shareholders					
- Shareholders of the Bank		55,914	54,258		
- Minority interests		601	744		
		56,515	55,002		

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**CONSOLIDATED AND BANK INCOME STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	Note	Group		Bank	
		2018	2017	2018	2017
Earnings per share					
Basic and diluted earnings per share attributable to the shareholders of the Bank (expressed in RMB per share)	4.50	1.85	1.84		
Other comprehensive income after tax	4.35	6,983	(5,572)	6,888	(5,477)
Other comprehensive income attributes to shareholders of the parent company, after tax		6,979	(5,568)	6,888	(5,477)
Items that may be reclassified to profit or loss		6,648	(5,568)	6,557	(5,477)
- Changes in fair value of other debt investments		6,324	NA	6,518	NA
- Credit impairment allowance of other debt investments		63	NA	(71)	NA
- Changes in fair value of available-for-sale financial assets		NA	(5,439)	NA	(5,373)
- Exchange differences from the translation of foreign operations		261	(129)	110	(104)
Items that will not be reclassified to profit or loss		331	-	331	-
- Changes in fair value of other equity investments		331	NA	331	NA
Other comprehensive income attributes to minority interests, after tax		4	(4)	-	-
Total comprehensive income for the year attributable to:		63,498	49,430	60,513	46,253
- Shareholders of the Bank		62,893	48,690		
- Minority interests		605	740		
		63,498	49,430		

The accompanying notes form an integral part of these financial statements

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**CONSOLIDATED AND THE BANK'S CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	Note	Group		Bank	
		2018	2017	2018	2017
1. Cash flows paid in operating activities					
Net increase in deposits from customers and due to banks and other financial institutions		-	8,276	-	7,637
Net decrease in due from central bank, due from banks and other financial institutions		56,842	45,023	61,031	42,592
Net increase in due to central bank		35,353	34,765	35,500	34,500
Net increase in placements from banks and other financial institutions		9,307	41,650	8,408	40,943
Net decrease in placements with banks and other financial institutions		-	61,651	-	62,651
Net increase in repurchase activities		-	91,264	-	91,536
Net decrease in resale activities		2,406	-	2,406	-
Net decrease in financial assets held for trading		30,565	NA	29,741	NA
Net decrease in financial assets at fair value through profit or loss		NA	15,972	NA	16,157
Cash received from interest, fee and commission		255,903	231,375	248,140	223,413
Net decrease in finance lease receivables		-	127	-	-
Cash received from other operating activities		41,424	29,346	40,353	19,660
Sub-total of cash inflows		431,800	559,449	425,579	539,089
Net increase in loans and advances to customers		(411,136)	(480,067)	(409,983)	(477,625)
Net decrease in deposits from customers and due to banks and other financial institutions		(61,677)	-	(60,933)	-
Net increase in placements with banks and other financial institutions		(31,518)	-	(32,860)	-
Net increase in resale activities		-	(10,980)	-	(10,980)
Net decrease in repurchase activities		(65,014)	-	(65,014)	-
Cash paid for interest, fee and commission		(130,413)	(117,775)	(128,384)	(115,837)
Cash paid to and on behalf of employees		(22,382)	(22,014)	(20,964)	(20,721)
Cash paid for taxes		(30,105)	(30,557)	(28,362)	(28,629)
Net increase in finance lease receivables		(6,455)	-	-	-
Cash paid for other operating activities		(11,460)	(38,729)	(7,791)	(37,011)
Sub-total of cash outflows		(770,160)	(700,122)	(754,291)	(690,803)
Net cash flows used in operating activities	4.52	(338,360)	(140,673)	(328,712)	(151,714)

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

CONSOLIDATED AND THE BANK'S CASH FLOW STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	Group		Bank	
		2018	2017	2018	2017
2. Cash flows from investing activities					
Redemption of investment securities		1,673,028	4,740,192	1,667,415	4,740,191
Cash received from investment income		76,363	66,441	75,570	65,782
Cash received from other investing activities		88	151	73	131
Sub-total of cash inflows		1,749,479	4,806,784	1,743,058	4,806,104
Purchase of investment securities		(1,485,656)	(4,760,554)	(1,482,219)	(4,749,854)
Cash paid to purchase fixed assets, intangible assets and other long-term assets		(5,934)	(8,430)	(3,552)	(5,772)
Sub-total of cash outflows		(1,491,590)	(4,768,984)	(1,485,771)	(4,755,626)
Net cash flows generated from investing activities		257,889	37,800	257,287	50,478
3. Cash flows from financing activities					
Proceeds from interest's capital increase <i>Including: Proceeds from minority interests' capital increase in subsidiary</i>		799	14,908	-	14,816
		799	92	-	-
Proceeds from issuance of bonds and deposit certificates		1,288,077	1,332,184	1,283,232	1,327,237
Sub-total of cash inflows		1,288,876	1,347,092	1,283,232	1,342,053
Repayment of bonds and deposit certificates issued		(1,137,019)	(1,310,571)	(1,136,399)	(1,309,811)
Cash paid for dividends and interest of bonds issued		(33,954)	(31,701)	(33,526)	(31,447)
Sub-total of cash outflows		(1,170,973)	(1,342,272)	(1,169,925)	(1,341,258)
Net cash flows generated from financing activities		117,903	4,820	113,307	795
4 Effect of exchange rate changes on cash and cash equivalents		2,754	(1,900)	2,734	(1,899)
5. Net increase/(decrease) in cash and cash equivalents		40,186	(99,953)	44,616	(102,340)
Add: Cash and cash equivalents at the beginning of the year	4.51	147,458	247,411	138,838	241,178
6. Cash and cash equivalents at the end of the year	4.51	187,644	147,458	183,454	138,838

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

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

		Equity attributable to the Bank's shareholders								Minority interests 4.39	Total
Note		Ordinary shares 4.32	Other equity instruments 4.33	Capital surplus 4.34	Other comprehensive income 4.35	Surplus reserves 4.36	General risk reserve 4.37	Retained earnings 4.38	Sub-total		
1.	Balance at 31 December 2017	29,352	29,920	81,760	(5,335)	94,198	75,702	119,807	425,404	5,581	430,985
	Changes of accounting Policies (Note 2.32)	-	-	-	3,015	-	-	(15,090)	(12,075)	64	(12,011)
	Balance at 1 January 2018	29,352	29,920	81,760	(2,320)	94,198	75,702	104,717	413,329	5,645	418,974
2.	Movements for the current year	-	-	-	6,979	15,519	244	35,491	58,233	1,173	59,406
(1)	Net profit for the year	-	-	-	-	-	-	55,914	55,914	601	56,515
(2)	Other comprehensive income	-	-	-	6,979	-	-	-	6,979	4	6,983
(3)	Increase of capital	-	-	-	-	-	-	-	-	799	799
	Minority interests increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	799	799
(4)	Profit appropriation	-	-	-	-	15,519	244	(20,423)	(4,660)	-	(4,660)
	Appropriation to surplus reserves	-	-	-	-	15,519	-	(15,519)	-	-	-
	Appropriation to general risk reserve	-	-	-	-	-	244	(244)	-	-	-
	Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
	Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
(5)	Dividends of subsidiaries	-	-	-	-	-	-	-	-	(231)	(231)
3.	Balance at 31 December 2018	29,352	29,920	81,760	4,659	109,717	75,946	140,208	471,562	6,818	478,380

The accompanying notes form an integral part of these financial statement.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts expressed in millions of RMB unless otherwise stated)

		Equity attributable to the Bank's shareholders							Minority interests 4.39	Total
Note		Ordinary shares 4.32	Other equity instruments 4.33	Capital surplus 4.34	Other comprehensive income 4.35	Surplus reserves 4.36	General risk reserve 4.37	Retained earnings 4.38		
1.	Balance at 1 January 2017	21,618	29,920	74,678	233	78,689	65,493	97,316	4,987	372,934
2.	Movements for the current year	7,734	-	7,082	(5,568)	15,509	10,209	22,491	594	58,051
(1)	Net profit for the year	-	-	-	-	-	-	54,258	744	55,002
(2)	Other comprehensive income	-	-	-	(5,568)	-	-	-	(4)	(5,572)
(3)	Increase of capital	1,248	-	13,568	-	-	-	-	92	14,908
	Minority interests increased from new subsidiary	-	-	-	-	-	-	-	92	92
	Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	-	14,816
(4)	Profit appropriation	-	-	-	-	15,509	10,209	(31,767)	-	(6,049)
	Appropriation to surplus reserves	-	-	-	-	15,509	-	(15,509)	-	-
	Appropriation to general risk reserve	-	-	-	-	-	10,209	(10,209)	-	-
	Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	-	(4,324)
	Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	-	(1,725)
(5)	Transfer within shareholders' equity	6,486	-	(6,486)	-	-	-	-	-	-
	Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-	-
(6)	Dividends of subsidiaries	-	-	-	-	-	-	-	(238)	(238)
3.	Balance at 31 December 2017	29,352	29,920	81,760	(5,335)	94,198	75,702	119,807	5,581	430,985

The accompanying notes form an integral part of these financial statements

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**THE BANK'S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

	Note	Ordinary shares 4.32	Other equity instruments 4.33	Capital surplus 4.34	Other comprehensive income 4.35	Surplus reserves 4.36	General risk reserve 4.37	Retained earnings 4.38	Total
1. Balance at 31 December 2017		29,352	29,920	81,710	(5,289)	94,198	74,900	115,333	420,124
Changes of accounting Policies (Note 2.32)		-	-	-	3,028	-	-	(14,865)	(11,837)
Balance at 1 January 2018		29,352	29,920	81,710	(2,261)	94,198	74,900	100,468	408,287
2. Movements for the current year		-	-	-	6,888	15,519	-	33,446	55,853
(1) Net profit for the year		-	-	-	-	-	-	53,625	53,625
(2) Other comprehensive income		-	-	-	6,888	-	-	-	6,888
(3) Profit appropriation		-	-	-	-	15,519	-	(20,179)	(4,660)
Appropriation to surplus reserves		-	-	-	-	15,519	-	(15,519)	-
Cash dividends paid to ordinary shareholders		-	-	-	-	-	-	(2,935)	(2,935)
Cash dividends paid to preference shareholders		-	-	-	-	-	-	(1,725)	(1,725)
3. Balance at 31 December 2018		29,352	29,920	81,710	4,627	109,717	74,900	133,914	464,140

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

THE BANK'S STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts expressed in millions of RMB unless otherwise stated)

	Note	Ordinary shares 4.32	Other equity instruments 4.33	Capital surplus 4.34	Other comprehensive income 4.35	Surplus reserves 4.36	General risk reserve 4.37	Retained earnings 4.38	Total
1. Balance at 1 January 2017		21,618	29,920	74,628	188	78,689	65,045	95,016	365,104
2. Movements for the current year		7,734	-	7,082	(5,477)	15,509	9,855	20,317	55,020
(1) Net profit for the year		-	-	-	-	-	-	51,730	51,730
(2) Other comprehensive income		-	-	-	(5,477)	-	-	-	(5,477)
(3) Increase of capital		1,248	-	13,568	-	-	-	-	14,816
Private placement of ordinary shares		1,248	-	13,568	-	-	-	-	14,816
(4) Profit appropriation		-	-	-	-	15,509	9,855	(31,413)	(6,049)
Appropriation to surplus reserves		-	-	-	-	15,509	-	(15,509)	-
Appropriation to general risk reserve		-	-	-	-	-	9,855	(9,855)	-
Cash dividends paid to ordinary shareholders		-	-	-	-	-	-	(4,324)	(4,324)
Cash dividends paid to preference shareholders		-	-	-	-	-	-	(1,725)	(1,725)
(5) Transfer within shareholders' equity		6,486	-	(6,486)	-	-	-	-	-
Ordinary shares converted from capital surplus		6,486	-	(6,486)	-	-	-	-	-
3. Balance at 31 December 2017		29,352	29,920	81,710	5,289	94,198	74,900	115,333	420,124

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL INFORMATION

Shanghai Pudong Development Bank Co., Ltd. (“the Bank” or “SPD”) is a joint-stock commercial bank incorporated in Shanghai, the People’s Republic of China (“the PRC”) on 28 August 1992 in accordance with the approval from the People’s Bank of China (“the PBOC” or “Central Bank”) (Yin Fu [1992] No.350). The Address of the head office is 12 First East Zhongshan Road, Shanghai. The Bank obtained its business licence from Shanghai Municipal Administration of Industry and Commerce (“SMAIC”) on 19 October 1992 and commenced its business on 9 January 1993. On 10 November 1999, the Bank’s ordinary shares denominated in RMB were listed and traded on Shanghai Stock Exchange.

The national organisation code of the Bank is 9131000013221158XC, and the financial service certificate No. of the Bank is B0015H131000001.

As at 31 December 2018, the Bank’s ordinary shares were RMB 29,352 million, with RMB 1 Yuan par value, of which RMB 1,248 million were restricted for trading. The Bank’s preference shares were RMB 29,920 million.

The Bank and its subsidiaries (collectively referred to as “the Group” or “SPDB Group”) are mainly engaged in financial businesses. The scope of business mainly includes commercial banking services, financial leasing businesses and trust services approved by the PBOC and the China Banking and Insurance Regulatory Commission (“the CBIRC”), investment banking and fund management business defined by Type 4 license (Advising on securities), Type 6 (Advising on corporate finance) and Type 9 (Asset Management) licenses issued by Securities & Futures Commission of Hong Kong. The Bank’s principal regulator is the CBIRC. The Bank’s overseas branches and subsidiaries are subject to the supervision by local regulators.

For the information of subsidiaries which were consolidated by the Bank in this year, please refer to Note 5.

These financial statements were authorised for issue by the Bank’s Board of Directors on 22 March 2019.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The companies in the Group are mainly financial institutions, significant accounting policies are mainly including consolidation of structured entities (Note 2.6), recognition, classification, and measurement of financial instruments (Note 2.10), impairment of financial assets (Note 2.10), impairment of goodwill (Note 2.21), etc.

Please refer to Note 2.31 for the critical accounting estimates and judgments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.1 Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standards for Business Enterprises - Basic Standards*, and specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CASs”), and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 - General Rules on Financial Reporting* issued by the China Securities Regulatory Commission.

Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by the Ministry of Finance in December 2018, the Bank shall prepare its financial statements in accordance with the revised formats of financial enterprises from the accounting year beginning on 1 January 2018 and the Bank is not required to restate previous comparatives. The adoption of the above circular has no material impact on the Group and the Bank’s financial position, financial performance and cash flows.

The financial statements are prepared on a going concern basis.

2.2 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Group and the Bank for the year ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial positions of the Consolidated and the Bank as at 31 December 2018 and of their financial performance, cash flows and other information for the year then ended.

2.3 Accounting year

The Bank’s accounting year starts on 1 January and ends on 31 December.

2.4 Functional currency

The functional currency of the Group’s operations in Mainland China is Renminbi (RMB). Items included in the financial statements of each of the Group’s operations overseas are measured using the currency of the primary economic environment in which the entity operates. The presentation currency of the Group is RMB.

2.5 Business combinations

Business combination under common control

The consideration paid and net assets obtained by the acquirer in a business combination are measured at the carrying amount. If the acquiree is acquired from a third party by the ultimate controlling party in a prior year, the consideration paid and net assets obtained by the acquirer are measured based on the carrying amounts of the acquiree’s assets and liabilities (including the goodwill arising from the acquisition of the acquiree by the ultimate controlling party) presented in the consolidated financial statements of the ultimate controlling party. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.5 Business combinations (Continued)

Business combinations not under common control

The scope of consolidation is determined on the basis of control. The consideration paid and the identifiable net assets acquired in a business combination are measured at initially their fair values on the acquisition date. Goodwill is initially measured at cost being the excess of the aggregate fair value of the consideration paid and the acquirer's interest in the fair value of the acquiree's net identifiable assets. If the fair value of consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss. Acquisition-related costs are expensed as incurred. The transaction costs incurred for the issuance of equity or debt securities in connection with the business combination are included in part of the initial recognition cost of these securities.

2.6 Consolidated financial statements

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. A subsidiary is an entity over which the Bank has control.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements.

The Group determines whether it is an agent or a principle in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principle if it acts primarily for itself, and therefore controls the structured entity.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and total comprehensive income for the period not attributable to the Bank are recognised as minority interests and total comprehensive income attributed to minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits or losses resulting from the Bank selling assets to its subsidiaries are offset against the parent company's net profits. Unrealised profits or losses resulting from the subsidiaries selling assets to the Bank are offset against net profits attributable to shareholders of the parent company and minority interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and minority interests based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Bank or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective.

The loss distributed to minority interests of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the minority interests.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.6 Consolidated financial statements (Continued)

With respect to a subsidiary acquired through business combination not under common control, the operating results and cash flows of the subsidiary shall be consolidated into the Group's financial statements from the date the Group obtains control of the subsidiary and deconsolidated from the Group's financial statements when the Group loses the control of the subsidiary. While preparing the consolidated financial statements, the Group should adjust the subsidiary's financial statements by using the fair values of the identifiable assets, liabilities and contingent liabilities recognised on the acquisition date.

With respect to a subsidiary acquired through business combination under common control, net profit or loss of the subsidiary before the acquisition date should be separately disclosed in the consolidated financial statements. While preparing the comparative consolidated financial statements, adjustments are made to related items in the comparative financial statements as if the reporting entity established through acquisition had been existed since the ultimate controller began to excise control.

2.7 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Changes in the fair value of monetary securities denominated in foreign currency and recognised at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortized cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the spot exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities at fair value through profit or loss are recognised in the profit or loss.

The asset and liability items included in the balance sheets of overseas operations are translated into RMB using the spot exchange rates as at the balance sheet date. Other than 'Retained earnings', items under 'Equity' are translated into RMB using the spot exchange rates on the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates or the approximate exchange rates of the spot exchange rate at the transaction dates determined under systematic and rational method. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2.8 Cash and cash equivalents

Cash and cash equivalents are cash on hand, deposits that can be readily drawn on demand, and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash, excess reserves with central bank, due from and placements with banks and other financial institutions within original maturities no more than three months.

2.9 Precious metals

Precious metals held by the Group are gold traded in financial market. They are initially recognised at acquisition cost and subsequently measured at fair value at the balance sheet date. Gain or loss arising from fair value re-measurement is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities

2.10.1 Recognition and derecognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchased and sales of financial assets are recognized on trade-date. Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and the transfer satisfies the new financial instrument guidelines for the derecognition of financial assets. When the current obligations of financial liabilities have been discharged, the Group derecognizes the financial liabilities.

Modification of financial asset contract

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assessed whether or not the new items are substantially different to the original terms.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired ("POCI") financial assets). In assessing whether the credit risk of the relevant financial assets has increased significantly, the Group compares the risk of default on the statement of financial position based on the changed contract terms with the risk of default based on the original contract terms at initial recognition.

The impact of modification of financial asset contract on the expected credit loss ("ECL") calculation is discussed in Note 11.1.3.

Derecognition other than on modification

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

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

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.1 Recognition and derecognition (Continued)

Derecognition other than on modification (Continued)

Collateral (shares or bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

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

2.10.2 Classification and measurement

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When there is a difference between the fair value and the transaction price at the initial recognition of a financial asset or financial liability, the Group distinguishes between the following:

- (a) At initial recognition, the fair value of a financial asset or financial liability is determined based on the quotation of the same asset or liability in an active market or valuation techniques using only observable market data, the difference between the fair value and the transaction price is recognised as a gain or loss.
- (b) In the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction price is deferred. After the initial recognition, the deferred difference is recognised as gain or loss of the corresponding accounting period based on the degree of change in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.2 Classification and measurement (Continued)

Fair value

Fair value refers to the price that a market participant can received from sell an asset or transfer a liability in an orderly transaction that occurs on the balance sheet date. The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. At the time of valuation, the Group adopts valuation techniques that are applicable under current circumstances and that are sufficiently supported by data and other information, inputs that are consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. These valuation techniques maximise the use of observable market data where it is available.

Financial assets

From 1 January 2018, the Group has applied the *CAS 22 - Recognition and Measurement of Financial Instruments*, *CAS 23 - Transfer of Financial Assets*, *CAS 24 - Hedge Accounting* and *CAS 37 - Presentation of Financial Instruments* and classifies its financial assets in the following measurement categories:

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

Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and government and corporate bonds.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.2 Classification and measurement (Continued)

Financial assets (Continued)

Debt instruments (Continued)

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

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

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income; or
- (iii) Fair value through profit or loss.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, the business model determines whether cash flows of the financial assets managed by the Group will result from collecting contractual cash flows, selling financial assets or both. The Group determines business model based on key management personnel's specific business objectives.

Cash flow Characteristics: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the contractual clause is consistent with a basic lending arrangement, i.e. whether the contractual cash flows of related financial assets generated in specific date solely payments of principal and interest ("SPPI"). Principal is the fair value of on initial recognition; it may changes due to early prepayments; interest includes consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement, where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement.

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.2 Classification and measurement (Continued)

Financial assets (Continued)

Debt instruments (Continued)

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognised in profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Investment income'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss.

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

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

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- (b) Financial assets that are not POCI but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Equity instruments

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

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, is recognised in profit or loss as "Dividend income" when the following criteria are met:

- (i) The Group's right to receive dividends is established;
- (ii) The economic interest relating to the dividend is very likely to flow in the Group; and
- (iii) The amount of dividends can be measured reliably.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.2 Classification and measurement (Continued)

Financial assets (Continued)

Equity instruments (Continued)

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

Financial liabilities

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.10.1 “Derecognition other than on modification”; and
- Financial guarantees not mentioned above, and loan commitments promised to provide loans at below market interest rate.

2.10.3 Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortized cost and fair value through other comprehensive income and with the exposure arising from financial guarantees and loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to Note 11.1.3.

When the financial assets are uncollectible, the Group writes off the financial assets and offsets the corresponding provision after completing all necessary procedures and determining the amount of the loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.10 Financial assets and liabilities (Continued)

2.10.4 Offset

The Group shows financial assets and financial liabilities separately in the balance sheets and may not offset each other, except for:

- (i) The Group has a statutory right to offset the confirmed amount and the legal right is now enforceable;
- (ii) The Group plans to net settle the assets and liabilities or realise the financial assets and repay the financial liabilities at the same time.

2.11 Financial guarantees and loan commitments

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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

- The amount of the loss allowance (calculated as described in Note 11.1.3); and
- The premium received on initial recognition less the accumulated amortisation recognised in accordance with the requirements of the *CAS 14 - Revenue*.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 11.1.3). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

The Group's ECL of financial guarantees and loan commitments are presented in "Provision".

2.12 Derivatives and hedging activities

Derivative are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes (Note 2.10.2). Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.12 Derivatives and hedging activities (Continued)

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group's overseas branch implanted fair value hedge and cash flow hedge, by designated selected derivative instruments to hedge the specific fair value or cash flow related risk of recognized assets.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Currently overseas branch uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as investment income or losses in the profit or loss as ineffective portion.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity and recorded as net interest income.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2.13 Assets purchased under resale agreements ("Reverse repos") and assets sold under repurchase agreements ("Repos")

Reverse repo refers to the agreement under which the Group purchases an asset with an obligation to resell it to the same counterparty at a pre-determined price on a specified date. Reverse repo are recorded at the actual amount paid and presented in "financial assets purchased under resale agreements", while assets bought are not recognised. Repo refers to the agreement under which the Group sells an asset with an obligation to repurchase it from the same counterparty at a pre-determined price on a specified date. Repos are recorded at the actual amounts received and presented in "financial assets sold under repurchase agreements", while assets sold are not derecognised. Interest earned from resale agreement and interest paid under repurchase agreement is recorded as interest income or interest expense respectively using effective interest method.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.14 Long-term equity investments (Continued)

Long-term equity investments comprise the Bank's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Bank is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements; investments in joint ventures and associates are accounted for using the equity method.

(1) Determination of investment cost

For long-term equity investments arising from business combination: for long-term equity investments arising from business combination involving enterprises under common control, the initial investment cost shall be the share of the carrying amount of equity of the acquiree in the consolidated financial statements of the ultimate controlling party as at the combination date; for long-term equity investments arising from business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investments acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(2) Subsequent measurement and recognition of related profit or loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss for the current period.

For long-term equity investments that are accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method, the Group recognises the investment income or losses according to its share of net profit or loss of the investee. The Group discontinues recognising its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provision are satisfied, the Group continues recognising the estimated losses. The Group's share of the changes in investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investees. The unrealised profits or losses arising from the transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, based on which the investment income or losses are recognised. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.14 Long-term equity investments (Continued)

(3) Basis for determining existence of control, jointly control or significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is the contractually agreed sharing of control over an arrangement, and the decision of activities relating to such arrangement requires the unanimous consent of the Group and other parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(4) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2.21).

2.15 Fixed assets

(1) Recognition and initial measurement

Fixed assets are tangible assets that are held for rendering of services, leasing or operational management, and have useful lives of more than one accounting year. Fixed assets mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, office equipment, aircraft equipment, etc.

Fixed assets are recognised when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)
2.15 Fixed assets (Continued)
(2) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of various fixed assets are as follows:

<u>Category</u>	<u>Useful life</u>	<u>Estimated net residual value</u>	<u>Annual depreciation rates</u>
Buildings	30 years	3 - 5%	3.17 - 3.23%
Motor vehicles	5 years	3 - 5%	19.00 - 19.40%
Mainframe computer	5 years	3 - 5%	19.00 - 19.40%
Computer	3 - 5 years	3 - 5%	19.00 - 32.33%
Electrical equipment	5 years	3 - 5%	19.00 - 19.40%
Office equipment	5 years	3 - 5%	19.00 - 19.40%
Aircraft equipment	20 years	5%	4.75%

The Group's Aircraft equipment is purchased to conduct operating lease activities.

(3) Impairment of fixed assets

The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2.21).

(4) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

2.16 Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction cost, installation cost, and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below its carrying amount (Note 2(21)).

2.17 Intangible assets

Intangible assets mainly include land use rights, purchased software, brand, franchise right and contractual customer relationships, etc. Land use rights and purchased software are measured at costs, and brand, franchise right and contractual customer relationships acquired in a business combination are measured at fair value.

Land use right is amortized since the month of acquisition using straight-line method within its statutory useful life. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.17 Intangible assets (Continued)

Software is amortized since month of acquisition using straight-line method over its beneficial life.

Brand and franchise right is intangible with no expect life and no amortisation, and take impairment test every year.

Customer contract relationships are amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

The Group reviews the useful life and amortisation method of a finite useful life intangible assets at the end of each year and adjusts it if necessary. Intangible assets with indefinite useful life are not subject to amortisation and are tested annually for impairment.

The carrying amount of an intangible asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2.21).

2.18 Long-term deferred charges

Long-term deferred charges include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred charges are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

2.19 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At the balance sheet date, the foreclosed assets are measured at the lower of their carrying amount and net realisable value. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

2.20 Goodwill

Goodwill is recognised at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date.

2.21 Impairment of long-term assets

Assets such as fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows independently of the cash flows from other assets or groups of assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.21 Impairment of long-term assets (Continued)

Intangible assets arising from business combination with indeterminate goodwill and service life are tested for impairment at least annually, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the impairment loss is recognised, it cannot be recovered in subsequent periods.

2.22 Provision

Provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

- (1) the Group has present legal or constructive obligations as a result of past events;
- (2) it is probable that an outflow of resources from the Group will be required to settle the obligation; and
- (3) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The Group will review the carrying amount at each balance sheet date. If there are evidences showing that the carrying amount cannot reflect the present best estimates, the carrying amount should be adjusted accordingly.

At the balance sheet date, the Group will conduct a review of the book value of the liability and make appropriate adjustment to reflect the best estimation at the current stage.

The Group's ECL of financial guarantees and loan commitments are presented in provision.

2.23 Dividend distribution

Dividend distribution to the Bank's ordinary shareholders is recognized as a liability in the Group's and Bank's financial statements in the period in which the dividends are approved by the shareholders' annual general meeting of the Bank.

2.24 Fiduciary activities

The Group acts as an agent to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognised in the Group's balance sheet.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.25 Revenue and expense recognition

(1) Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognized in profit or loss using the effective interest method.

(2) Fee and commission income

For the performance obligation implemented at a certain point of time, the Group recognises revenue when the customer obtains and consumes the economic benefits of the performance of the Group. For the performance obligation implemented during a certain period, the Group recognises the income according to the progress of the performance during the period.

2.26 Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, special fund for enterprise development, etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to income that compensate future costs, expenses or losses are recorded as deferred income and recognised in profit or loss in reporting the related costs, expenses or losses; government grants related to income that compensate incurred costs, expenses or losses are recognised in profit or loss directly in the current period.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

2.27 Employee benefits

Employee benefits refers to all forms of consideration given by the Group in exchange for service rendered by employees or for the termination of employment, including short-term employee benefits, post-employment benefits and other long term benefits, etc.

(1) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, medical care, disability benefit, maternity insurance, housing funds, labour union funds, employee education funds and paid short-term leave, etc. Short-term employee benefits are recognised in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable. Non-monetary benefits are measured at fair value.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.27 Employee benefits (Continued)

(2) Post-employment benefits

Post-employment benefits include defined contribution plans and defined benefit plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. During the reporting period, the Group's post-employment benefits mainly include social security insurance and unemployment insurance, which are defined contribution plans.

Social security insurance

The Group's employees have participated in certain social security plans organized by the local labour and social security departments. The Group makes monthly contributions to these local organizations for the purposes of paying contribution of these social security plans according to the local basic pension insurance contribution base and rate. These contributions are recognised in the accounting period in which the service has been rendered by the employees as liability, with the corresponding expenses recognized in the income statement or capitalized as cost of the related assets according to whichever the employee service is attributable to.

2.28 Income taxes

Income tax comprises current and deferred tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.28 Income taxes (Continued)

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2.29 Leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

(1) As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

(2) As a lessor under finance leases

At the lease commencement date, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "other assets". When making the judgment of de-recognition or impairment measurement, finance lease receivables are considered as loans and receivables.

(3) As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognised as the Group's property and equipment. Rental income from an operating lease is recognised in profit or loss on a straight-line basis over the period of the lease. Large amount initial direct cost is capitalised as incurred, and is recorded into profit or loss for the period over the term of the related lease on the same recognition basis as rental income; other small amount initial direct cost is charged to profit or loss for the period as incurred. Contingent rents are recorded into profit or loss of the period in which they actually arise.

2.30 Segment reporting

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

Operating segment represents the segment satisfying the following conditions at the same time: (i) The segment produces income and expense in daily activities; (ii) The Group's management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) The Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.31 Critical accounting estimates and judgments

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

(1) ECL measurement

The models and assumptions used in the measurement of the ECL allowance for debt instruments measured at amortized cost and fair value through other comprehensive income, financial guarantees and loan commitments involve future economic conditions and credit behaviour of borrowers (e.g. the likelihood of customers defaulting and the resulting losses).

It requires a lot of significant judgments to measure ECL under relevant accounting standards, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters;
- Criteria for determining a significant increase in credit risk, default and credit impairments; and
- Economic indicators for forward - looking measurement, and the application of economic scenarios and weightings.

The detailed measurement method of ECL is described at Note 11.1.3.

(2) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include reference to transaction price determined by a fair deal between two economic entities with complete information and willingness to trade in the market, reference to the fair value of a similar financial instrument in the market, or estimation using discounted cash flow analysis and option pricing model. Valuation techniques make maximum use of market information. However, when market information is not available, the Group uses calibrated assumptions as close as possible to market observable data. Management will make estimates to credit risk, volatility and correlation of the Group and its counterparties. Changes in these assumptions will influence the fair value of financial instruments.

(3) Income taxes and value added taxes ("VAT").

Significant estimates are required in calculating the income tax, value added tax and other taxes. During the ordinary business activities, there is uncertainty in the final tax treatment of some transactions and events. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.31 Critical accounting estimates and judgments (Continued)

(4) Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

(5) Impairment of goodwill

Goodwill impairment reviews are undertaken annually or more frequently by the Group, and it's also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, Goodwill acquired in a business combination is allocated to each of the CGU, or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

(6) Derecognition of financial assets

The Group's transfers of financial assets include transfer of loans and advances to customers, securitisation and financial assets sold under repurchase agreements. When assessing whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up.

2.32 Significant changes in accounting policies

In 2017, the Ministry of Finance released the revised CAS 14 - Revenue and the Group has adopted the new recognition standards from the accounting year beginning on 1 January 2018. In the revision, the original two standards in revenue and construction contracts are grouped into a unified revenue recognition model, the criteria of revenue recognition is regarded as "transfer of control" rather than "transfer of risks and rewards", and specific applications are available for revenue recognition. The adoption of the above circular has no material impact on the Group and the bank's financial position, financial performance and cash flows.

In 2017, the Ministry of Finance released the revised CAS 22 - *Recognition and Measurement of Financial Instruments*, CAS 23 - *Transfer of Financial Assets*, CAS 24 - *Hedge Accounting* and CAS 37 - *Presentation of Financial Instruments* (hereinafter referred to as "new financial instrument standards", the standards before revision are referred to as "old financial instrument standards"). The Group has adopted the new accounting standards for financial instruments from the accounting year beginning on 1 January 2018. In order to align with the new financial instrument standards, the Group do not need to restate the comparative figures in the previous period, and the differences between initial adoption of the new financial instrument standards and the implementation of old financial instrument standards are adjusted and recognised in the retained earnings or other comprehensive income at the beginning of the period.

The impact of the Group by adopting new financial instrument standards is disclosed as below. The new financial instruments accounting policies applied at the current period are disclosed at Note 2.10, 2.11 and 2.12.

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2 Significant accounting policies and accounting estimates (Continued)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchased and sales of financial assets are recognized on trade-date. Regular way of buying or selling financial assets refers to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. The trading date is the date on which the Group commits to buy or sell financial assets.

The financial assets are derecognised when any of the following criteria is met:

- (a) the contractual rights to receive cash flows from the financial asset have expired;
- (b) the contractual rights to receive cash flows from the financial asset have been transferred, and the Group has transferred nearly all the risks and rewards of ownership of the financial asset to the transferee;
- (c) the Group transfers the financial asset to another party, but maintains the contractual rights to receive cash flows from the financial asset and undertaken the obligations to pay the cash flow it received to the final recipient, and meets the three conditions at the same time (the requirement of “pass-through”), and transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.
 - the Group is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.
 - in accordance with the contractual stipulations, the Group can't sell the financial asset or use it as a guaranty, but may use it as an guarantee for paying the cash flow to the final recipient.
 - the Group is obliged to pay the cash flow it receives to the final recipient in a timely manner. The Group has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments. If the Group makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.
- (d) the financial asset has been transferred (the contractual right to receive the cash flow of the financial asset has been transferred or meet the requirement of “pass-through”). Though the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other reserves is recognised in profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Recognition and derecognition (Continued)

If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two sub-categories namely financial assets held for trading and those designated at fair value through profit or loss at initial recognition.

A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A financial asset is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition: 1) The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; 2) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; 3) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These financial assets are subsequently measured at fair value. Changes of fair value are recognised in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognised in profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity.

Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables or (c) held-to-maturity investments.

Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in equity shall be reclassified to profit or loss.

Dividends and interests relating to an available-for-sale financial asset are recognized in profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognised amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability held for trading is the financial liability that satisfies one of the following conditions: 1) the financial liability is acquired for the purpose of selling or repurchasing in the near term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) it is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Conditions under which a financial liability is designated at fair value through profit or loss upon initial recognition is same as a financial asset.

These financial liabilities are subsequently measured at fair value. All realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An equity instrument is a contract that demonstrates the residual interest in the assets of the Group after deducting all liabilities.

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met

(a) The instrument includes no contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Equity instruments (Continued)

- (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity instruments issued by the Group are recognised at the amount actually received, minus the transaction costs directly attributable to equity transactions.

The distribution of dividends during the existence of other equity instruments shall be treated as profit distribution.

Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Gains or losses arising from changes in fair value on derivatives are reported in profit or loss.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

- (i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Hedge accounting

Within the Group, overseas branch of the Bank adopts hedge accounting. Overseas branch documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Overseas branch also documents its assessment, both at inception and throughout the life of the hedge whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Currently overseas branch uses fair value hedge. For a hedging instrument satisfying the requirements for fair value hedge, the changes in its fair value together with the changes in fair value arising from exposures to the hedged item are recognised in the income statements for the current year, and their net impacts are recorded in the income statements as the ineffective portion of the hedge. If a hedging relation no longer satisfies the requirements of hedge accounting, the adjustment to the carrying amount of a hedged item measured at amortized cost is amortized by using the effective interest method during the period from the adjustment date to the maturity date and included in the income statements.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. The Group applies valuation technique that is suitable for current situation and supported by sufficient data and related information, and adopts inputs whose features on assets and liabilities are in accordance with the ones that are considered the same by market participants in relevant transactions. Observable inputs are preferred and unobservable inputs are used under the condition that relevant observable inputs are not available and not feasible to be obtained.

Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for. Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets and will affect estimated future cash flows of financial assets, and whose impact can be reliably measured. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Significant financial difficulties of the issuer or debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the debtor, for economic or legal reasons relating to the debtor's financial difficulties, a concession that the Group would not otherwise consider;
- It becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of debtors in the group;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group;
- Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- A significant or prolonged decline in the fair value of an equity instrument; or
- Other objective evidence indicating impairment of the financial asset.

Financial assets at amortized cost

When there is an objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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2 Significant accounting policies and accounting estimates (Continued)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Impairment of financial assets (Continued)

Financial assets at amortized cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at the balance sheet date. If a decline in the fair value of an equity instrument is below its initial cost by 50% (inclusive) or more, or fair value is below cost for one year (inclusive) or longer at the balance sheet date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% (inclusive) or more but not up to 50% at the balance sheet date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired. The Group calculates the initial investment cost of available-for-sale equity instruments using the weighted average method.

If an available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognised directly in other comprehensive income is transferred out and recognised in the profit or loss. The amount of the cumulative loss transferred out equals to the difference between its initial cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss shall be reversed with the amount of the reversal recognised in profit or loss. For an investment in an equity instrument classified as available-for-sale on which the impairment loss has been recognised, the increase in its fair value in a subsequent period is recognised in other comprehensive income.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

The financial instrument guidelines applicable during the comparative period are as follows:
(Continued):

Financial instruments (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets (Continued)

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; financial assets and financial liabilities should be presented at their net amount when both of the below criteria are met:

Offsetting financial instruments

The Group shows financial assets and financial liabilities separately in the balance sheets and may not offset each other, except for:

- (i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;
- (ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Critical accounting estimates and judgments applicable during the comparative period are as follows:

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

Held-to-maturity investments

The Group classifies certain non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has both the positive intention and the ability to hold to maturity as held-to-maturity. The classification of held-to-maturity investment requires significant judgment.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

(1) The Impact of the adoption of new financial instrument standards on the Group

The classification and measurement of financial assets and liabilities in accordance with old financial instrument standards and new financial instrument standards at 1 January 2018 are compared as follows:

Group	31 December 2017	Reclassification	Remeasurement	1 January 2018
Financial assets				
Cash and balances with central bank	486,531	-	-	486,531
Due from banks and other financial institutions	96,348	-	(182)	96,166
Placements with banks and other financial institutions	80,839	-	(66)	80,773
Financial assets at fair value through profit or loss	162,866	(162,866)	-	NA
Derivative financial assets	28,264	(444)	-	27,820
Financial assets purchased under resale agreements	13,974	-	(66)	13,908
Interest receivable	31,094	-	794	31,888
Loans and advances to customers	3,103,853	2,649	(17,803)	3,088,699
Available-for-sale financial assets	664,508	(664,508)	-	NA
Investment securities - held-to-maturity	444,726	(444,726)	-	NA
Investment securities - loans and receivables	832,598	(832,598)	-	NA
Financial investments:				
Trading assets	NA	401,559	(66)	401,493
Debt investments	NA	1,477,323	2,660	1,479,983
Other debt investments	NA	224,879	-	224,879
Other equity investments	NA	1,381	(24)	1,357
Other financial assets	97,404	-	310	97,714
Sub-total	6,043,005	2,649	(14,443)	6,031,211
Non-financial assets				
Precious metals	10,261	-	-	10,261
Deferred income tax assets	29,022	-	5,213	34,235
Other non-financial assets	54,952	-	-	54,952
Sub-total	94,235	-	5,213	99,448
TOTAL ASSETS	6,137,240	2,649	(9,230)	6,130,659
Taxes payable	20,034	-	903	20,937
Provision	-	2,649	1,878	4,527
Other liabilities	5,686,221	-	-	5,686,221
Total liabilities	5,706,255	2,649	2,781	5,711,685
Other comprehensive income	(5,335)	-	3,015	(2,320)
Retained earnings	119,807	-	(15,090)	104,717
Other equity attributable to the Bank's shareholders	310,932	-	-	310,932
Equity attributable to the Bank's shareholders	425,404	-	(12,075)	413,329
Minority interests	5,581	-	64	5,645
Total equity	430,985	-	(12,011)	418,974
Total Liabilities and Equity	6,137,240	2,649	(9,230)	6,130,659

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

- (2) Reconciliation of financial assets balances in the balance sheet from under the old financial instrument standards to that under the new financial instrument standards

The Group analysed the business mode and cash flow characteristics of the financial assets it managed. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with the old financial instrument standards to their new measurement categories upon transition to the new financial instrument standards on 1 January 2018:

	Carrying amount under the old financial instrument standards 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2018
Financial assets at amortized cost				
Cash and balances with central bank				
Closing balance under the old financial instrument standards and opening balance under the new financial instrument standards	486,531	-	-	486,531
Due from banks and other financial institutions				
Closing balance under the old financial instrument standards	96,348	-	-	-
Remeasurement: ECL allowance	-	-	(182)	-
Opening balance under the new financial instrument standards	-	-	-	96,166
Placements with banks and other financial institutions				
Closing balance under the old financial instrument standards	80,839	-	-	-
Remeasurement: ECL allowance	-	-	(66)	-
Opening balance under the new financial instrument standards	-	-	-	80,773
Financial assets purchased under resale agreements				
Closing balance under the old financial instrument standards	13,974	-	-	-
Remeasurement: ECL allowance	-	-	(66)	-
Opening balance under the new financial instrument standards	-	-	-	13,908
Interest receivable				
Closing balance under the old financial instrument standards	31,094	-	-	-
Remeasurement: ECL allowance	-	-	794	-
Opening balance under the new financial instrument standards	-	-	-	31,888
Loans and advances to customers				
Closing balance under the old financial instrument standards	3,103,853	-	-	-
Less: Transfer to loans and advances to customers at fair value through other comprehensive income	-	(134,357)	-	-
Less: Impairment allowance to provision	-	2,649	-	-
Remeasurement: ECL allowance	-	-	(17,384)	-
Opening balance under the new financial instrument standards	-	-	-	2,954,761
Investment securities - held-to-maturity				
Closing balance under the old financial instrument standards	444,726	-	-	-
Less: Transfer to debt investments	-	(444,726)	-	-
Opening balance under the new financial instrument standards	-	-	-	-
Investment securities - loans and receivables				
Closing balance under the old financial instrument standards	832,598	-	-	-
Less: Transfer to debt investments	-	(767,024)	-	-
Less: Transfer to Trading assets	-	(65,574)	-	-
Opening balance under the new financial instrument standards	-	-	-	-

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

- (2) Reconciliation of financial assets balances in the balance sheet from under the old financial instrument standards to that under the new financial instrument standards (Continued)

	Carrying amount under the old financial instrument standards 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2018
Financial assets at amortized cost (Continued)				
Debt investments				
Closing balance under the old financial instrument standards	-	-	-	-
Add: Transfer from investment securities - loans and receivables	-	767,024	-	-
Add: Transfer from investment securities-held-to-maturity	-	444,726	-	-
Add: Transfer from financial assets at fair value through profit or loss	-	93,677	-	-
Add: Transfer from available-for-sale financial assets	-	171,896	-	-
Remeasurement: ECL allowance	-	-	(1,362)	-
Remeasurement: From fair value to amortized cost	-	-	4,022	-
Opening balance under the new financial instrument standards	-	-	-	1,479,983
Other financial assets				
Closing balance under the old financial instrument standards	97,404	-	-	-
Remeasurement: ECL allowance	-	-	310	-
Opening balance under the new financial instrument standards	-	-	-	97,714
Total financial assets measured at amortized cost				5,241,724
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss				
Closing balance under the old financial instrument standards	162,866	-	-	-
Less: Transfer to Trading assets	-	(69,189)	-	-
Less: Transfer to debt investments	-	93(677)	-	-
Opening balance under the new financial instrument standards	-	-	-	-
Trading assets				
Closing balance under the old financial instrument standards	-	-	-	-
Add: Transfer from investment securities - loans and receivables	-	65,574	-	-
Add: Transfer from available-for-sale financial assets	-	266,352	-	-
Add: Transfer from derivative financial assets	-	444	-	-
Add: Transfer from financial assets at fair value through profit or loss	-	69,189	-	-
Remeasurement: From amortized cost to fair value	-	-	(66)	-
Opening balance under the new financial instrument standards	-	-	-	401,493
Derivative financial assets				
Closing balance under the old financial instrument standards	28,264	-	-	-
Less: Transfer to Trading assets	-	(444)	-	-
Opening balance under the new financial instrument standards	-	-	-	27,820
Total financial assets at fair value through profit or loss				429,313

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

- (2) Reconciliation of financial assets balances in the balance sheet from under the old financial instrument standards to that under the new financial instrument standards (Continued)

	Carrying amount under the old financial instrument standards 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new financial instrument standards 1 January 2018
Financial assets at fair value through other comprehensive income				
Loans and advances to customers				
Closing balance under the old financial instrument standards	-	-	-	-
Add: Transfer from loans and advances to customers - amortized cost	-	134,357	-	-
Remeasurement: From amortized cost to fair value	-	-	(419)	-
Opening balance under the new financial instrument standards	-	-	-	133,938
Available-for-sale financial assets				
Closing balance under the old financial instrument standards	664,508	-	-	-
Less: Transfer to Trading assets	-	(266,352)	-	-
Less: Transfer to debt investments	-	(171,896)	-	-
Less: Transfer to debt investments	-	(224,879)	-	-
Less: Transfer to other equity investments	-	(1,381)	-	-
Opening balance under the new financial instrument standards	-	-	-	-
Other debt investments				
Closing balance under the old financial instrument standards	-	-	-	-
Add: Transfer from available-for-sale financial assets	-	224,879	-	-
Opening balance under the new financial instrument standards	-	-	-	224,879
Other equity investments				
Closing balance under the old financial instrument standards	-	-	-	-
Add: Transfer from available-for-sale financial assets	-	1,381	-	-
Remeasurement: Revaluation	-	-	(24)	-
Opening balance under the new financial instrument standards	-	-	-	1,357
Total financial assets at fair value through other comprehensive income				360,174
Total financial assets				6,031,211

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

2.32 Significant changes in accounting policies (Continued)

- (3) Reconciliation of impairment allowance balance from that under the old financial instrument standards to that under the new financial instrument standards

The following table reconciles the prior period's impairment allowance measured in accordance with the old financial instrument standards incurred loss model to the new impairment allowance measured in accordance with the new financial instrument standards ECL model as at 1 January 2018:

Measurement category	Loss allowance made in accordance with the old financial instrument standards/Provision recognised according to accounting standards on contingencies	Reclassification	ECL	Loss allowance/ Provision under the new financial instrument standards
Measured at amortized cost				
Due from banks and other financial institutions	-	-	182	182
Placements with banks and other financial institutions	-	-	66	66
Financial assets purchased under resale agreements	7	-	66	73
Interest receivable	1,247	-	(794)	453
Loans and advances to customers	90,747	(2,649)	17,384	105,482
Investment securities - held-to-maturity	73	(73)	-	-
Investment securities - loans and receivables	7,027	(7,027)	-	-
Debt investments	-	5,648	1,362	7,010
Other assets	3,359	-	(310)	3,049
Financial guarantees and credit commitments	-	2,649	1,878	4,527
Fair value through other comprehensive income				
Loans and advances to customers	-	-	410	410
Available-for-sale financial assets	225	(225)	-	-
Other debt investments	-	225	200	425
Total	102,685	(1,452)	20,444	121,677

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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3 TAXATION

The applicable taxes/surcharges categories and tax/surcharge rate for the Group are the follows:

Taxes/Surcharges	Tax/Surcharge base	Tax and surcharge rate
VAT	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	6%
	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the collection tax rate)	3% and 5%
City maintenance and construction tax	VAT payable	1% to 7%
Educational surcharge	VAT payable	3% to 5%
Corporate income tax	Taxable income	Mainland China: 25% Outside mainland China: the tax rate of branches and subsidiaries is calculated with applied tax rate.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

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4 NOTES TO THE FINANCIAL STATEMENTS

4.1 Cash and balances with central bank

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash on hand	6,036	7,284	5,894	7,121
Mandatory reserves with central bank	364,026	438,133	361,390	435,460
Excess reserves with central bank	70,709	38,905	69,687	37,354
Fiscal deposits with central bank	2,733	2,209	2,710	2,183
Interest receivable	219	NA	219	NA
Total	443,723	486,531	439,900	482,118

The Group is required to place mandatory reserves with the PBOC, including RMB and foreign currency deposit reserves which are not allowed to be used in the Group's daily operations. The reserve rate for deposits denominated in RMB is 12% on 31 December 2018 (31 December 2017: 15%). The reserve rate for deposits denominated in foreign currencies is 5% on 31 December 2018 (31 December 2017: 5%).

4.2 Due from banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due from domestic banks	48,364	54,630	41,443	48,113
Due from overseas banks	45,635	41,718	45,555	41,583
Interest receivable	401	NA	368	NA
Less: Impairment allowance	(116)	-	(92)	-
Total	94,284	96,348	87,274	89,696

4.3 Placements with banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Placements with domestic banks	14,006	8,504	13,506	7,954
Placements with overseas banks	17,231	10,057	17,231	10,057
Placements with other domestic financial institutions	109,840	62,278	113,728	64,874
Interest receivable	1,264	NA	1,265	NA
Less: Impairment allowance	(90)	-	(88)	-
Total	142,251	80,839	145,642	82,885

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.4 Financial assets at fair value through profit or loss

	Group	
	31 December 2018	31 December 2017
Trading financial assets		
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	11,101
Fund investments	NA	12,088
Sub-total	NA	60,517
Financial assets designated at fair value through profit or loss:		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	3,032
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	5,088
Sub-total	NA	102,349
Total	NA	162,866

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.4 Financial assets at fair value through profit or loss (Continued)

	Bank	
	31 December 2018	31 December 2017
Trading financial assets		
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	10,248
Fund investments	NA	10,700
Sub-total	NA	58,276
Financial assets designated at fair value through profit or loss:		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	332
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	4,431
Sub-total	NA	98,992
Total	NA	157,268

Note 1: There is no restriction on the realisation of the financial assets held by the Group for trading purposes.

Note 2: Current year's fair value changes and the cumulative changes caused by credit risk changes of the debt instruments are not significant.

Note 3: Other debt instruments are financing products issued to corporates by the Bank. The official written documents of the Bank's risk management have stated that the credit instruments are managed, evaluated on a fair value basis and reported to key management personnel.

Note 4: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2017, the fair value of the investment amounted to RMB 4,633 million.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.5 Derivative financial instruments

	Nominal amount	Group and Bank	
		31 December 2018	
		Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivatives designated as fair value hedging instruments:			
Interest rate swap contracts	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

	Nominal amount	Group and Bank	
		31 December 2017	
		Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging			
Currency swap contracts	1,877,844	19,561	(22,850)
Interest rate swap contracts	2,174,427	4,521	(4,322)
Option contracts	297,449	1,713	(1,154)
Precious metal derivative financial instruments	106,916	1,009	(869)
Foreign exchange forward contracts	75,092	824	(755)
Commodity contracts	9,732	512	(5)
Derivatives designated as fair value hedging instruments:			
Interest rate swap contracts	2,711	124	(15)
Cross-currency interest rate swap	740	-	(64)
Total		28,264	(30,034)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.6 Financial assets purchased under resale agreements

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	11,575	12,625
Deposit certificates issued by other financial institutions	-	756
Bills	-	600
Interest receivable	5	NA
Less: Impairment allowance	(7)	(7)
Total	11,573	13,974

4.7 Interest receivable

	Group	
	31 December 2018	31 December 2017
Bonds and other investments	NA	18,561
Loans	NA	11,613
Balance with central banks and inter-bank	NA	1,674
Finance lease receivables	NA	483
Financial assets purchased under resale agreements	NA	10
Less: Impairment allowance	NA	(1,247)
Total	NA	31,094

	Bank	
	31 December 2018	31 December 2017
Bonds and other investments	NA	18,311
Loans	NA	11,595
Balance with central banks and inter-bank	NA	1,625
Financial assets purchased under resale agreements	NA	10
Less: Impairment allowance	NA	(1,247)
Total	NA	30,294

Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by the Ministry of Finance in December 2018, the Bank shall prepare its financial statements in accordance with the revised formats of financial enterprises as of the accounting year beginning on 1 January 2018 and “Interest receivable” or “Interest payable” will not be separately presented. The Bank is not required to restate previous comparatives.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans and advances to customers				
- Amortized cost (a)	3,299,570	3,194,600	3,277,027	3,172,916
- Fair value through other comprehensive income (b)	249,153	NA	249,153	NA
- Fair value through profit or loss (c)	482	NA	482	NA
Sub-total	3,549,205	3,194,600	3,526,662	3,172,916
Interest receivable	11,705	NA	11,642	NA
Impairment allowance				
- Loans and advances to customers at amortized cost (a)	(105,339)	(90,747)	(103,649)	(89,188)
- Interest receivable of loans and advances to customers at amortized cost	(82)	NA	(77)	NA
Sub-total	(105,421)	(90,747)	(103,726)	(89,188)
Net loans and advances to customers	3,455,489	3,103,853	3,434,578	3,083,728

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
(a) Loans and advances to customers measured at amortized cost				
Corporate loans				
Commercial Loans	1,778,999	1,772,962	1,769,084	1,762,221
Trade finance	36,875	44,898	36,875	44,898
Discounted bills	468	134,609	314	134,357
Retail loans				
Mortgage loans	588,988	505,135	585,007	502,836
Loans to finance family business	240,404	187,209	233,422	180,483
Credit card and overdraft	433,470	418,347	433,470	418,347
Consumer loans and others	220,366	131,440	218,855	129,774
Sub-total	3,299,570	3,194,600	3,277,027	3,172,916
Less: impairment allowance	(105,339)	(90,747)	(103,649)	(89,188)
Individual impairment allowances	NA	(22,155)	NA	(22,155)
Collective impairment allowances	NA	(68,592)	NA	(67,033)
Loans and advances to customers measured at amortized cost, net	3,194,231	3,103,853	3,173,378	3,083,728
(b) Loans and advances to customers at fair value through other comprehensive income				
Corporate loans				
Discounted bills	248,984	NA	248,984	NA
Add: Changes in fair value	169	NA	169	NA
Loans and advances to customers at fair value through other comprehensive income, net	249,153	NA	249,153	NA
(c) Loans and advances to customers at fair value through profit or loss				
Corporate loans				
Discounted bills	482	NA	482	NA
Add: Changes in fair value	-	NA	-	NA
Loans and advances to customers at fair value through profit or loss, net	482	NA	482	NA
Total loans and advances to customers	3,443,866	3,103,853	3,423,013	3,083,728

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.1 Loans and advances to customers analysed by industry

Group	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	305,290	8.60	303,242	9.49
Real estate	283,516	7.99	277,054	8.67
Lease and commercial service	265,795	7.49	312,879	9.79
Wholesale and retail	207,144	5.84	262,569	8.22
Water, environment and public facilities management	165,400	4.66	119,900	3.75
Construction	141,439	3.99	126,382	3.96
Transportation, warehouse and postal services	125,359	3.53	120,846	3.78
Mining	77,164	2.17	76,505	2.39
Electricity, heat, gas, water production and supply	64,389	1.81	61,298	1.92
Financial services	56,467	1.59	14,778	0.46
Agriculture, forestry, farming and fishery	27,205	0.77	29,765	0.93
Information transmission, software and IT services	25,023	0.71	32,447	1.02
Research and technology services	21,401	0.60	18,980	0.59
Healthcare and social welfare	11,837	0.33	10,823	0.34
Culture, sports and entertainment	10,573	0.30	10,444	0.33
Education	10,302	0.29	10,395	0.33
Hotel and catering	8,835	0.25	8,550	0.27
Resident services, repairing and other services	5,621	0.16	12,256	0.38
Public management, social security and social organisation	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.05
	1,815,874	51.17	1,817,860	56.90
Discounted bank acceptances	135,273	3.81	98,611	3.09
Re-discount	111,814	3.15	34,420	1.08
Discounted commercial acceptances	3,016	0.08	1,578	0.05
	250,103	7.04	134,609	4.22
Retail loans	1,483,228	41.79	1,242,131	38.88
Total	3,549,205	100.00	3,194,600	100.00

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.1 Loans and advances to customers analysed by industry (Continued)

Bank	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	299,984	8.51	297,361	9.37
Real estate	283,488	8.04	277,039	8.73
Lease and commercial service	266,381	7.55	313,601	9.88
Wholesale and retail	205,237	5.82	260,540	8.21
Water, environment and public facilities management	165,321	4.69	119,807	3.78
Construction	140,879	3.99	125,705	3.96
Transportation, warehouse and postal services	125,240	3.55	120,746	3.81
Mining	77,019	2.18	76,340	2.41
Electricity, heat, gas, water production and supply	63,948	1.81	60,858	1.92
Financial services	56,467	1.60	14,778	0.47
Agriculture, forestry, farming and fishery	25,782	0.73	28,217	0.89
Information transmission, software and IT services	24,958	0.71	32,358	1.02
Research and technology services	21,376	0.61	18,964	0.60
Healthcare and social welfare	11,787	0.33	10,751	0.34
Culture, sports and entertainment	10,514	0.30	10,392	0.33
Education	10,257	0.29	10,348	0.33
Hotel and catering	8,656	0.25	8,385	0.26
Resident services, repairing and other services	5,551	0.16	12,182	0.38
Public management, social security and social organisation	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.04
	1,805,959	51.21	1,807,119	56.96
Discounted bank acceptances	135,119	3.83	98,359	3.10
Re-discount	111,814	3.17	34,420	1.08
Discounted commercial acceptances	3,016	0.09	1,578	0.05
	249,949	7.09	134,357	4.23
Retail loans	1,470,754	41.70	1,231,440	38.81
Total	3,526,662	100.00	3,172,916	100.00

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.2 Loans and advances to customers analysed by geography

Group	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Headquarters	526,613	14.84	535,413	16.76
Yangtze River Delta	1,049,321	29.55	855,652	26.79
Pearl River Delta and West Side of Taiwan				
Strait	345,174	9.73	304,451	9.53
Bohai Rim	444,619	12.53	404,193	12.65
Central China	458,935	12.93	407,555	12.76
Western China	464,613	13.09	451,520	14.13
North-east China	179,470	5.06	160,985	5.04
Overseas and subsidiaries	80,460	2.27	74,831	2.34
Total	3,549,205	100.00	3,194,600	100.00
Bank				
	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Headquarters	526,613	14.94	535,413	16.87
Yangtze River Delta	1,049,321	29.75	855,652	26.97
Pearl River Delta and West Side of Taiwan				
Strait	345,174	9.79	304,451	9.60
Bohai Rim	445,160	12.62	404,818	12.76
Central China	458,935	13.01	407,555	12.84
Western China	464,613	13.17	451,520	14.23
North-east China	179,470	5.09	160,985	5.07
Overseas and subsidiaries	57,376	1.63	52,522	1.66
Total	3,526,662	100.00	3,172,916	100.00

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

4.8 Loans and advances to customers (Continued)

4.8.3 Loans and advances to customers analysed by collateral type

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Collateralised loans	1,284,367	1,180,094	1,273,603	1,171,050
Guaranteed loans	739,258	723,672	729,446	713,351
Unsecured loans	1,325,740	1,090,899	1,324,946	1,090,121
Pledged loans	199,840	199,935	198,667	198,394
Total	3,549,205	3,194,600	3,526,662	3,172,916

4.8.4 Overdue loans and advances to customers

Group	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,486	14,817	12,744	485	41,532
Collateralised loans	7,363	7,952	5,132	2,473	22,920
Unsecured loans	6,215	9,591	1,610	177	17,593
Pledged loans	810	1,853	777	47	3,487
Total	27,874	34,213	20,263	3,182	85,532

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,426	16,391	11,523	624	45,964
Collateralised loans	7,657	10,209	9,573	817	28,256
Unsecured loans	4,251	4,592	3,044	433	12,320
Pledged loans	949	986	855	202	2,992
Total	30,283	32,178	24,995	2,076	89,532

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Loans and advances to customers (Continued)

4.8.4 Overdue loans and advances to customers (Continued)

Bank	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,195	14,295	12,269	451	40,210
Collateralised loans	7,260	7,754	4,996	2,429	22,439
Unsecured loans	6,198	9,551	1,539	177	17,465
Pledged loans	754	1,853	756	47	3,410
Total	27,407	33,453	19,560	3,104	83,524

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,153	16,099	11,236	622	45,110
Collateralised loans	7,533	10,103	9,452	816	27,904
Unsecured loans	4,249	4,585	3,044	433	12,311
Pledged loans	948	983	840	202	2,973
Total	29,883	31,770	24,572	2,073	88,298

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Loans and advances to customers (Continued)

4.8.5 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	31,168	35,384	38,930	105,482
Additions/(Deduction), net (Note 1)	(6,172)	(871)	65,604	58,561
Write-off and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(95)	(7,822)	7,917	-
Transfer from stage 1 to stage 2	(2,387)	2,387	-	-
Transfer from stage 1 to stage 3	(550)	-	550	-
Transfer from stage 2 to stage 1	2,720	(2,720)	-	-
Transfer from stage 2 to stage 3	-	(7,642)	7,642	-
Transfer from stage 3 to stage 2	-	153	(153)	-
Transfer from stage 3 to stage 1	122	-	(122)	-
Recovery of loans and advances written off in previous years	-	-	3,748	3,748
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	25,042	26,693	53,604	105,339

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on ECL measurement.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Loans and advances to customers (Continued)

4.8.5 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	30,587	35,308	37,908	103,803
Additions/(Deduction), net (Note 1)	(6,084)	(999)	65,333	58,250
Write-off and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(93)	(7,810)	7,903	-
Transfer from stage 1 to stage 2	(2,381)	2,381	-	-
Transfer from stage 1 to stage 3	(540)	-	540	-
Transfer from stage 2 to stage 1	2,718	(2,718)	-	-
Transfer from stage 2 to stage 3	-	(7,607)	7,607	-
Transfer from stage 3 to stage 2	-	134	(134)	-
Transfer from stage 3 to stage 1	110	-	(110)	-
Recovery of loans and advances written off in previous years	-	-	3,670	3,670
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	24,551	26,501	52,597	103,649

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on the ECL measurement.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**8 Loans and advances to customers (Continued)****4.8.5 Movements of ECL allowance (Continued)****(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)**

Group	2017		Total
	Individually assessed	Collectively assessed	
Balance at the beginning of the year	15,475	72,774	88,249
Charge for the year	19,680	33,119	52,799
Write-off	(17,435)	(33,819)	(51,254)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/(transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at the end of the year	22,155	68,592	90,747

Bank	2017		Total
	Individually assessed	Collectively assessed	
Balance at the beginning of the year	15,475	71,882	87,357
Charge for the year	19,680	32,141	51,821
Write-off	(17,435)	(33,508)	(50,943)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/(transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at the end of the year	22,155	67,033	89,188

(b) Movements of ECL allowance of loans and advances to customers at fair value through other comprehensive income

Group and Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	409	1	-	410
Additions/(Deduction), net	(210)	3	-	(207)
Balance at the end of the year	199	4	-	203

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	2,804,951	184,302	70,989	3,060,242
Additions/(Deduction), net	384,654	(39,043)	(15,899)	329,712
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-off and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(103,254)	11,639	91,615	-
Transfer from stage 1 to stage 2	(78,369)	78,369	-	-
Transfer from stage 1 to stage 3	(55,598)	-	55,598	-
Transfer from stage 2 to stage 1	30,397	(30,397)	-	-
Transfer from stage 2 to stage 3	-	(36,719)	36,719	-
Transfer from stage 3 to stage 2	-	386	(386)	-
Transfer from stage 3 to stage 1	316	-	(316)	-
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,070,112	157,207	72,251	3,299,570

Note 1: The Group transfers loans and advances to customer to third parties.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance (Continued)

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	2,785,830	183,666	69,063	3,038,559
Additions/(Deduction), net	382,332	(38,483)	(15,375)	328,474
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-off and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(100,998)	10,250	90,748	-
Transfer from stage 1 to stage 2	(76,920)	76,920	-	-
Transfer from stage 1 to stage 3	(54,756)	-	54,756	-
Transfer from stage 2 to stage 1	30,387	(30,387)	-	-
Transfer from stage 2 to stage 3	-	(36,603)	36,603	-
Transfer from stage 3 to stage 2	-	320	(320)	-
Transfer from stage 3 to stage 1	291	-	(291)	-
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,050,925	155,742	70,360	3,277,027

Note 1: The Bank transfers loans and advances to customer to third parties.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.8 Loans and advances to customers (Continued)

4.8.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance (Continued)

(b) Movements of gross carrying amount of loans and advances to customers at fair value through other comprehensive income

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group and Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	134,315	34	-	134,349
Additions/(Deduction), net	114,706	(33)	-	114,673
Transfer between stages:	(48)	48	-	-
Transfer from stage 1 to stage 2	(48)	48	-	-
Changes in fair value	331	3	-	334
Balance at the end of the year	249,304	52	-	249,356

4.9 Available-for-sale financial assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
At fair value:				
Government bonds	NA	64,429	NA	64,429
Bonds issued by policy banks	NA	29,770	NA	29,770
Bonds issued by financial institutions	NA	63,089	NA	63,089
Deposit certificates issued by other financial institutions	NA	24,872	NA	24,872
Corporate bonds	NA	41,251	NA	37,682
Assets backed securities ("ABS")	NA	169,276	NA	169,276
Trust and asset management plans	NA	52,951	NA	48,809
Equity investments	NA	2,237	NA	1,468
Wealth management products ("WMPs") managed by other banks	NA	354	NA	-
Fund investments	NA	215,396	NA	215,124
Others	NA	883	NA	318
Total	NA	664,508	NA	654,837

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.9 Available-for-sale financial assets (Continued)

(a) Detail information of available-for-sale financial assets is as follows:

Measured at the fair value of available for sale financial assets:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds and other debt instruments				
- Fair value	NA	399,528	NA	391,817
- Initial recognition cost	NA	406,910	NA	399,199
- Accumulate amount recognised in other comprehensive income	NA	(7,056)	NA	(7,056)
- Accumulate amount recognised in profit or loss (Note 1)	NA	(167)	NA	(167)
- Accumulate provision of impairment	NA	(159)	NA	(159)
Equity investments				
- Fair value	NA	2,237	NA	1,468
- Initial recognition cost	NA	2,261	NA	1,492
- Accumulate amount recognised in other comprehensive income	NA	(24)	NA	(24)
WMPs managed by other banks, fund investments, part of asset management schemes and others				
- Fair value	NA	262,743	NA	261,552
- Initial recognition cost	NA	262,894	NA	261,581
- Accumulate amount recognised in other comprehensive income	NA	(85)	NA	37
- Accumulate provision of impairment	NA	(66)	NA	(66)
Total				
- Fair value	NA	664,508	NA	654,837
- Initial recognition cost	NA	672,065	NA	662,272
- Accumulate amount recognised in other comprehensive income	NA	(7,165)	NA	(7,043)
- Accumulate amount recognised in profit or loss (Note 1)	NA	(167)	NA	(167)
- Accumulated provision of impairment	NA	(225)	NA	(225)

Note 1: The Bank's Hong Kong branch hedged the fair value changes of available-for-sale bonds caused by interest rates using interest rate swap. Changes in fair value of the hedged bonds are recognised in profits or losses for the current period.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.9 Available-for-sale financial assets (Continued)

(b) Available-for-sale financial assets summarised by impairment provision:

	Group and Bank	
	31 December 2018	31 December 2017
Available-for-sale bonds	NA	159
Others	NA	66
Total	NA	225

4.10 Investment securities - held-to-maturity

	Group and Bank	
	31 December 2018	31 December 2017
Government bonds	NA	269,515
Bonds issued by policy banks	NA	166,016
Bonds issued by financial institutions	NA	3,744
Corporate bonds	NA	5,524
Less: Impairment allowance	NA	(73)
Total	NA	444,726

4.11 Investment securities - loans and receivables

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds				
Government bonds	NA	135,733	NA	135,733
Bonds issued by financial institutions	NA	97,509	NA	97,509
Corporate bonds	NA	20,762	NA	20,762
ABS	NA	3,411	NA	3,411
	NA	257,415	NA	257,415
Trust and asset management plans (Note 1)	NA	581,690	NA	567,626
WMPs managed by other banks	NA	520	NA	520
	NA	582,210	NA	568,146
Individual assessed impairment allowances	NA	(2,856)	NA	(3,451)
Collectively assessed impairment allowances	NA	(4,171)	NA	(4,171)
Sub-total	NA	(7,027)	NA	(7,622)
Loans and receivables, net	NA	832,598	NA	817,939

Note 1: Trust and asset management plans are managed and operated by the third-party, who ultimately invested in trust loans, bill assets, etc.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trading assets (a)	395,668	NA	382,492	NA
Debt investments (b)	1,144,249	NA	1,133,993	NA
Other debt investments (c)	378,860	NA	374,171	NA
Other equity investments (d)	4,038	NA	4,038	NA
Financial instruments, net	1,922,815	NA	1,894,694	NA

(a) Trading assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	7,859	NA	7,859	NA
Bonds issued by policy banks	5,109	NA	5,109	NA
Bonds issued by financial institutions	5,610	NA	5,610	NA
Deposit certificates issued by other financial institutions	23,056	NA	23,056	NA
Corporate bonds	12,629	NA	12,410	NA
Fund investments	263,191	NA	257,693	NA
ABS	2,531	NA	2,531	NA
Equity investments	1,128	NA	97	NA
WMPs managed by other banks	208	NA	-	NA
Trust and asset management plans (Note 1)	68,669	NA	62,683	NA
Other investments (Note 2)	5,678	NA	5,444	NA
Total	395,668	NA	382,492	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

Note 2: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2018, the fair value of the investment amounted to RMB 5,678 million.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(b) Debt investments

	Group		Bank	
	31 December 2018	1 December 2017	December 2018	1 December 2017
Government bonds	455,516	NA	455,516	NA
Bonds issued by policy banks	194,088	NA	194,088	NA
Bonds issued by financial institutions	45,167	NA	45,167	NA
Corporate bonds	25,782	NA	25,374	NA
Deposit certificates issued by other financial institutions	695	NA	695	NA
ABS	120,415	NA	120,415	NA
Other debt instruments (Note 1)	9,650	NA	9,650	NA
Trust and asset management plans (Note 2)	285,576	NA	276,204	NA
Sub-total	1,136,889	NA	1,127,109	NA
Interest receivable	14,863	NA	14,690	NA
Impairment allowance				
- Debt investments	(7,488)	NA	(7,791)	NA
- Interest receivable of debt investments	(15)	NA	(15)	NA
Sub-total	(7,503)	NA	(7,806)	NA
Debt investments, net	1,144,249	NA	1,133,993	NA

Note 1: Other debt investments are financing products issued to corporates by the Bank.

Note 2: Trust and asset management plans are managed and operated by the third-party, who ultimately invested in trust loans, bill assets, etc.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(b) Debt investments (Continued)

(i) Movements of ECL allowance:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	2,868	418	3,724	7,010
Charge for the year	1,269	47	1,584	2,900
Reverse for the year	(1,225)	(188)	(1,022)	(2,435)
Transfer between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	(5)	5	-	-
Transfer from stage 1 to stage 3	(7)	-	7	-
Transfer from stage 2 to stage 1	4	(4)	-	-
Transfer from stage 2 to stage 3	-	(40)	40	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,909	238	4,341	7,488

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(b) Debt investments (Continued)

(i) Movements of ECL allowance (Continued):

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	2,778	418	4,032	7,228
Charge for the year	1,231	47	1,556	2,834
Reverse for the year	(1,074)	(188)	(1,022)	(2,284)
Transfer between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	(5)	5	-	-
Transfer from stage 1 to stage 3	(7)	-	7	-
Transfer from stage 2 to stage 1	4	(4)	-	-
Transfer from stage 2 to stage 3	-	(40)	40	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,932	238	4,621	7,791

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(b) Debt investments (Continued)

- (ii) The following table illustrates movements of gross carrying amount of debt investments to explain the impact of these changes on the allowance for impairment losses on debt investments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	1,469,339	11,348	6,306	1,486,993
Originated or purchased	616,119	-	-	616,119
Derecognised (except for write off)	(959,438)	(5,269)	(1,648)	(966,355)
Transfer between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	(679)	679	-	-
Transfer from stage 1 to stage 3	(455)	-	455	-
Transfer from stage 2 to stage 1	69	(69)	-	-
Transfer from stage 2 to stage 3	-	(1,115)	1,115	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,125,085	5,575	6,229	1,136,889

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(b) Debt investments (Continued)

- (ii) The following table illustrates movements of gross carrying amount of debt investments to explain the impact of these changes on the allowance for impairment losses on debt investments (Continued):

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	1,454,278	11,348	7,138	1,472,764
Originated or purchased	615,619	-	-	615,619
Derecognised (except for write off)	(954,536)	(5,269)	(1,601)	(961,406)
Transfer between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	(679)	679	-	-
Transfer from stage 1 to stage 3	(455)	-	455	-
Transfer from stage 2 to stage 1	69	(69)	-	-
Transfer from stage 2 to stage 3	-	(1,115)	1,115	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,114,426	5,575	7,108	1,127,109

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.12 Financial investments (Continued)****(c) Other debt investments**

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	153,340	NA	153,340	NA
Bonds issued by policy banks	73,947	NA	73,947	NA
Bonds issued by financial institutions	57,177	NA	57,177	NA
Deposit certificates issued by other financial institutions	20,804	NA	20,804	NA
Corporate bonds	54,251	NA	50,775	NA
ABS	11,982	NA	11,982	NA
Trust and asset management plans (Note 1)	2,487	NA	1,274	NA
Sub-total	373,988	NA	369,299	NA
Interest receivable	4,872	NA	4,872	NA
Total	378,860	NA	374,171	NA

(i) Analysis of relevant information on other debt investments is as follows:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Debt instruments				
- Fair value	373,988	NA	369,299	NA
- Initial recognition cost	369,901	NA	364,818	NA
- Accumulate amount recognised in other comprehensive income	4,151	NA	4,545	NA
- Accumulate amount recognised in profit or loss (Note 2)	(64)	NA	(64)	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, who ultimately invested in bill assets, etc.

Note 2: The Bank's Hong Kong branch hedged the fair value changes of other debt investments caused by interest rates using interest rate swap. Changes in fair value of the hedged bonds are recognised in profits or losses for the current period.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.12 Financial investments (Continued)

(c) Other debt investments (Continued)

(ii) Movements of ECL allowance of other debt investments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	200	-	225	425
Charge for the year	374	16	50	440
Reverse for the year	(40)	-	-	(40)
Write-off	-	-	(110)	(110)
Exchange differences	(4)	-	4	-
Balance at the end of the year	530	16	169	715
Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Balance at 1 January 2018	200	-	225	425
Charge for the year	198	14	50	262
Reverse for the year	(40)	-	-	(40)
Write-off	-	-	(110)	(110)
Exchange differences	(4)	-	4	-
Balance at the end of the year	354	14	169	537

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.12 Financial investments (Continued)****(c) Other debt investments (Continued)**

- (iii) The following table illustrates movements of gross carrying amount of debt investments to explain the impact of these changes on the allowance for impairment losses on other debt investments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	224,919	-	385	225,304
Originated or purchased	434,245	-	-	434,245
Derecognised (except for write off)	(294,602)	(35)	(110)	(294,747)
Write-off	-	-	(110)	(110)
Transfer between stages:	(493)	493	-	-
<i>Transfer from stage 1 to stage 2</i>	<i>(493)</i>	<i>493</i>	<i>-</i>	<i>-</i>
Changes in fair value	8,129	4	-	8,133
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	374,072	462	169	374,703

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Balance at 1 January 2018	219,343	-	385	219,728
Originated or purchased	434,473	-	-	434,473
Derecognised (except for write off)	(294,203)	(35)	(110)	(294,348)
Write-off	-	-	(110)	(110)
Transfer between stages:	(493)	493	-	-
<i>Transfer from stage 1 to stage 2</i>	<i>(493)</i>	<i>493</i>	<i>-</i>	<i>-</i>
Changes in fair value	8,211	4	-	8,215
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	369,205	462	169	369,836

(d) Other equity investments

	Group and Bank	
	31 December 2018	31 December 2017
Equity investments	4,038	NA

**NOTES TO THE FINANCIAL STATEMENTS
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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.12 Financial investments (Continued)****(d) Other equity investments (Continued)**

Analysis of relevant information on other equity investments is as follows:

	Group and Bank	
	31 December 2018	31 December 2017
- Fair value	4,038	NA
- Initial recognition cost	3,459	NA
- Accumulate amount recognised in other comprehensive income	579	NA

4.13 Long-term equity investments

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Joint ventures	1,757	804	1,757	804
Associates	211	202	-	-
Subsidiaries (Note 5.1)	-	-	24,307	23,056
Total	1,968	1,006	26,064	23,860

The Group does not have significant restrictions in long-term equity investments realisation.

As at 31 December 2018, there was no restriction for capital transfer from the Group's and the Bank's subsidiaries and joint ventures to the Group and the Bank.

		Group					31 December 2018
		31 December 2017	Movements for the current year			Exchange rate adjustment	
			Increase in investment cost	Share of net profit or loss	Declared cash dividends		
AXA SPDB Investment Management Co., Ltd.	Joint ventures	326	831	154	(64)	-	1,247
SPD Silicon Valley Bank Co., Ltd.	Joint ventures	478	-	22	-	10	510
Others	Associates	202	21	(12)	-	-	211

		Bank					31 December 2018
		31 December 2017	Movements for the current year			Exchange rate adjustment	
			Increase in investment cost	Share of net profit or loss	Declared cash dividends		
AXA SPDB Investment Management Co., Ltd.	Joint ventures	326	831	154	(64)	-	1,247
SPD Silicon Valley Bank Co., Ltd.	Joint ventures	478	-	22	-	10	510

Interest in joint ventures and associates is set forth in Note 5.2.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.14 Fixed assets

Group

	31 December 2017	Additions	Disposals	31 December 2018
Cost	35,791	9,867	(7,119)	38,539
Buildings	12,657	366	(7)	13,016
Motor vehicles	464	31	(34)	461
Aircraft equipment	10,295	2,300	-	12,595
Electronic computers and other equipment	7,701	844	(577)	7,968
Construction in progress	4,674	6,326	(6,501)	4,499
Accumulated depreciation	10,651	1,964	(568)	12,047
Buildings	3,793	424	(3)	4,214
Motor vehicles	355	36	(31)	360
Aircraft equipment	907	608	-	1,515
Electronic computers and other equipment	5,596	896	(534)	5,958
Construction in progress	-	-	-	-
Net book value	25,140			26,492
Buildings	8,864			8,802
Motor vehicles	109			101
Aircraft equipment	9,388			11,080
Electronic computers and other equipment	2,105			2,010
Construction in progress	4,674			4,499

The depreciation expense recognised in profit or loss in 2018 was RMB 1,964 million (2017: RMB 1,778 million).

As at 31 December 2018, the net book value of RMB 11,080 million (31 December 2017: RMB 9,388 million) of aircraft equipment of Group's subsidiary SPDB Financial Leasing Co., Ltd was leased.

Buildings, with the cost of RMB 388 million and net book value of RMB 311 million as at 31 December 2018 (31 December 2017: cost of RMB 873 million and net book value of RMB 764 million), were in use while the property right registration were still in progress.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.14 Fixed assets (Continued)

Bank	31 December 2017	Additions	Disposals	31 December 2018
Cost	24,785	7,518	(7,083)	25,220
Buildings	12,140	357	(7)	12,490
Motor vehicles	435	26	(25)	436
Electronic computers and other equipment	7,536	809	(550)	7,795
Construction in progress	4,674	6,326	(6,501)	4,499
Accumulated depreciation	9,595	1,285	(545)	10,335
Buildings	3,745	392	(3)	4,134
Motor vehicles	336	32	(23)	345
Electronic computers and other equipment	5,514	861	(519)	5,856
Construction in progress	-	-	-	-
Net book value	15,190			14,885
Buildings	8,395			8,356
Motor vehicles	99			91
Electronic computers and other equipment	2,022			1,939
Construction in progress	4,674			4,499

The depreciation expense recognised in profit or loss for the year ended 31 December 2018 was RMB 1,285 million (31 December 2017: RMB 1,341 million).

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.15 Intangible assets

Group	31 December 2017	Additions	Disposals	31 December 2018
Cost	5,941	7,425	-	13,366
Land use rights	408	6,392	-	6,800
Software and others	2,609	1,033	-	3,642
Contractual customer relationships	688	-	-	688
Brand and franchise right	2,236	-	-	2,236
Accumulated amortisation	2,642	762	-	3,404
Land use rights	67	210	-	277
Software and others	2,016	463	-	2,479
Contractual customer relationships	559	89	-	648
Brand and franchise right	-	-	-	-
Net book value	3,299			9,962
Land use rights	341			6,523
Software and others	593			1,163
Contractual customer relationships	129			40
Brand and franchise right	2,236			2,236

The amortisation expense recognised in profit or loss for the year ended 31 December 2018 was RMB 762 million (31 December 2017: RMB 494 million).

According to the Group's impairment test result, the brand and franchise right were not impaired as at 31 December 2018.

Bank	31 December 2017	Additions	Disposals	31 December 2018
Cost	2,954	7,415	-	10,369
Land use rights	405	6,392	-	6,797
Software and others	2,549	1,023	-	3,572
Accumulated amortisation	2,055	659	-	2,714
Land use rights	67	210	-	277
Software and others	1,988	449	-	2,437
Net book value	899			7,655
Land use rights	338			6,520
Software and others	561			1,135

The amortisation expense recognised in profit or loss for in 2018 was RMB 659 million (2017: RMB 321 million).

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.16 Goodwill

	31 December 2018	31 December 2017
Goodwill -		
Shanghai International Trust Co., Ltd.	6,981	6,981
Less: Impairment allowances (a)	<u>-</u>	<u>-</u>
	<u>6,981</u>	<u>6,981</u>

Goodwill is recognised in March 2016 as a result of the Bank's issuance of ordinary shares to acquire 97.33% equity of Shanghai International Trust Co., Ltd.

(a) Impairment allowances

The goodwill allocated to the CGU or CGUs according to operating segments is summarised as follows:

	31 December 2018	31 December 2017
Shanghai International Trust Co., Ltd.	4,739	4,739
Subsidiaries of Shanghai International Trust Co., Ltd.	<u>2,242</u>	<u>2,242</u>
	<u>6,981</u>	<u>6,981</u>

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation was not changed in 2018.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on management's approved five-year financial forecasts. The cash flows beyond the five-year period are forecasted based on the following estimated growth rates.

The key assumptions applied in calculating discounted future cash flows are as follows:

	Shanghai International Trust Co., Ltd.		Subsidiaries of Shanghai International Trust Co., Ltd.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Forecast period growth rate	8.14%	10.96%	Management determines the revenue growth rate for the five-year detailed forecast period based on historical experience and market development forecasts	
Stable period growth rate	3.00%	3.00%	3.00%	3.00%
Discount rate, before tax	16.76%	18.50%	14.36% - 17.70%	18.42% - 21.92%

The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period, which is consistent with the forecasts included in industry reports and does not exceed the long-term average growth rates of each product.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.17 Long-term deferred charges

Group	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Leasehold improvements	1,108	271	(520)	859
Leasing expense	58	129	(71)	116
Others	197	8	(12)	193
Total	1,363	408	(603)	1,168

The Group's amortisation expense recognised in profit or loss for the year ended 31 December 2018 was RMB 600 million (31 December 2017: RMB 661 million).

Bank	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Leasehold improvements	1,051	256	(494)	813
Leasing expense	55	129	(71)	113
Others	192	-	(8)	184
Total	1,298	385	(573)	1,110

The Group's amortisation expense recognised in profit or loss in 2018 was RMB 572 million (2017: RMB 586 million).

4.18 Deferred income tax

4.18.1 The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred income tax assets	36,877	29,022	36,078	28,381
Deferred income tax liabilities	(643)	(680)	-	-

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**18 Deferred income tax (Continued)****4.18.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:**

Group

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Impairment allowances for financial assets at amortized cost	148,296	37,074	110,820	27,705
Provision	4,747	1,187	NA	NA
Amortisation for long-term assets	-	-	28	7
Employee benefits payable	684	171	260	65
Fair value changes of other financial assets and liabilities recognised in profit or loss	NA	NA	36	9
Fair value changes of other debt investments recognised in other comprehensive income	394	98	NA	NA
Fair value changes of available-for-sale financial assets recognised in other comprehensive income	NA	NA	7,165	1,792
Accumulated fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Accumulated fair value changes of hedged available-for-sale financial assets recognised in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	154,542	38,635	120,246	30,063

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.18 Deferred income tax (Continued)****4.18.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):**

Group	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Fair value changes of financial assets and liabilities held for trading	(1,233)	(308)	NA	NA
Fair value changes of other financial assets and liabilities recognised in profit or loss	NA	NA	(3,949)	(987)
Fair value changes of other debt investments recognised in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity investments	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(32)	(8)
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,568)	(642)	(2,676)	(669)
Others	(4)	(1)	(12)	(3)
Deferred income tax liabilities before offsetting	(9,608)	(2,401)	(6,885)	(1,721)

As at 31 December 2018, the Group offset deferred income tax assets and liabilities of RMB 1,758 million (31 December 2017: RMB 1,041 million).

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.18 Deferred income tax (Continued)****4.18.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):**

Bank

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Impairment allowances for financial assets at amortized cost	145,976	36,494	108,604	27,151
Provision	4,742	1,186	NA	NA
Amortisation for long-term assets	-	-	28	7
Fair value changes of available-for-sale financial assets recognised in other comprehensive income	NA	NA	7,043	1,761
Accumulated fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Accumulated fair value changes of hedged available-for-sale financial assets recognised in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	151,139	37,785	117,612	29,404

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.18 Deferred income tax (Continued)

4.18.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

Bank

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Fair value changes of financial assets and liabilities held for trading	(1,028)	(257)	NA	NA
Fair value changes of other financial assets and liabilities recognised in profit or loss	NA	NA	(3,847)	(962)
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of other debt investments recognised in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity investments	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(27)	(7)
Deferred income tax liabilities before offsetting	(6,831)	(1,707)	(4,090)	(1,023)

As at 31 December 2018, the Bank offset deferred income tax assets and liabilities of RMB 1,707 million (31 December 2017: RMB 1,023 million).

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[English translation for reference only]

4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.18 Deferred income tax (Continued)
4.18.3 The movement of the deferred income tax account is as follows:

Group	2018
Balance at the beginning of the year	28,342
Impact of the new financial instrument standards	5,213
Restated beginning balance of the period	33,555
Credited to profit or loss (Note 4.49)	4,918
Credited to other comprehensive income (Note 4.35)	(2,239)
Balance at the end of the year	36,234
Bank	2018
Balance at the beginning of the year	28,381
Impact of the new financial instrument standards	5,266
Restated beginning balance of the period	33,647
Credited to profit or loss (Note 4.49)	4,690
Credited to other comprehensive income (Note 4.35)	(2,259)
Balance at the end of the year	36,078

4.19 Other assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Finance lease receivables (Note 1)	48,232	41,017	-	-
Settlement and clearing accounts	13,543	17,466	13,543	17,465
Margin deposits for precious metal trading	9,754	9,318	9,754	9,318
Other receivables (Note 2)	4,932	35,657	3,316	34,790
Payments to Trust Protection Fund on behalf of investors	2,745	3,264	-	-
Prepayment for land use rights and constructions	1,758	7,077	1,758	7,077
Past due interest receivable, net	705	NA	700	NA
Foreclosed assets	605	768	595	765
Total	82,274	114,567	29,666	69,415

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.19 Other assets (Continued)

Note 1: Finance lease receivable

Group

	31 December 2018	31 December 2017
Within 1 year (including 1 year)	17,424	13,524
1 to 2 years (including 2 years)	12,642	11,051
2 to 3 years (including 3 years)	9,485	8,967
Over 3 years	15,562	14,149
Gross amount of minimum finance lease receivable	55,113	47,691
Interest receivable	502	NA
Less: Unearned finance income	(6,460)	(5,493)
Less: Impairment allowance	(923)	(1,181)
Net finance lease receivable	48,232	41,017

Note 2: Other receivables

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
By ageing				
Within 1 year	6,155	36,493	4,680	35,781
1 to 2 years	315	263	161	109
2 to 3 years	61	68	51	59
Over 3 years	1,052	1,011	1,048	997
	7,583	37,835	5,940	36,946
Less: Impairment allowance	(2,651)	(2,178)	(2,624)	(2,156)
Net other receivables	4,932	35,657	3,316	34,790

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.20 Impairment allowances for assets

Group	31 December 2017	Restated beginning balance of the period	Charge and reverse	Write-off and disposal	Others	31 December 2018
Due from banks and other financial institutions	-	182	(66)	-	-	116
Placements with banks and other financial institutions	-	66	24	-	-	90
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Interest receivable	1,247	NA	NA	NA	NA	NA
Loans and advances to customers at amortized cost	90,747	105,525	58,590	(61,290)	2,596	105,421
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities - held-to-maturity	73	NA	NA	NA	NA	NA
Investment securities - loans and receivables	7,027	NA	NA	NA	NA	NA
Debt investments	NA	7,020	470	-	13	7,503
Other debt investments	NA	425	400	(110)	-	715
Other receivables	2,178	2,317	559	(225)	-	2,651
Past due interest receivable	NA	400	315	-	-	715
Finance lease receivable	1,181	732	191	-	-	923
Foreclosed assets	178	178	3	-	(10)	171
Total	102,863	117,328	60,213	(61,625)	2,599	118,515

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.20 Impairment allowances for assets (Continued)

Bank	31 December 2017	Restated beginning balance of the period	Charge and reverse	Write-off and disposal	Others	31 December 2018
Due from banks and other financial institutions	-	159	(67)	-	-	92
Placements with banks and other financial institutions	-	66	22	-	-	88
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Interest receivable	1,247	NA	NA	NA	NA	NA
Loans and advances to customers at amortized cost	89,188	103,846	58,284	(60,912)	2,508	103,726
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities - held-to-maturity	73	NA	NA	NA	NA	NA
Investment securities - loans and receivables	7,622	NA	NA	NA	NA	NA
Debt investments	NA	7,237	556	-	13	7,806
Other debt investments	NA	425	222	(110)	-	537
Other receivables	2,156	2,298	550	(224)	-	2,624
Past due interest receivable	NA	396	315	-	-	711
Foreclosed assets	178	178	3	-	(10)	171
Total	100,696	115,088	59,612	(61,246)	2,511	115,965

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.20 Impairment allowances for assets (Continued)
Group

	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Interest receivable	907	340	-	-	1,247
Loans and advances to customers	88,249	52,799	(51,254)	953	90,747
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities - held-to-maturity	48	25	-	-	73
Investment securities - loans and receivables	5,809	1,537	(319)	-	7,027
Other receivables	1,887	575	(284)	-	2,178
Finance lease receivable	1,337	(156)	-	-	1,181
Foreclosed assets	613	14	-	(449)	178
Total	98,937	55,285	(51,857)	498	102,863

Bank

	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Interest receivable	907	340	-	-	1,247
Loans and advances to customers	87,357	51,821	(50,943)	953	89,188
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities - held-to-maturity	48	25	-	-	73
Investment securities - loans and receivables	5,809	2,132	(319)	-	7,622
Other receivables	1,883	554	(281)	-	2,156
Foreclosed assets	613	14	-	(449)	178
Total	96,704	55,037	(51,543)	498	100,696

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.21 Due to banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due to domestic banks	231,926	340,355	238,492	347,707
Due to other domestic financial institutions	783,406	937,994	784,655	938,945
Due to overseas banks	30,180	11,953	30,180	11,953
Due to other overseas financial institutions	18,047	24,016	18,047	24,016
Interest payable	4,210	NA	4,233	NA
Total	1,067,769	1,314,318	1,075,607	1,322,621

4.22 Placements from banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Placements from domestic banks	96,104	81,919	61,910	46,514
Placements from overseas banks	48,515	52,400	45,571	51,396
Placements from other financial institutions	3,470	4,463	1,800	2,963
Interest payable	533	NA	445	NA
Total	148,622	138,782	109,726	100,873

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.23 Trading liabilities

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial liabilities related to precious metals	24,504	15,121	24,504	15,121
Interest of other unitholders in consolidated structured entities (Note 1)	10,408	13,212	-	-
Total	34,912	28,333	24,504	15,121

Note 1: The Group designated interests attributable to other unitholders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk. (As at 31 December 2017: no significant fair value changes have occurred).

4.24 Financial assets sold under repurchase agreement

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	85,383	156,778
Bills	34,067	21,488
Deposit certificates issued by other financial institutions	-	6,198
Interest payable	114	NA
Total	119,564	184,464

4.25 Deposits from customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Current deposits				
- Corporate	1,244,437	1,353,271	1,235,699	1,342,465
- Retail	219,601	184,666	216,471	181,624
Time deposits				
- Corporate	1,330,802	1,191,860	1,325,892	1,185,849
- Retail	428,273	303,767	415,068	292,474
Other deposits	3,905	4,372	3,788	4,192
Sub-total	3,227,018	3,037,936	3,196,918	3,006,604
Interest payable	26,297	NA	25,671	NA
Total	3,253,315	3,037,936	3,222,589	3,006,604

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.26 Employee benefits payable

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Short-term employee benefits payable	4,140	2,657	3,062	1,701
Long-term employee benefits payable (Note 1)	6,347	5,254	6,249	5,179
Total	10,487	7,911	9,311	6,880

Group

	31 December 2017	Addition	Payment	Others	31 December 2018
Long-term employee benefits payable	5,254	1,892	(1,114)	315	6,347
Short-term employee benefits payable					
Wages and salaries, bonus, allowances and subsidies	2,123	17,245	(15,785)	-	3,583
Welfare fund	-	592	(592)	-	-
Social insurance	169	3,387	(3,326)	-	230
Housing fund	25	1,105	(1,108)	-	22
Labour union fund and staff education fund	340	422	(457)	-	305
	7,911	24,643	(22,382)	315	10,487

Bank

	31 December 2017	Addition	Payment	Others	31 December 2018
Long-term employee benefits payable	5,179	1,833	(1,065)	302	6,249
Short-term employee benefits payable					
Wages and salaries, bonus, allowances and subsidies	1,167	15,985	(14,639)	-	2,513
Welfare fund	-	550	(550)	-	-
Social insurance	169	3,267	(3,208)	-	228
Housing fund	25	1,062	(1,066)	-	21
Labour union fund and staff education fund	340	396	(436)	-	300
	6,880	23,093	(20,964)	302	9,311

Note1: According to the requirements of the authorities and the relevant regulations of the Bank, the deferred payment part of the employee benefits payable will be paid in the next three years gradually.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.27 Taxes payable

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Corporate income tax	16,657	16,435	16,182	15,957
Value-added tax	4,269	2,935	3,209	2,795
Withholding tax and others	669	664	623	602
Total	21,595	20,034	20,014	19,354

4.28 Interest payable

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Interest payable for customer deposits	NA	24,848	NA	24,496
Interest payable for due to banks and other financial institutions, placements from banks and other financial institutions	NA	6,610	NA	6,383
Interest payable for bonds issued	NA	3,361	NA	3,298
Interest payable for securities sold under repurchase agreements	NA	202	NA	202
Others	NA	43	NA	43
Total	NA	35,064	NA	34,422

Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by the Ministry of Finance in December 2018, the Bank shall prepare its financial statements in accordance with the revised formats of financial enterprises as of the accounting year beginning on 1 January 2018 and “Interest receivable” or “Interest payable” will not be separately presented. The Bank is not required to restate previous comparatives.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.29 Bonds issued

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds issued				
Subordinated bond issued in 2011 (Note 1)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012 (Note 2)	12,000	12,000	12,000	12,000
Tier II capital bond issued in 2015 (Note 3)	30,000	30,000	30,000	30,000
Hong Kong USD medium-term note (Note 4)	12,015	11,396	12,015	11,396
Green Financial Bond 01 (Note 5)	20,000	20,000	20,000	20,000
Green Financial Bond 02 (Note 6)	15,000	15,000	15,000	15,000
Green Financial Bond 03 (Note 7)	15,000	15,000	15,000	15,000
2017 First Financial Bond (Note 8)	15,000	15,000	15,000	15,000
2017 Second Financial Bond (Note 9)	22,000	22,000	22,000	22,000
2017 Third Financial Bond (Note 10)	13,000	13,000	13,000	13,000
2018 Tier II First Financial Bond (Note 11)	20,000	-	20,000	-
2018 Tier II Second Financial Bond (Note 12)	20,000	-	20,000	-
SGD USD medium-term note (Note 13)	2,060	-	2,060	-
2017 SPDB Financial Leasing Financial Bond (Note 14)	3,000	3,000	-	-
2018 SPDB Financial Leasing Financial Bond (Note 15)	5,000	-	-	-
Sub-total	222,475	174,796	214,475	171,796
Less: Unamortized issue cost	(104)	(139)	(97)	(128)
Net book value of bonds issued	222,371	174,657	214,378	171,668
Assets backed securities ("ABS")				
Puxin 2017 First Leasing ABS (Note 16)	419	1,198	-	-
Deposit certificates issued	614,564	510,441	614,564	510,441
Interest payable	4,086	NA	3,931	NA
Total	841,440	686,296	832,873	682,109

Note 1: The Bank issued subordinated bonds in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bonds at face value on its tenth anniversary.

Note 2: The Bank issued subordinated bonds in the amount of RMB 12.0 billion in the domestic inter-bank market on 28 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bonds at face value on its tenth anniversary.

Note 3: The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 10 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.29 Bonds issued (Continued)

Note 4: The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 26 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

Note 5: The Bank issued “2016 First Green Financial Bond” in the amount of RMB 20 billion in the domestic inter-bank market on 27 January 2016 which has a term of 3 years through maturity, with a fixed annual coupon rate of 2.95%.

Note 6: The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

Note 7: The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

Note 8: The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 24 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

Note 9: The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 28 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

Note 10: The Bank issued “2017 Third Financial Bond” in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

Note 11: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 7 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 12: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 18 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 13: The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

Note 14: SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2017 Financial Bond” in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

Note 15: SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2018 Financial Bond” in the amount of RMB 5 billion in the domestic inter-bank market on 23 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.29 Bonds issued (Continued)

Note 16: On 18 August 2017, SPDB financial leasing Co., Ltd, the subsidiary of the Bank, transferred its finance lease receivables with a par value of RMB 2,286 million to a trust company to issue the "Puxin 2017 First Leasing Asset-Backed Securities". This ABS is divided into primary and secondary tranche with a par value of totalling RMB 2,286 million. The primary tranche has a par value of RMB 1,966 million with a floating annual coupon rate, which is the benchmark interest rate plus the corresponding interest rate margin. The benchmark interest rate is the one-to-five-year benchmark lending rate announced by the PBOC. The secondary tranche has a par value of RMB 320 million with no annual coupon rate. SPDB Financial Leasing Co., Ltd. holds all the secondary tranche. As of 31 December 2018, the remaining balance of the primary tranche is RMB 419 million. Since the above-mentioned structure is not satisfied with the requirement for derecognition of the asset, the finance lease receivables transferred that have not expired are still recognised in the balance sheet.

4.30 Provision

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Impairment allowance for financial guarantees and loan commitments	4,747	NA	4,742	NA

(a) Change of impairment allowance for financial guarantees and loan commitments

Group	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	3,435	807	285	4,527
Charge for the year	980	612	74	1,666
Reverse for the year	(764)	(443)	(252)	(1,459)
Transfers between stages:	36	(10)	(26)	-
Transfer from stage 1 to stage 2	(39)	39	-	-
Transfer from stage 1 to stage 3	(1)	-	1	-
Transfer from stage 2 to stage 1	76	(76)	-	-
Transfer from stage 2 to stage 3	-	(23)	23	-
Transfer from stage 3 to stage 2	-	50	(50)	-
Exchange difference	11	2	-	13
Balance at the end of the year	3,698	968	81	4,747

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.30 Provision (Continued)

(a) Change of impairment allowance for financial guarantees and loan commitments (Continued)

Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life-time ECL	Life-time ECL	Total
Balance at 1 January 2018	3,427	807	285	4,519
Charge for the year	980	612	73	1,665
Reverse for the year	(760)	(443)	(251)	(1,454)
Transfers between stages:	36	(10)	(26)	-
<i>Transfer from stage 1 to stage 2</i>	(39)	39	-	-
<i>Transfer from stage 1 to stage 3</i>	(1)	-	1	-
<i>Transfer from stage 2 to stage 1</i>	76	(76)	-	-
<i>Transfer from stage 2 to stage 3</i>	-	(23)	23	-
<i>Transfer from stage 3 to stage 2</i>	-	50	(50)	-
Exchange difference	10	2	-	12
Balance at the end of the year	3,693	968	81	4,742

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.31 Other liabilities

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Settlement and clearing accounts	28,527	22,362	28,527	22,362
Advances from and deposits under lease agreements	4,262	3,965	-	-
Accrued expenses	3,240	1,973	3,240	1,972
Contract liabilities	2,782	NA	1,156	NA
Due to Trust Protection Fund	970	3,400	-	-
Relending	724	793	724	793
Fiscal deposits in transition	607	376	535	374
Proceeds from customers for subscribing mutual funds	627	549	627	549
Long term undrawn deposits	122	117	122	117
Dividends payable	14	14	12	12
Others	2,461	6,467	1,799	4,748
Total	44,336	40,016	36,742	30,927

4.32 Ordinary shares

	Group and Bank	
	31 December 2018	31 December 2017
RMB ordinary shares	29,352	29,352

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.33 Other equity instruments
(1) Information of other equity instruments

Name of other equity instrument	Dividend rate	Par value (RMB)	Number	Amount as at 31 December 2017	Increase in this year	Amount as at 31 December 2018	Maturity date	Converted (Yes/No)
Pufayou 1	6% for the first five years	100	150 million	14,960	-	14,960	No maturity date	No
Pufayou 2	5.5% for the first five years	100	150 million	14,960	-	14,960	No maturity date	No
				29,920	-	29,920		

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the par value of RMB 30 billion. The proceeds after deducting transaction costs amounted to RMB 29.92 billion and were recorded as Preference shares. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBIRC, the Bank's outstanding preference shares shall be mandatorily converted in part or full to the Bank's ordinary shares:

- When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;
- When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 10.96 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc.) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014] No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.33 Other equity instruments (Continued)

(2) Equity attributable to the holders of other equity instruments

	Group	
	31 December 2018	31 December 2017
Equity attributable to the Bank's shareholders		
Equity attributable to the Bank's ordinary shareholders	441,642	395,484
Equity attributable to the Bank's other equity shareholders (Note1)	29,920	29,920
Equity attributable to minority interests	6,818	5,581

Note 1: For dividends paid to preference shareholders in 2018, please refer to Note 4.38.

4.34 Capital surplus

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share premium	81,689	81,689	81,689	81,689
Other capital surplus-				
Capital increase of subsidiaries	50	50	-	-
Others	21	21	21	21
Total	81,760	81,760	81,710	81,710

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.35 Other comprehensive income

Group

	Other comprehensive income in the balance sheet					Other comprehensive income in the income statement for the year ended 31 December 2018				
	31 December 2017	Effect of new accounting standards for financial instruments on balance at the beginning of the year	Balance as at 1 January 2018	Attributable to the company after tax	31 December 2018	Amount before tax	Less: Transfer out	Less: tax	Attributable to the company after tax	Attributable to minority interests after tax
Other comprehensive income items which will be reclassified to profit or loss										
Changes in fair value of other debt investments (Note 1)	NA	(3,084)	(3,084)	6,324	3,240	8,793	(361)	(2,108)	6,324	-
Provision for impairment of other debt investments (Note 2)	NA	626	626	63	689	193	(110)	(21)	63	(1)
Gains or losses arising from changes in fair value of available-for-sale financial assets	(5,370)	5,370	NA	NA	NA	NA	NA	NA	NA	NA
Exchange differences from the translation of foreign operations	35	-	35	261	296	266	-	-	261	5
Other comprehensive income items which will not be reclassified to profit or loss										
Changes in fair value of investments in other equity instruments	NA	103	103	331	434	441	-	(110)	331	-
	(5,335)	3,015	(2,320)	6,979	4,659	9,693	(471)	(2,239)	6,979	4

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2017				
	31 December 2016	Attributable to the company after tax	31 December 2017	Amount before tax	Less: Transfer out	Less: tax	Attributable to the company after tax	Attributable to minority interests after tax
Other comprehensive income items which will be reclassified to profit or loss								
Gains or losses arising from changes in fair value of available-for-sale financial assets	69	(5,439)	(5,370)	(3,237)	(4,017)	1,814	(5,439)	(1)
Exchange differences from the translation of foreign operations	164	(129)	35	(132)	-	-	(129)	(3)
	233	(5,568)	(5,335)	(3,369)	(4,017)	1,814	(5,568)	(4)

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.35 Other comprehensive income (Continued)

Bank

	Other comprehensive income in the balance sheet					Other comprehensive income in the income statement for the year ended 31 December 2018			
	31 December 2017	Effect of new accounting standards for financial instruments on balance at the beginning of the year	Balance at 1 January 2018	Net amount after tax	31 December 2018	Amount before tax	Less: Transfer out	Less: tax	Other comprehensive income, net of tax
Other comprehensive income items which will be reclassified to profit or loss									
Changes in fair value of other debt investments (Note 1)	NA	(2,982)	(2,982)	6,518	3,536	8,841	(150)	(2,173)	6,518
Provision for impairment of other debt investments (Note 2)	NA	626	626	(71)	555	15	(110)	24	(71)
Gains or losses arising from changes in fair value of available-for-sale financial assets	(5,281)	5,281	NA	NA	NA	NA	NA	NA	NA
Exchange differences from the translation of foreign operations	(8)	-	(8)	110	102	110	-	-	110
Other comprehensive income items which will not be reclassified to profit or loss									
Changes in fair value of investments in other equity instruments	NA	103	103	331	434	441	-	(110)	331
	(5,289)	3,028	(2,261)	6,888	4,627	9,407	(260)	(2,259)	6,888

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2017			
	31 December 2016	Net amount after tax	31 December 2017	Amount before tax	Less: Transfer out	Less: tax	Other comprehensive income, net of tax
Other comprehensive income items which will be reclassified to profit or loss							
Gains or losses arising from changes in fair value of available-for-sale financial assets	92	(5,373)	(5,281)	(3,226)	(3,938)	1,791	(5,373)
Exchange differences from the translation of foreign operations	96	(104)	(8)	(104)	-	-	(104)
	188	(5,477)	(5,289)	(3,330)	(3,938)	1,791	(5,477)

Note 1: Changes in fair value of other debt investments include changes in fair value of other debt investments in financial investments and loans and advances to customers at fair value through other comprehensive income.

Note 2: Provision for impairment of other debt investments includes provision for impairment of other debt investments in financial investments and loans and advances to customers at fair value through other comprehensive income.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.36 Surplus reserves

Group and Bank	31 December 2017	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

Group and Bank	31 December 2016	Addition	31 December 2017
Statutory reserve	22,206	-	22,206
Discretionary reserve	56,483	15,509	71,992
Total	78,689	15,509	94,198

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

4.37 General risk reserve

Group	31 December 2017	Addition	31 December 2018
General risk reserve	75,702	244	75,946
Group	31 December 2016	Addition	31 December 2017
General risk reserve	65,493	10,209	75,702
Bank	31 December 2017	Addition	31 December 2018
General risk reserve	74,900	-	74,900
Bank	31 December 2016	Addition	31 December 2017
General risk reserve	65,045	9,855	74,900

Pursuant to Caijin [2012] No. 20 *Administration Rules on Appropriation to General Risk Reserve for Financial Institutions* issued by the Ministry of Finance ("MOF"), the Bank and its domestic subsidiaries are required to make appropriation to a general risk reserve effective from 1 July 2012 and the balance of such reserve shall not be less than 1.5% of the entity's risk assets in five-year time.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.38 Retained earnings

Group

	2018	2017
Opening balance of retained earnings	119,807	97,316
Impact of new financial instrument standards	(15,090)	NA
Restated opening balance of retained earnings	104,717	NA
Plus: Net profit attributable to the Bank's shareholders for the year	55,914	54,258
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	(244)	(10,209)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	140,208	119,807

Bank

	2018	2017
Opening balance of retained earnings	115,333	95,016
Impact of new financial instrument standards	(14,865)	NA
Restated opening balance of retained earnings	100,468	NA
Plus: Net profit attributable to the Bank's Shareholders for the year	53,625	51,730
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	-	(9,855)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	133,914	115,333

In accordance with a resolution of the board meeting on 2 March 2018, the Bank declared cash dividends on Pufayou 2. The dividend is calculated at a rate of 5.50% of the Par value of Pufayou 2. The dividend was paid at a rate of RMB 5.50 per share (before tax), totalling RMB 825 million (before tax).

In accordance with a resolution of the 2017 Annual General Meeting on 28 May 2018, the Bank appropriated 30% of its net profit for the year ended 31 December 2017 to the discretionary reserve in the amount of RMB 15,519 million. The Bank also appropriated cash dividends of RMB 2,935 million (RMB 1 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2017.

In accordance with a resolution of the board meeting on 22 November 2018, the Bank declared cash dividends on Pufayou 1. The dividend is calculated at a rate of 6.00% of the Par value of Pufayou 1. The dividend was paid at a rate of RMB 6.00 per share (before tax), totalling RMB 900 million (before tax).

In accordance with a resolution of the board meeting on 22 March 2019, the Board of Directors proposed to appropriate 30% of the Bank's net profit for the year ended 31 December 2018 to the discretionary reserve in the amount of RMB 16,088 million. Cash dividends of RMB 10,273 million (RMB 3.50 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2018. These appropriations are subject to final approval by Annual General Meeting.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4.39 Minority interests**

Minority interests of the Group is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
SPD Financial Leasing Co., Ltd.	3,212	2,117
Shanghai International Trust Co., Ltd.	1,447	1,332
Mianzhu SPD Rural Bank Co., Ltd.	46	58
Liyang SPD Rural Bank Co., Ltd.	181	171
Gongyi SPD Rural Bank Co., Ltd.	152	156
Fengxian SPD Rural Bank Co., Ltd.	170	145
Zixing SPD Rural Bank Co., Ltd.	122	108
Chongqing Banan SPD Rural Bank Co., Ltd.	63	65
Zouping SPD Rural Bank Co., Ltd.	62	128
Zezhou SPD Rural Bank Co., Ltd.	179	168
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	35	34
Hancheng SPD Rural Bank Co., Ltd.	58	52
Jiangyin SPD Rural Bank Co., Ltd.	111	103
Pingyang SPD Rural Bank Co., Ltd.	76	71
Xinchang SPD Rural Bank Co., Ltd.	126	117
Yuanjiang SPD Rural Bank Co., Ltd.	48	43
Chaling SPD Rural Bank Co., Ltd.	67	58
Linchuan SPD Rural Bank Co., Ltd.	109	112
Linwu SPD Rural Bank Co., Ltd.	68	53
Hengnan SPD Rural Bank Co., Ltd.	56	44
Harbin Hulan SPD Rural Bank Co., Ltd.	52	56
Gongzhuling SPD Rural Bank Co., Ltd.	18	21
Yuzhong SPD Rural Bank Co., Ltd.	23	52
Yunnan Fumin Rural Bank Co., Ltd.	40	37
Ningbo Haishu Rural Bank Co., Ltd.	65	60
Urumchi Midong SPD Rural Bank Co., Ltd.	76	70
Tianjin Baodi SPD Rural Bank Co., Ltd.	83	75
Qianxinan Yilong SPD Rural Bank Co., Ltd.	33	30
Chongqing Tongliang SPD Rural Bank Co., Ltd.	20	22
Fufeng SPD Rural Bank Co., Ltd.	20	23
Total	<u>6,818</u>	<u>5,581</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.40 Net interest income

	Group		Bank	
	2018	2017	2018	2017
Interest income				
Balance with central bank	6,806	7,529	6,759	7,484
Due from banks and other financial institutions	2,659	3,903	2,452	3,602
Placements with banks and other financial institutions	5,775	4,322	5,835	4,401
Financial assets purchased under resale agreements	2,141	1,177	2,141	1,177
Loans and advances to customers				
- Corporate loans	85,927	81,025	85,300	80,306
- Retail loans	85,560	69,502	84,869	68,911
- Discounted and rediscounted bills	7,939	2,554	7,932	2,536
Financial investments				
- Debt investments	57,856	NA	57,537	NA
- Other debt investments	10,150	NA	9,886	NA
- Bond investments and deposit certificates issued by other financial institutions	NA	37,130	NA	36,951
- Investments other than bond investments and deposit certificates issued by other financial institutions	NA	36,319	NA	35,872
Finance lease receivables	2,071	1,899	-	-
Others	604	458	604	458
Sub-total	267,488	245,818	263,315	241,698
Interest expense				
Due to central bank	(6,734)	(5,339)	(6,716)	(5,322)
Due to banks and other financial institutions	(49,296)	(52,510)	(49,589)	(52,701)
Placements from banks and other financial institutions	(5,376)	(3,953)	(3,561)	(2,186)
Financial assets sold under repurchase agreements	(3,436)	(2,432)	(3,436)	(2,432)
Deposits from customers	(59,653)	(47,776)	(59,036)	(47,240)
Bonds issued	(29,788)	(25,795)	(29,499)	(25,714)
Others	(1,361)	(1,101)	(1,361)	(1,101)
Sub-total	(155,644)	(138,906)	(153,198)	(136,696)
Net interest income	111,844	106,912	110,117	105,002

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.41 Net fee and commission income

	Group		Bank	
	2018	2017	2018	2017
Fee and commission income				
Fees from bank cards	23,390	17,717	23,388	17,715
Custodian fees	12,831	21,051	9,425	17,626
Fees from investment banking activities	3,048	3,521	2,920	3,355
Credit commitment fees	2,276	2,311	2,274	2,306
Agency commissions	1,883	1,700	1,882	1,699
Settlement and clearing fees	1,020	1,201	1,019	1,200
Others	1,757	3,272	1,339	2,831
Sub-total	46,205	50,773	42,247	46,732
Fee and commission expense	(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income	39,009	45,580	35,047	41,520

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.42 Investment income

	Group		Bank	
	2018	2017	2018	2017
Trading assets				
- Fund investments	8,874	NA	8,892	NA
- Bonds	2,273	NA	2,273	NA
- Fund trust schemes and asset management plans	2,106	NA	2,017	NA
Debt investments	(22)	NA	(68)	NA
Other debt investments				
- Bonds	150	NA	150	NA
- Fund trust schemes and asset management plans	211	NA	-	NA
Investments in other equity instruments	40	NA	40	NA
Precious metals	(641)	1,508	(641)	1,508
Derivative financial instruments	1,610	859	1,610	859
Long-term equity investments accounted for using the equity method	164	97	176	100
Dividends from subsidiaries	-	-	126	127
Fund investments	NA	4,537	NA	4,128
Financial assets at fair value through profit or loss	NA	1,360	NA	1,262
Financial assets designated at fair value through profit or loss	NA	4,278	NA	4,278
Available-for-sale equities	NA	480	NA	278
Available-for-sale debentures	NA	96	NA	40
Investment securities - loans and receivables	NA	51	NA	51
Others	NA	319	NA	-
Total	14,765	13,585	14,575	12,631

There was no significant restrictions on the remitting of investment income to the Group as at the balance sheet date.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.43 Gains or losses from change of fair value

	Group		Bank	
	2018	2017	2018	2017
Derivative financial instruments	(1,887)	(4,912)	(1,887)	(4,912)
Precious metals	(573)	(566)	(573)	(566)
Trading assets	3,155	NA	2,792	NA
Financial assets at fair value through profit or loss	NA	(250)	NA	(249)
Financial assets designated at fair value through profit or loss	NA	1,885	NA	2,253
Fair value changes of hedged bonds	103	46	103	46
Total	798	(3,797)	435	(3,428)

4.44 Foreign exchange gains

	Group		Bank	
	2018	2017	2018	2017
Gains or losses from changes in fair values of foreign exchange derivatives	4,582	NA	4,582	NA
Gains or losses from investment in foreign exchange derivatives	508	NA	508	NA
Others exchange gains or losses	(3,935)	2,723	(3,952)	2,737
Total	1,155	2,723	1,138	2,737

Note: Pursuant to the *Circular on Amendment to Formats of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by the Ministry of Finance in December 2018, the Bank shall prepare its financial statements in accordance with the revised formats of financial enterprises as of the accounting year beginning on 1 January 2018. Foreign exchange gains mainly include profit and loss arising from the exchange rate changes in foreign currency transactions and gains arising from foreign exchange derivative financial instruments.

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.45 Tax and surcharges

	Group		Bank	
	2018	2017	2018	2017
Urban maintenance and construction tax	922	782	869	753
Education fee and levy	410	353	385	334
Other levies	520	475	501	453
Total	1,852	1,610	1,755	1,540

4.46 Operating expenses

	Group		Bank	
	2018	2017	2018	2017
Wages and salaries, bonuses, allowances and subsidies	19,137	18,238	17,818	17,035
Welfare fund	592	647	550	610
Social insurance	3,387	2,967	3,267	2,871
Housing fund	1,105	1,056	1,062	1,027
Labour union fund and staff education fund	422	388	396	362
Rental expenses	2,995	2,957	2,826	2,798
Depreciation and amortisation	3,326	2,933	2,516	2,248
Electronic equipment operating and maintenance expenses	760	921	717	880
Others	11,370	10,940	10,808	10,254
Total	43,094	41,047	39,960	38,085

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.47 Impairment on credit losses

	Group		Bank	
	2018	2017	2018	2017
Loans and advances to customers measured at amortized cost	58,590	NA	58,284	NA
Other receivables	559	NA	550	NA
Debt investments	470	NA	556	NA
Other debt investments	400	NA	222	NA
Past due interest receivable	315	NA	315	NA
Provision	207	NA	211	NA
Finance lease receivables	191	NA	-	NA
Placements with banks and other financial institutions	24	NA	22	NA
Financial assets purchased under resale agreements	(66)	NA	(66)	NA
Due from banks and other financial institutions	(66)	NA	(67)	NA
Loans and advances to customers at fair value through other comprehensive income	(207)	NA	(207)	NA
Total	60,417	NA	59,820	NA

4.48 Impairment losses on assets

	Group		Bank	
	2018	2017	2018	2017
Loans and advances to customers	NA	52,799	NA	51,821
Investment securities - loans and receivables	NA	1,537	NA	2,132
Other receivables	NA	575	NA	554
Interest receivable	NA	340	NA	340
Available-for-sale financial assets	NA	144	NA	144
Investment securities - held-to-maturity	NA	25	NA	25
Foreclosed assets	NA	14	NA	14
Financial assets purchased under resale agreements	NA	7	NA	7
Finance lease receivables	NA	(156)	NA	-
Total	NA	55,285	NA	55,037

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.49 Income tax expense

	Group		Bank	
	2018	2017	2018	2017
Current income tax expense	13,687	20,233	12,516	18,816
Deferred income tax expense	(4,918)	(5,407)	(4,690)	(5,088)
Total	8,769	14,826	7,826	13,728

Reconciliations between the Group's theoretical income tax expense using the statutory tax rate and actual amount are as follows:

	Group		Bank	
	2018	2017	2018	2017
Profit before income tax	65,284	69,828	61,451	65,458
Tax calculated at applicable tax rate	16,289	17,411	15,363	16,365
Non-deductible expenses	302	533	202	422
Tax-exempt income	(7,878)	(3,158)	(7,769)	(3,093)
Adjustments on income tax for prior years which affect current profit or loss	56	40	30	34
Income tax expense	8,769	14,826	7,826	13,728

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
4.50 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the year. The conversion feature of preference shares is considered to fall within the category of contingently issuable ordinary shares. The triggering events of share conversion did not occur during the year of 2018. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share.

	2018	2017
Net profit attributable to equity holders of the Bank	55,914	54,258
Less: Declared dividends attributable to preference shareholders of the Bank	<u>(1,725)</u>	<u>(1,725)</u>
Net profit for the year attributable to the holders of the Bank's ordinary shares	<u>54,189</u>	<u>52,533</u>
Weighted average number of outstanding ordinary shares (million)	29,352	28,520
Basic and diluted earnings per share attributable to the shareholders of the Bank (expressed in RMB per share)	<u>1.85</u>	<u>1.84</u>

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with aggregated par value of RMB 30 billion. The Bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on non-cumulative preference shares declared in respect of the period have been deducted from the profit attributable to ordinary shareholders of the Bank.

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 shares for every 10 shares held, which increased the total number of capital shares by 6,485,483,977 shares. And the number of shares after conversion is 28,103,763,899 shares. The Bank issued 1,248,316,498 domestic RMB ordinary shares and completed share registration in September 2017. Upon the issuance, ordinary shares of the Bank was increased from 28,103,763,899 shares to 29,352,080,397 shares.

4.51 Cash and cash equivalents

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash on hand	6,036	7,284	5,894	7,121
Excess reserves with central banks	70,709	38,905	69,687	37,354
With original maturities of no more than three months:				
- Due from banks and other financial institutions	47,026	66,116	44,000	59,210
- Inter-bank placements	<u>63,873</u>	<u>35,153</u>	<u>63,873</u>	<u>35,153</u>
Total	<u>187,644</u>	<u>147,458</u>	<u>183,454</u>	<u>138,838</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.52 Supplementary information of statement of cash flow

(a) Supplementary information of statement of cash flow

Reconciliation of net profit to cash flows from operating activities:

	Group		Bank	
	2018	2017	2018	2017
Net profit	56,515	55,002	53,625	51,730
Add: Impairment on credit losses	60,417	NA	59,820	NA
Impairment losses on other assets	3	NA	3	NA
Impairment losses on assets	NA	55,285	NA	55,037
Depreciation of fixed assets	1,964	1,778	1,285	1,341
Amortisation of intangible assets	762	494	659	321
Amortisation of long-term deferred charges	600	661	572	586
Gains on disposal of fixed assets, intangible assets and other long-term assets	(33)	(16)	(34)	(17)
Gains and losses on changes in fair value	(798)	3,797	(435)	3,428
Foreign exchange gains - gains or losses from changes in fair value of exchange rate derivatives	(4,582)	NA	(4,582)	NA
Interest paid for bonds issued	29,788	25,795	29,499	25,714
Interest income from debt investments and other debt investments	(68,006)	NA	(67,423)	NA
Interest received from bond and other investment classified as loans and receivables	NA	(72,661)	NA	(72,035)
Investment income	(11,521)	(4,645)	(11,332)	(4,494)
Increase in deferred income tax assets	(4,881)	(5,370)	(4,690)	(5,088)
Decrease in deferred income tax liabilities	(37)	(37)	-	-
Increase in operating receivables	(589,837)	(378,345)	(580,837)	(376,447)
Increase in operating payables	191,286	177,589	195,158	168,210
Net cash flows paid in operating activities	(338,360)	(140,673)	(328,712)	(151,714)

Significant operating, investing and financing activities that do not involve cash receipts and payments in 2018 (2017: Nil).

Net increase/(decrease) in cash and cash equivalents

	Group		Bank	
	2018	2017	2018	2017
Ending balance	187,644	147,458	183,454	138,838
Less: Beginning balance	(147,458)	(247,411)	(138,838)	(241,178)
Net increase/(decrease) in cash and cash equivalents	40,186	(99,953)	44,616	(102,340)

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4 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.53 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

The disclosure of financial assets sold under repurchase agreements refers to Note 4.24. For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 119,728 million through asset backed securitisation transactions, external transfer and securities lending transactions of financial assets (2017: RMB 157,600 million).

Assets backed securitisation transaction

For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 7,893 million through assets backed securitisation transactions, all have met the requirement of derecognition (For the year ended 31 December 2017, the Group transferred financial assets amounted to RMB 19,669 million through assets backed securitisation transactions, all have met the requirement of derecognition except for Puxin 2017 First Leasing ABS (Note 4.29) issued by the Bank's subsidiary SPD Financial Leasing Co., Ltd.).

Transfer of loans assets

For the year ended 31 December 2018, the Group directly transferred total amount of RMB 67,595 million loan assets to third parties. Among them, the Group transferred total amount of RMB 22,049 million loan assets to structured entities and all have met the requirement of derecognition (For the year ended 31 December 2017, the Group directly transferred total amount of RMB 98,388 million loan assets to third parties. Among them, the Group transferred total amount of RMB 56,185 million loan assets to structured entities and all have met the requirement of derecognition). The Group transferred total amount of RMB 45,546 million impaired loans to assets management companies and all have met the requirement of derecognition (2017: RMB 42,203 million, all have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognise the relevant securities. As at 31 December 2018, the carrying amount of the assets transferred by the Group in securities lending transactions was RMB 44,240 million (2017: Nil).

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5 INTEREST IN OTHER ENTITIES

5.1 Interest in subsidiaries

5.1.1 Principal subsidiaries of the Group

Name of subsidiaries	Main operating address	Registration place	Obtaining method	Percentage of equity interest (directly)
SPD Financial Leasing Co., Ltd.	Shanghai	Shanghai	Established	61.02%
Shanghai International Trust Co., Ltd.	Shanghai	Shanghai	Acquisition	97.33%
SPDB International Holding ,Ltd.	Hong Kong	Hong Kong	Acquisition	100.00%
Mianzhu SPD Rural Bank Co., Ltd.	Mianzhu, Sichuan	Mianzhu, Sichuan	Established	55.00%
Liyang SPD Rural Bank Co., Ltd.	Liyang, Jiangsu	Liyang, Jiangsu	Established	51.00%
Gongyi SPD Rural Bank Co., Ltd.	Gongyi, Henan	Gongyi, Henan	Established	51.00%
Fengxian SPD Rural Bank Co., Ltd.	Fengxian, Shanghai	Fengxian, Shanghai	Established	51.00%
Zixing SPD Rural Bank Co., Ltd.	Zixing, Hunan	Zixing, Hunan	Established	51.00%
Chongqing Banan SPD Rural Bank Co., Ltd.	Banan, Chongqing	Banan, Chongqing	Established	51.00%
Zouping SPD Rural Bank Co., Ltd.	Zouping Shandong	Zouping Shandong	Established	51.00%
Zezhou SPD Rural Bank Co., Ltd.	Jincheng, Shanxi	Jincheng, Shanxi	Established	51.00%
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Ganjingzi, Liaoning	Ganjingzi, Liaoning	Established	51.00%
Hancheng SPD Rural Bank Co., Ltd.	Hancheng, Shaanxi	Hancheng, Shaanxi	Established	51.00%
Jiangyin SPD Rural Bank Co., Ltd.	Jiangyin, Jiangsu	Jiangyin, Jiangsu	Established	51.00%
Pingyang SPD Rural Bank Co., Ltd.	Pingyang, Zhejiang	Pingyang, Zhejiang	Established	51.00%
Xinchang SPD Rural Bank Co., Ltd.	Xinchang, Zhejiang	Xinchang, Zhejiang	Established	51.00%
Yuanjiang SPD Rural Bank Co., Ltd.	Yuanjiang, Hunan	Yuanjiang, Hunan	Established	51.00%
Chaling SPD Rural Bank Co., Ltd.	Zhuzhou, Hunan	Zhuzhou, Hunan	Established	51.00%
Linchuan SPD Rural Bank Co., Ltd.	Fuzhou, Jiangxi	Fuzhou, Jiangxi	Established	51.00%
Linwu SPD Rural Bank Co., Ltd.	Chenzhou, Hunan	Chenzhou, Hunan	Established	51.00%
Hengnan SPD Rural Bank Co., Ltd.	Hengyang, Hunan	Hengyang, Hunan	Established	51.00%
Harbin Hulan SPD Rural Bank Co., Ltd.	Harbin, Heilongjiang	Harbin, Heilongjiang	Established	51.00%
Gongzhuling SPD Rural Bank Co., Ltd.	Siping, Jilin	Siping, Jilin	Established	51.00%
Yuzhong SPD Rural Bank Co., Ltd.	Lanzhou, Gansu	Lanzhou, Gansu	Established	51.00%
Yunnan Fumin Rural Bank Co., Ltd.	Fumin, Yunnan	Fumin, Yunnan	Established	51.00%
Ningbo Haishu Rural Bank Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Established	51.00%
Urumchi Midong SPD Rural Bank Co., Ltd.	Urumchi, Xinjiang	Urumchi, Xinjiang	Established	51.00%
Tianjin Baodi SPD Rural Bank Co., Ltd. (a)	Baodi, Tianjin	Baodi, Tianjin	Established	49.00%
Chongqing Tongliang SPD Rural Bank Co., Ltd.	Tongliang, Chongqing	Tongliang, Chongqing	Established	51.00%
Qianxinan Yilong SPD Rural Bank Co., Ltd.	Yilong, Guizhou	Yilong, Guizhou	Established	51.00%
Fufeng SPD Rural Bank Co., Ltd.	Baoji, Shaanxi	Baoji, Shaanxi	Established	51.00%

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5 INTEREST IN OTHER ENTITIES (CONTINUED)

5.1 Interest in subsidiaries (Continued)

5.1.1 Principal subsidiaries of the Group (Continued)

- (a) In accordance with Articles of association of Baodi Tianjin SPD Rural Bank Co., Ltd., resolutions on the company's operating and development strategy, operating plan and investment scheme are required to be approved by more than 50% directors and the Bank has 4 of 7 seats in the Board of Directors. Although the Bank only has 49% voting rights in Baodi Tianjin SPD Rural Bank Co., Ltd., the Bank is able to control it through the Board of Directors. As a result, it is a consolidated subsidiary of the Bank.

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

The subsidiaries of the Bank includes 1) commercial banks, finance leasing company and investment consulting company. business scope of commercial banks: absorb deposit from the public; issue short-term; medium-term and long-term loans; domestic settlement; acceptance and discount of negotiable instruments; placements from banks and other financial institutions; bank card issuance; issue and underwriting government bonds; agent for receipts and payments; and other business approved by the CBRC. 2) business scope of finance leasing company: finance lease services; transfer and sale of finance lease assets articles; invest in fixed income securities investment; accepting lease deposit from the lessee; accepting time deposits over 3 months (inclusive) from shareholders; placements from banks and other financial institutions; borrowing from the financial institutions; borrowing from the overseas; sell off of rental; economy consulting; establish a company within the territory of the bonded area to conduct financing and leasing business; provide security for the controlling subsidiaries for their financing. 3) business scope of investment consulting company: advising on securities and corporate finance and providing asset management services under the Securities and Futures Ordinance. 4) the business scope of Trust Company includes fund trust, chattel trust, real estate trust, negotiable securities trust, trust of other properties or property rights, engagement in the business of investment funds in the capacity of a sponsor of investment funds or fund management companies, and the businesses involving reorganisation of corporate assets, mergers and acquisitions, project financing, corporate wealth management and financial advisory services, operation of the securities underwriting business approved by the relevant departments of the State Council; handling of intermediary, consulting and credit investigation, custody and safekeeping services; interbank lending and borrowings, loans, leasing, investment based on inherent assets; provision of guarantee for other parties with inherent assets; engagement in interbank lending and borrowings; and other businesses as approved by laws and regulations or the CBRC.

None of these subsidiaries is restricted to transfer funds to the Bank.

5.1.2 Relevant information of significant partly-owned subsidiaries

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group and therefore no additional information disclosure is required.

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5 INTEREST IN OTHER ENTITIES (CONTINUED)**5.2 Interest in joint ventures and associates****5.2.1 General information of joint ventures and associates**

Name of the investees	Places of incorporation	Registration place	Strategic to the Group	Percentage of shareholding (directly)	Nature of business
Joint ventures - AXA SPDB Investment Management Co., Ltd. (a)	Shanghai	Shanghai	Yes	51%	Financial industry
SPD Silicon Valley Bank Co., Ltd.	Shanghai	Shanghai	Yes	50%	Financial industry

The Group measured above investments with equity method.

- (a) According to the Articles of Association of AXA SPDB Investment Management Co., Ltd., resolutions on certain significant operate and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions include the company's strategic plan, investment plan, annual financial budget and financial statements and profit appropriations etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with another major shareholder.

5.2.2 Key financial information of joint ventures and associates

The Group's joint ventures and associates are all unlisted companies. The Group is of the view that these joint ventures and associates are not material to the Group in terms of their aggregated net profit and net assets and therefore no additional information disclosure is required.

There are no contingent liabilities of the Group in these joint ventures or associates.

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6 INTEREST IN STRUCTURED ENTITIES

6.1 Structured entities that are not consolidated

6.1.1 Unconsolidated structured entities managed by the Group

As at 31 December 2018, unconsolidated structured entities established and managed by the Group amounted to RMB 2,533,543 million, mainly including WMPs vehicles, securitisation vehicles and trust plans.

i) Wealth management products

These WMPs are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, a fixed management fee and a floating management fee based on performance of the product. The Group has performed analysis and concluded that its variable return related to these structured entities is not material.

As at 31 December 2018, the total assets invested by non-principle guaranteed WMPs amounted to RMB 1,375,683 million (31 December 2017: RMB 1,535,344 million). During the year ended 31 December 2018, the Group's interest in these WMPs mainly included net fee and commission income of RMB 6,290 million (2017: RMB 14,101 million), and net interest income of RMB 177 million, which related to placements and repo transactions entered into by the Group with these WMP vehicles (2017: RMB 89 million).

The Group enters into placements and repo transactions at market interest rates with these WMPs, which represented the Group's maximum exposure to the WMPs. The average balance during 2018 and the outstanding balance as at 31 December 2018 of these transactions were RMB 3,490 million (2017: RMB 2,721 million) and RMB 4,000 million (31 December 2017: RMB 16,000 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2018 and 31 December 2017, the outstanding balance of these transactions was presented in due from and placements with banks and other financial institutions and financial assets purchased under resale agreements.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the years ended 31 December 2018 and 31 December 2017. The Group was not required to absorb any losses incurred by WMPs ahead of other parties. During the years ended 31 December 2018 and 2017, no losses were incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

ii) The special purpose vehicles established by trust company for the asset securitisation and credit asset

In the Group's asset securitization business, another type of unconsolidated structured entities originated by the Group is the special purpose vehicles ("SPV") established by trust company for the asset securitization of part of the Group's credit assets. The Group acts as a service provider and manages loan assets transferred to SPVs and is entitled to the commission fee. The Group also holds part of the issued asset backed securities. The Group concluded that its variable returns from these SPVs are not material. As at 31 December 2018, the Group's maximum risk exposure in these unconsolidated SPVs amounted to RMB 10,586 million (31 December 2017: RMB 15,253 million), being the aggregated carrying value of asset backed securities classified as "investments", and the Group's loan service agency commission fee income is not material.

As at 31 December 2018, total assets of these unconsolidated SPVs amounted to RMB 27,009 million (31 December 2017: RMB 43,557 million). In 2018, the Group did not provide any financing support to these unconsolidated SPVs (2017: Nil).

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6 INTEREST IN STRUCTURED ENTITIES (CONTINUED)

6.1 Structured entities that are not consolidated (Continued)

6.1.1 Unconsolidated structured entities managed by the Group (Continued)

iii) Trust plans managed by the Group

In accordance with the *Trust Law of the People's Republic of China*, "Trust property should be separated from properties owned by trustee ("inherent property"), and cannot be included or become part of the inherent property". Inherent property and trust property are managed and accounted for separately by the Group. Trust plans managed by the Group refer to a basic unit of trust property under the Group's separately or collectively management, utilisation and disposal as per agreement. Each trust plan is an independent accounting subject which is accounted for independently as regards to the trust property's management, utilisation and disposal.

As at 31 December 2018, total assets of these unconsolidated trust plans amounted to RMB 751,250 million (31 December 2017: RMB 888,091 million). In 2018, the Group did not provide any financing support to these unconsolidated trust plans (2017: Nil).

iv) Asset management plans managed by the Group

Entrusted assets management refers to business that the Group, as the manager, signed entrusted assets management contracts with clients and invests and manages the assets as various financial portfolios in financial market to maximise profit. The Group provides professional services and charges management fee, trustee fee, etc. The clients bear risks and gain profits per contracts.

As at 31 December 2018, total assets of these unconsolidated asset management plans amounted to RMB 423 million (31 December 2017: RMB 3,482 million). As at 31 December 2018, the Group did not provide financing support to these unconsolidated asset management plans (2017: Nil).

v) Securities investment funds

In accordance with the 'Securities Investment Fund Law of the People's Republic of China', "Fund assets shall be independent from a fund management institution's or a fund custodian's own assets. The fund management institution or fund custodian shall not incorporate any fund assets into its own assets". The Group charges management fee by managing the fund property for investors. Investors take the relative risks and profits according to the contractual agreements.

As at 31 December 2018, total assets of these unconsolidated securities investment funds amounted to RMB 379,178 million (31 December 2017: RMB 469,642 million). In 2018, the Group did not provide financing support to these securities investment funds (2017: Nil).

6.1.2 Unconsolidated structured entities managed by the Group

As at 31 December 2018 unconsolidated structured entities that are invested by the Group amounted to RMB 745,127 million (31 December 2017: RMB 1,039,778 million), mainly included wealth management products, asset backed securities, trust and asset management plans. The Group did not provide financing support to these structured entities in 2018 (2017: Nil).

The carrying amount (including interest receivable) of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows.

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6 INTEREST IN STRUCTURED ENTITIES (CONTINUED)
6.1 Structured entities that are not consolidated (Continued)
6.1.2 Unconsolidated structured entities managed by the Group (Continued)

31 December 2018	Carrying amount	Maximum risk exposure on loss	Total volume of structured entities
Trading assets			
Trust and asset management plans	68,669	68,669	77,126
WMPs managed by other banks	208	208	Note1
Fund investments	263,191	263,191	Note1
ABS	2,531	2,531	Note1
Other investments	5,678	5,678	5,678
Debt investments			
Trust and asset management plans	281,140	281,140	285,701
ABS	121,223	121,223	Note1
Other debt investments			
Trust and asset management plans	2,487	2,487	177,199

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6 INTEREST IN STRUCTURED ENTITIES (CONTINUED)
6.1 Structured entities that are not consolidated (Continued)
6.1.2 Unconsolidated structured entities managed by the Group (Continued)

31 December 2017	Carrying amount	Maximum risk exposure on loss	Total volume of structured entities
Financial assets at fair value through profit or loss			
Trust and asset management plans	3,032	3,032	42,363
Fund investments	12,088	12,088	Note1
Other investments	4,633	4,633	4,633
Available-for-sale financial assets			
Trust and asset management plans	52,951	52,951	168,281
Fund investments	215,396	215,396	Note1
WMPs managed by other banks	354	354	Note1
ABS	170,492	170,492	Note1
Others	888	888	Note1
Investment securities - loans and receivables			
WMPs managed by other banks	520	520	Note1
ABS	3,481	3,481	Note1
Trust and asset management plans	575,943	575,943	583,204

Note 1: Total volume of these unconsolidated structured entities is not available in the public information.

The Group earns interest income, commission income and investment income as return on holding these investments and providing services to these structured entities.

6.2 Consolidated structured entities

Consolidated structured entities include wealth management product vehicles established and managed by the Group with the total amount of RMB 67,167 million at 31 December 2018 (31 December 2017: RMB 84,226 million). The Group did not provide financial support to these consolidated structured entities in 2018 (2017: Nil).

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7 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarters:	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait:	Guangdong, Fujian
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong
Central China:	Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi, Hainan Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi,
Western China:	Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia, Tibet
North-east China:	Liaoning, Jilin, Heilongjiang
Overseas and subsidiaries:	Overseas branches and domestic and overseas subsidiaries

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7 SEGMENT REPORTING (CONTINUED)

	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2018										
Operating income	67,999	36,528	11,641	14,989	15,644	10,451	4,585	9,705	-	171,542
Interest income	247,422	131,074	48,998	61,916	46,287	37,206	16,894	10,547	(332,856)	267,488
Including: External interest income	111,510	51,678	18,622	22,711	22,865	21,273	8,848	9,981	-	267,488
Internal interest income	135,912	79,396	30,376	39,205	23,422	15,933	8,046	566	(332,856)	-
Interest expense	(222,140)	(96,871)	(39,503)	(48,932)	(32,662)	(28,020)	(12,879)	(7,493)	332,856	(155,644)
Including: External interest expense	(47,381)	(35,075)	(18,652)	(23,463)	(11,719)	(6,943)	(5,354)	(7,057)	-	(155,644)
Internal interest expense	(174,759)	(61,796)	(20,851)	(25,469)	(20,943)	(21,077)	(7,525)	(436)	332,856	-
Net fee and commission income	26,699	1,495	1,864	1,571	1,500	1,042	457	4,381	-	39,009
Investment income	15,425	(153)	(39)	(245)	211	-	-	319	-	15,518
Gains or losses from change of fair value	565	(51)	(23)	1	(10)	(13)	(21)	350	-	798
Foreign exchange gains	(390)	332	71	122	30	27	25	185	-	402
Other operating income	414	588	268	532	278	135	105	1,085	-	3,405
Gains on disposals of assets	(3)	65	(3)	(2)	(2)	(3)	(1)	-	-	51
Other operating income	7	49	8	26	12	77	5	331	-	515
Operating costs	(37,446)	(14,493)	(3,840)	(14,764)	(8,161)	(16,182)	(6,862)	(4,451)	-	(106,199)
Tax and surcharges	(513)	(440)	(145)	(184)	(206)	(188)	(75)	(101)	-	(1,852)
Operating expenses	(14,311)	(8,251)	(3,088)	(4,418)	(4,009)	(3,635)	(1,759)	(3,623)	-	(43,094)
Impairment charges	(22,491)	(5,586)	(400)	(9,988)	(3,910)	(12,297)	(5,026)	(719)	-	(60,417)
Impairment losses on other assets	-	7	(1)	-	-	(11)	2	-	-	(3)
Other operating costs	(131)	(223)	(206)	(174)	(36)	(51)	(4)	(8)	-	(833)
Operating profit	30,553	22,035	7,801	225	7,483	(5,731)	(2,277)	5,254	-	65,343
Add: Non-operating income	25	28	5	9	21	4	9	3	-	104
Less: Non-operating expense	(7)	(44)	(7)	(5)	(50)	(22)	(18)	(10)	-	(163)
Total segment profit	30,571	22,019	7,799	229	7,454	(5,749)	(2,286)	5,247	-	65,284

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7 SEGMENT REPORTING (CONTINUED)

	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
31 December 2018										
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

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7 SEGMENT REPORTING (CONTINUED)

	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Year ended 31 December 2017										
Operating income	61,905	32,464	11,285	17,250	16,787	14,424	5,503	9,001	-	168,619
Interest income	231,598	120,669	51,767	71,870	50,657	46,964	19,917	7,960	(355,584)	245,818
Including: External interest income	76,832	44,051	21,079	33,460	26,645	24,913	11,384	7,454	-	245,818
Internal interest income	154,766	76,618	30,688	38,410	24,012	22,051	8,533	506	(355,584)	-
Interest expense	(211,526)	(93,446)	(42,336)	(57,031)	(35,817)	(34,031)	(15,084)	(5,219)	355,584	(138,906)
Including: External interest expense	(37,904)	(31,837)	(18,384)	(21,041)	(11,044)	(8,171)	(5,669)	(4,856)	-	(138,906)
Internal interest expense	(173,622)	(61,609)	(23,952)	(35,990)	(24,773)	(25,860)	(9,415)	(363)	355,584	-
Net fee and commission income	30,965	3,393	1,418	1,768	1,731	1,289	572	4,444	-	45,580
Investment income	11,929	509	56	1	5	-	-	1,085	-	13,585
Gains or losses from change of fair value	(3,378)	-	-	-	-	-	-	(419)	-	(3,797)
Foreign exchange gains	1,940	410	57	108	26	21	31	130	-	2,723
Other operating income	347	358	297	498	169	67	59	817	-	2,612
Gains on disposals of assets	(2)	519	-	(1)	-	-	-	-	-	516
Other operating income	32	52	26	37	16	114	8	203	-	488
Operating costs	(15,382)	(19,166)	(3,703)	(12,082)	(12,037)	(26,173)	(6,007)	(3,794)	-	(98,344)
Tax and surcharges	(538)	(331)	(109)	(158)	(153)	(177)	(73)	(71)	-	(1,610)
Operating expenses	(12,157)	(8,433)	(2,904)	(4,820)	(3,955)	(3,592)	(1,894)	(3,292)	-	(41,047)
Impairment charges	(2,663)	(10,291)	(568)	(7,022)	(7,891)	(22,388)	(4,036)	(426)	-	(55,285)
Other operating costs	(24)	(111)	(122)	(82)	(38)	(16)	(4)	(5)	-	(402)
Operating profit	46,523	13,298	7,582	5,168	4,750	(11,749)	(504)	5,207	-	70,275
Add: Non-operating income	21	27	5	8	21	5	11	99	-	197
Less: Non-operating expense	(65)	(62)	(13)	(4)	(9)	(480)	(5)	(6)	-	(644)
Total segment profit	46,479	13,263	7,574	5,172	4,762	(12,224)	(498)	5,300	-	69,828

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7 SEGMENT REPORTING (CONTINUED)

	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
31 December 2017										
Loans and advances to customers	523,689	839,777	299,361	396,191	398,757	418,553	154,807	72,718	-	3,103,853
Total assets	2,653,169	1,519,227	630,510	881,331	626,629	546,323	244,906	245,486	(1,210,341)	6,137,240
Deposits from customers	156,037	1,089,455	318,430	486,605	449,948	332,733	134,121	70,607	-	3,037,936
Total liabilities	2,252,916	1,505,964	622,936	876,159	621,867	558,547	245,404	232,803	(1,210,341)	5,706,255
Net position of assets and liabilities	400,253	13,263	7,574	5,172	4,762	(12,224)	(498)	12,683	-	430,985

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8 CONTINGENCIES AND COMMITMENTS
8.1 Credit commitment

The Group's credit commitment is listed as follows:

Item	31 December 2018	31 December 2017
Bank acceptance notes	419,815	396,414
Bank acceptance notes under letters of credit	147,587	144,602
Letters of guarantee issued	101,003	121,346
Letters of credit issued	13,533	14,143
Credit cards and other commitments	351,725	269,748
Total	<u>1,033,663</u>	<u>946,253</u>

As at 31 December 2018, there was no outstanding commitment on security underwriting (31 December 2017: Nil).

8.2 Commitment on early redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2018, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,355 million (31 December 2017: RMB 4,221 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

8.3 Operating lease commitment

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2018	31 December 2017
Within 1 year	2,415	2,363
1 to 5 years	5,995	5,853
Over 5 years	<u>1,731</u>	<u>1,884</u>
Total	<u>10,141</u>	<u>10,100</u>

8.4 Capital commitment

As at 31 December 2018, the major capital commitment the Group had signed but not paid amounted to RMB 3,248 million (31 December 2017: RMB 5,293 million).

As at 31 December 2018, the major capital commitment the Group had approved but not signed amounted to RMB 175 million (31 December 2017: RMB 1,135 million).

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8 CONTINGENCIES AND COMMITMENTS (CONTINUED)
8.5 Legal proceedings

As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provision was accrued (As at 31 December 2017: the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 83 and 92, respectively. The corresponding amount involved was about RMB 1,087 million and RMB 1,108 million, respectively. The Group assessed the possibility of loss is not large, no provision was accrued).

9 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's statement of financial position. As at 31 December 2018, the balance of entrusted loan business was RMB 150,374 million (As at 31 December 2017: RMB 178,120 million).

10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS
10.1 Major related parties

The related parties of the Bank mainly include its subsidiaries, associates, joint ventures, the major shareholders who hold 5% or more ordinary shares of the Bank and their Group companies (including parent and all subsidiaries), key management personnel of the Bank (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

10.2 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Financial Services
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

10.3 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note 5 "Interest in other entities".

10.4 Joint ventures and associates

For general information of the joint ventures and associates, please refer to Note 5 "Interest in other entities".

10.5 Other major related parties

Other related parties mainly include respective Group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior management) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

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10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)
10.6 Transactions and balances with related parties

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

(1) Placements with banks and other financial institutions

	31 December 2018	31 December 2017
Other major related parties - group companies of major shareholders(exclusive)	4,422	-
	2018	2017
Interest income	109	-

(2) Loans and advances to customers

	31 December 2018	31 December 2017
Joint ventures and associates	-	61
Other major related parties - group companies of major shareholders(exclusive)	239	500
Other major related parties - individuals	24	25
Total	263	586
	2018	2017
Interest income	19	7

(3) Deposits from customers

	31 December 2018	31 December 2017
Major shareholders	5,324	6,330
Other major related parties - companies with significant influence by key management personnel(exclusive)	1,500	7,494
Other major related parties - group companies of major shareholders(exclusive)	37,999	47,678
Total	44,823	61,502
	2018	2017
Interest expense	1,483	1,374

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10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)
10.6 Transactions and balances with related parties (Continued)
(4) Due to banks and other financial institutions

	31 December 2018	31 December 2017
Joint ventures and associates	1,058	2,430
Other major related parties - group companies of major shareholders(exclusive)	<u>5,113</u>	<u>14,798</u>
Total	<u>6,171</u>	<u>17,228</u>
	2018	2017
Interest expense	<u>124</u>	<u>223</u>

(5) Commission income

	2018	2017
Joint ventures and associates	22	32
Other major related parties - group companies of major shareholders(exclusive)	<u>3</u>	<u>7</u>
Total	<u>25</u>	<u>39</u>

(6) Commission expense

	2018	2017
Other major related parties - group companies of major shareholders(exclusive)	<u>-</u>	<u>40</u>

(7) Operating expenses

	2018	2017
Major shareholders	7	7
Other major related parties - group companies of major shareholders(exclusive)	<u>383</u>	<u>350</u>
Total	<u>390</u>	<u>357</u>

The Group makes payments to one major shareholder and its Group companies for purchase of mobile communication services.

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10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)
10.6 Transactions and balances with related parties (Continued)
(8) Letters of guarantee issued

	31 December 2018	31 December 2017
Joint ventures and associates	-	21
Other major related parties - group companies of major shareholders(exclusive)	3,766	5,442
Total	3,766	5,463

As at 31 December 2018, the outstanding letters of guarantee will expire before the end of 2020.

(9) Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank (refer to Note 5 for details). Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarised as follows:

Balances at year end:	31 December 2018	31 December 2017
Due from banks and other financial institutions	355	308
Placements with banks and other financial institutions	4,045	2,596
Interest receivable	NA	69
Loans and advances to customers	991	1,096
Due to banks and other financial institutions	8,025	8,382
Deposits from customers	609	454
Interest payable	NA	24
Others	21	24
Transactions for the year:	Year ended 31 December 2018	Year ended 31 December 2017
Loans transferred from subsidiaries	-	1,189
Interest income from due from banks and other financial institutions	10	28
Interest income from placements with other banks and financial institutions	108	83
Interest income from loans and advances to customers	114	45
Interest expenses on deposits from banks and other financial institutions	191	193
Fee and commission income	21	25
Fee and commission expense	41	40

(10) Compensation of key management personnel

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2018, individual amounts of transactions with key management personnel are not significant.

According to the relevant regulations, the 2018 annual compensation of Bank's directors, supervisors and senior management personnel is yet to be approved by relevant authorities. The compensation of key management personnel does not have significant impact on the Group and the Bank's financial statements of 2018 (The aggregated compensation of Bank's directors, supervisors and other senior management personnel approved by government for 2017 was RMB 19.1020 million. The aggregated compensation of Bank's other directors, supervisors and other senior management personnel was RMB 9.9358 million).

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11 FINANCIAL RISK MANAGEMENT

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. Managing financial risk is core to the financial industry, and the inherent risks are an inevitable consequence of business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse impact on the Group's financial performance.

The Group designs a series of risk management policies to identify and analyse these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and commodity risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the headquarters are responsible for their implementation.

11.1 Credit risk

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a Group of otherwise unrelated counterparties could be adversely affected in their ability to fulfil their obligations due to same economic factors affecting their common industry or region.

The credit risks of trust plan are mainly arising from the possibility of counter parties' non-performance of their obligations; mainly in the process of loan, asset repurchase, subsequent financial arrangement, guarantee, performance commitment, fund transfer flow and security investment, etc.; counter parties including the borrower, the guarantor or the depository (the trustee), securities investment accounts dealer and the Bank, are failing to or unable or unwilling to perform the contract commitments, thus resulting in the possibility of potential loss of trust property or inherent property.

(1) Credit risk management

(i) Loans

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, Group, industry and region.

The Group continuously optimises the credit risk structure by setting limits on the borrower, Group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(1) Credit risk management (Continued)
(i) Loans (Continued)

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	95% - 100%
PRC treasury bonds	90% - 100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plant	60%
Residential property	70%
Land use right	60%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and issuer's credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB- can be invested. Overseas investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognised by the PBOC. For middle or long term RMB domestic debt securities, their credit ratings granted by PBOC recognised agencies cannot be lower than AA. For short term RMB debt securities, their credit ratings granted by the PBOC recognised agencies cannot be lower than A-1.

(iii) Other financial assets measured at amortized cost

Other financial assets measured at amortized cost, mainly include wealth management products, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-bank financial institution which has business relationship with the Group.

(v) Derivative financial instruments

The Group strictly controls the volume of derivative transactions. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Credit risk (Continued)

(1) Credit risk management (Continued)

(vi) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

(vii) Trust plan

The Group strictly enforces the policy "pre-loan investigation, in-process review, post-loan inspection" over trust plan. In the design of the product trade structure, it introduces guarantee mechanism including financial institution credit, property mortgage, rights pledge in terms of product transaction structure design. And the Group comprehensively applies the methods of avoidance, prevention, dispersion, transfer, compensation to manage risks, disperses and transfers credit risks of financing entities, so as to reduce risk exposure.

(2) Credit risk limit measurement

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on *Guideline for Credit Risk Classification* (Yin Jian Fa [2007] No. 54) issued by the CBIRC on 3 July 2007. The Group's own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfil the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special Mention: loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.

Substandard: loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

(3) ECL for impairment

New financial instrument standards outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below: Stage 1 (not credit-impaired since initial recognition): 12-month ECL; Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses; Stage 3 (credit-impaired assets): lifetime expected credit losses. The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product "GDP" and consumer price index "CPI". The Group also forecasts three kind of macroeconomic scenarios (optimistic, base and pessimistic) on a timely basis, and measures ECL based on different scenarios.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Credit risk (Continued)

(3) ECL for impairment (Continued)

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Specific information related to borrowers and loans, which are collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group does not have financial assets that are identified as "low risk" and managed credit risk in accordance with new financial instrument standards.

Staging

Significant increase in credit risk (SICR)

The Group assesses on each balance sheet date whether the credit risk of the relevant financial asset has increased significantly since initial recognition. When considering the stage of financial assets, the Group fully considers all kinds of reasonable and evidence-based information that reflects whether the credit risk of the financial asset has significantly changed, including forward-looking information. The main factors to be considered are regulatory and business environment, internal and external credit rating, solvency, business ability, loan contract terms, repayment behaviour, etc.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The Group considers whether the credit risk of financial assets has increased significantly since initial recognition by considering whether the credit risk rating has migrated down to a certain level or whether the probability of default has increased significantly since initial recognition. For example, as at the reporting date, for corporate loans and financial investments, the counterparty's credit risk rating migrate to or lower than B; or for retail loans, the counterparty's PD is 8-10 times of initial PD.

Qualitative criteria:

Corporate loans and financial investments

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Early signs of cash flow/liquidity problems such as delay in payment of account payables/loans

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Credit risk (Continued)

(3) ECL for impairment (Continued)

Staging (Continued)

Backstop:

If the borrower is more than 30 days past due on its contractual payments.

Sensitivity analysis

Assuming that there is a significant change in credit risk, causing the financial assets and credit commitments of stage 2 all transfer into stage 1, the impairment allowances and provision in the financial statement will be reduced by RMB 5,071 million.

Default and credit-impaired

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The issuer or borrower is in significant financial difficulties
- The borrower is in breach of financial contract(s), such as past due of interest or principal
- Concessions have been made by the lender relating to the borrower's financial difficulty or contracts
- The borrower is likely to go bankrupt or carry out other debt restructuring
- An active market for that financial asset has disappeared because of financial difficulties
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Backstop:

The borrower is more than 90 days past due on its contractual payments.

The criteria above have been applied to all financial instruments held by the Group and are consistent with internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's ECL measurement.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Credit risk (Continued)

(3) ECL for impairment (Continued)

Explanation of inputs, assumptions and estimation techniques

ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- The EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each individual future exposure. This effectively calculates an ECL for each future month.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The LGD are determined based on the factors which impact the recoveries after default. These vary by product type.

Forward-looking economic information is also included in determining the 12-month and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(3) ECL for impairment (Continued)
Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the key economic indicators impacting credit risk and expected credit losses for each portfolio.

Based on industry best practices and the Group's internal experts' judgment, the Group chose a series of macroeconomic indicators (including GDP, industrial added value growth rate and CPI growth rate, etc.), established statistical relationship between actual PD and macro indicators for each model exposure, and then calculated forward-looking PD by using forecasted economic indicators.

In addition to the base economic scenario, the Group also sets up other possible scenarios. The number of scenarios and their attributes are reassessed at each reporting date. As at 1 January 2018 and 31 December 2018, the scenario weightings are determined by a combination of statistical analysis and expert judgment, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by calculating the ECL under each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Economic indicators assumptions

In 2018, the Group considered different macroeconomic scenarios. The important macroeconomic assumptions used to estimate expected credit losses are set out below:

Item	Range
GDP	6.00% - 6.50%
Consumer Price Index Growth Rate	2.00% - 3.00%
Broad money Growth Rate, year-on-year	8.00% - 9.00%
Consumer Confidence Index	110 - 120

As of 31 December 2018, comparing with the 3 scenario weighted average impairment allowance, the impairment allowance under the baseline scenario will decrease as follows:

	31 December 2018
	Amount
Corporate loans	292
Retail loans	72
Financial investments	36

If the baseline, rising and falling scenario weights are changed from 80%, 10% and 10% to 60%, 20% and 20%, the allowance of loans and advances will increase by RMB 364 million, and the impairment allowance of financial investments will increase by RMB 36 million.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Credit risk (Continued)

(4) Segmentation of business operations sharing similar credit risk characteristics

When analysing the relativeness of ECL with macroeconomic indicators, a grouping of exposures is performed on the basis of shared risk characteristics. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type

Retail loans

- Product type (for instance, mortgage loans, consumer loan and credit card)
- Repayment type
- Utilisation percentage range
- Loan to value ratio range

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(5) Maximum exposure to credit risk
Financial instruments and commitment and guarantee subject to impairment evaluation

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Group	31 December 2018 Maximum exposure to credit risk	31 December 2017 Maximum exposure to credit risk
Financial instrument		
Cash and balances with central bank (Stage 1)	437,687	479,247
Due from banks and other financial institutions (Stage 1)	94,284	96,348
Placements with banks and other financial institutions (Stage 1)	142,251	80,839
Financial assets purchased under resale agreements (Stage 1)	11,573	13,974
Interest receivable	NA	31,094
Loans and advances to customers (a)	3,455,007	3,103,853
- Amortized cost	3,194,231	3,103,853
Stage 1	3,045,070	NA
Stage 2	130,514	NA
Stage 3	18,647	NA
- FVOCI	249,153	NA
Stage 1	249,105	NA
Stage 2	48	NA
- Interest receivable	11,623	NA
Stage 1	11,291	NA
Stage 2	332	NA
Available-for-sale financial assets	NA	399,528
Investment securities - held-to-maturity	NA	444,726
Investment securities - loans and receivables	NA	832,598
Financial investment (b)		
Debt investments	1,144,249	NA
- Amortized cost	1,129,401	NA
Stage 1	1,122,176	NA
Stage 2	5,337	NA
Stage 3	1,888	NA
- Interest receivable	14,848	NA
Stage 1	14,848	NA
Other debt investments	378,860	NA
- FVOCI	373,988	NA
Stage 1	373,542	NA
Stage 2	446	NA
- Interest receivable	4,872	NA
Stage 1	4,872	NA
Other financial assets	70,157	97,404
Stage 1	67,402	NA
Stage 2	2,425	NA
Stage 3	330	NA
Total financial instrument	5,734,068	5,579,611
Commitment and guarantee		
Bank acceptance notes	418,035	396,414
Bank acceptance notes under letters of credit	147,346	144,602
Letters of guarantee issued	100,206	121,346
Letters of credit issued	13,473	14,143
Credit cards and other commitments	349,929	269,748
Total commitment and guarantee	1,028,989	946,253

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(5) Maximum exposure to credit risk (Continued)

The Group internally ranks the asset risk characteristics according to the quality status of the assets. The credit rating of the financial assets included in the ECL measurement is classified into “low risk”, “medium risk” and “high risk” according to the internal rating scale. The rate is used by the company for internal credit risk management purposes. “Low risk” means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavourable factors; “medium risk” refers to the customer has certain solvency, but persistent major instability or poor commercial or financial economic conditions may reduce its solvency; “high risk” refers to assets that contain unfavourable factors that may have a great impact on solvency, the risk of default is high or meet the definition of default of the Group.

- (a) The analysis of the maximum credit risk exposure for loans and advances by credit rating is as follows:

	Loans and advances to customers				
	2018				2017
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	2,883,646	5,266	-	2,888,912	NA
Medium risk	426,419	69,055	-	495,474	NA
High risk	9,351	82,938	72,251	164,540	NA
Principal	3,319,416	157,259	72,251	3,548,926	3,194,600
Impairment allowance	(25,241)	(26,697)	(53,604)	(105,542)	(90,747)
Total	3,294,175	130,562	18,647	3,443,384	3,103,853

- (b) The analysis of the maximum credit risk exposure for financial investments by credit rating is as follows:

	Financial investments				
	2018				2017
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	1,487,010	205	-	1,487,215	NA
Medium risk	12,147	4,846	-	16,993	NA
High risk	-	986	6,398	7,384	NA
Principal	1,499,157	6,037	6,398	1,511,592	1,684,111
Impairment allowance	(3,439)	(254)	(4,510)	(8,203)	(7,259)
Total	1,495,718	5,783	1,888	1,503,389	1,676,852

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(5) Maximum exposure to credit risk (Continued)
Financial instruments not subject to impairment evaluation

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. financial assets at fair value through profit or loss):

	Maximum exposure to credit risk	
	31 December 2018	31 December 2017
Loans and advances to customers		
- at fair value through profit or loss	482	NA
Financial investments:		
Trading assets		
- Bond investments	56,794	NA
- Trust and asset management plans	68,669	NA
- Fund investments	263,191	NA
- WMPs managed by other banks	208	NA
- Other investments	5,678	NA
Sub-total	394,540	NA
Financial assets at fair value through profit or loss		
- Bond investments	NA	48,429
- Other debt instruments	NA	93,233
- Loans from non-bank financial institutions	NA	996
Sub-total	NA	142,658
Total	395,022	142,658

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)

- (6) Due from and placements with banks and other financial institutions and financial assets purchased under resale agreements

The credit risks of the Group's due from and placements with banks and other financial institutions and financial assets purchased under resale agreements are in the stage 1. For due from and placements with banks and other financial institutions, the credit risk is evaluated by referring to the nature of counterparties.

	31 December 2018	31 December 2017
Domestic commercial banks	62,370	63,134
Overseas commercial banks	62,866	51,775
Domestic non-bank financial institutions	109,840	62,278
Interest receivable	1,665	NA
Less: Impairment allowance	(206)	-
Total	<u>236,535</u>	<u>177,187</u>

Other financial assets purchased under resale agreements, which are fully pledged by bank accepted bills and bonds or deposit certificates issued by other financial institutions, amounted to RMB 11,574 million as at 31 December 2018 (31 December 2017: RMB 13,981 million). The Group does not expect significant credit risk from them.

- (7) Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. As at 31 December 2018, financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Corporate loans	Retail loans	Total
31 December 2018			
Total exposure	53,106	19,145	72,251
Impairment allowance	(38,319)	(15,285)	(53,604)
Carrying amount	<u>14,787</u>	<u>3,860</u>	<u>18,647</u>
Fair value of corresponding collateral	<u>30,974</u>	<u>6,198</u>	<u>37,172</u>

When the Group has performed the necessary procedures and cannot reasonably expect to recover the whole or part of the financial assets, and the financial assets meet the write-off conditions required by the Ministry of Finance, the Group writes off the financial assets.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(8) Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent agencies recognised by the PBOC.

Investments denominated in foreign currencies

	Financial investments Trading assets	Financial investments Debt investments	Financial investments Other debt investments	Total	
Bonds and other investments					
31 December 2018					
AAA	62	31	2,050	2,143	
AA	83	1,138	2,368	3,589	
A and below A	929	1,401	3,380	5,710	
Unrated- Bonds	646	408	46,573	47,627	
	1,720	2,978	54,371	59,069	
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2017					
AAA	-	851	30	-	881
AA	-	4,221	161	926	5,308
A and below A	201	3,103	932	-	4,236
Unrated- Bonds	856	31,863	-	-	32,719
	1,057	40,038	1,123	926	43,144

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(8) Bonds and other investments (Continued)

Investments denominated in RMB

	Financial investments Trading assets	Financial investments Debt investments	Financial investments Other debt investments	Total
31 December 2018				
Medium or long term:				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
Under A-	-	108	210	318
Short-term:				
A-1	9,705	219	2,889	12,813
Unrated bonds and other investments:				
Government bonds (Note 1)	7,443	460,614	146,716	614,773
Central bank notes	5,109	-	-	5,109
Bonds issued by policy banks	-	199,140	75,516	274,656
Financial bonds	205	44,109	-	44,314
Deposit certificates issued by other financial institutions	23,055	695	11,318	35,068
WMPs managed by other banks	208	-	-	208
Corporate bonds	538	-	35	573
ABS	69	-	-	69
Trust and asset management plans (Note 2)	68,669	281,140	2,487	352,296
Fund investments	263,191	-	-	263,191
Other investments	5,678	-	-	5,678
Other debt instruments (Note 3)	-	9,607	-	9,607
	392,820	1,141,271	324,489	1,858,580

Note 1: Included in unrated financial bonds held by the Group, local municipal government bonds are mainly issued under the name of local municipal government or Ministry of Finance.

Note 2: As at 31 December 2018, the notional amount of overdue trust and asset management plan was RMB 7,591 million, and the provision for impairment recognised was RMB 4,014 million (31 December 2017: notional amount was RMB 5,004 million, provision for impairment was RMB 2,641 million).

Note 3: Other debt instruments are financing products issued by the Bank to enterprises, as at 31 December 2018, such instruments were not overdue. (31 December 2017: not overdue)

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.1 Credit risk (Continued)
(8) Bonds and other investments (Continued)

Investments denominated in RMB

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2017					
Medium or long term:					
AAA	248	159,486	8,210	120,487	288,431
AA+ to AA-	61	86,909	52	7,602	94,624
A to A-	-	-	-	286	286
Under A-	-	289	-	448	737
Short-term:					
A-1	9,812	1,255	-	-	11,067
Unrated bonds and other investments:					
Government bonds	3,107	56,928	269,325	31,985	361,345
Bonds issued by policy banks	12,947	29,643	166,016	-	208,606
Financial bonds	-	4,067	-	95,320	99,387
Deposit certificates issued by other financial institutions	21,197	13,671	-	-	34,868
Corporate bonds	-	401	-	-	401
Trust and asset management plans	-	6,841	-	575,024	581,865
WMPs managed by other banks	-	-	-	520	520
Loans from non-bank financial institutions	996	-	-	-	996
Other debt instruments	93,233	-	-	-	93,233
	141,601	359,490	443,603	831,672	1,776,366

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.2 Market risk

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book face market risk, which mainly consists of interest rate risk, currency risk and commodity risk. The Group considers the exposure to the commodity risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management activities and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the Group-wide market risk management system, organisational structure with well-defined roles and responsibilities, limit structures and accountability mechanism. Relevant departments of headquarters are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits etc. in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, Group-wide market risk management system incorporates the established internal controls and independent inspections. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes business units as the first line defence, market risk management and compliance departments as the second line defence and internal audit department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.2 Market risk (Cont'd)
(1) Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in RMB. Majority of its foreign currency business are conducted in USD.

The table below summarises the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorised by original currency.

Item	31 December 2018				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	436,007	7,237	185	294	443,723
Due from banks and other financial institutions	48,717	34,071	5,982	5,514	94,284
Placements with banks and other financial institutions	90,282	38,520	12,189	1,260	142,251
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investments:					
Trading assets	386,144	9,450	74	-	395,668
Debt investments	1,141,271	1,795	207	976	1,144,249
Other debt investments	323,803	45,891	6,838	2,328	378,860
Other equity investments	4,038	-	-	-	4,038
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Due to central bank	221,003	-	-	-	221,003
Due to banks and other financial institutions	1,008,545	45,341	11,965	1,918	1,067,769
Placements from banks and other financial institutions	63,337	75,743	6,588	2,954	148,622
Trading liabilities	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreement	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Bonds issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of financial instruments	483,262	(67,237)	(1,119)	8,292	423,198

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.2 Market risk (Continued)
(1) Currency risk (Continued)

Item	31 December 2017				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	476,379	9,711	210	231	486,531
Due from banks and other financial institutions	49,549	36,403	3,202	7,194	96,348
Placements with banks and other financial institutions	51,265	13,231	15,763	580	80,839
Financial assets at fair value through profit or loss	160,844	2,022	-	-	162,866
Derivative financial assets	24,911	3,139	46	168	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	13,974
Interest receivable	30,215	770	67	42	31,094
Loans and advances to customers	2,965,236	110,231	16,786	11,600	3,103,853
Available-for-sale financial assets	624,470	32,412	6,530	1,096	664,508
Investment securities - held-to-maturity	443,603	1,093	-	30	444,726
Investment securities - loans and receivables	831,672	-	-	926	832,598
Other financial assets	65,025	31,639	272	468	97,404
Total financial assets	5,737,143	240,651	42,876	22,335	6,043,005
Due to central bank	182,387	-	-	-	182,387
Due to banks and other financial institutions	1,255,092	44,217	13,315	1,694	1,314,318
Placements from banks and other financial institutions	52,358	72,678	12,459	1,287	138,782
Financial liabilities at fair value through profit or loss	21,139	7,194	-	-	28,333
Derivative financial liabilities	27,820	2,081	12	121	30,034
Financial assets sold under repurchase agreements	180,639	3,825	-	-	184,464
Deposits from customers	2,845,508	161,173	20,747	10,508	3,037,936
Interest payable	33,488	1,379	92	105	35,064
Bonds issued	658,791	20,771	6,207	527	686,296
Other financial liabilities	25,790	725	56	477	27,048
Total financial liabilities	5,283,012	314,043	52,888	14,719	5,664,662
Net position of financial instruments	454,131	(73,392)	(10,012)	7,616	378,343

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.2 Market risk (Continued)
(1) Currency risk (Continued)

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

(Decrease)/Increase in net profit	31 December 2018		31 December 2017	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
	-1%	1%	-1%	1%
USD against RMB	(296)	296	(60)	60
Other currencies against RMB	30	(30)	(33)	33

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Exchange rates for all currencies are fluctuating simultaneously and in the same direction;
- Foreign currency position contains spot exchange position and forward exchange position. The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

(2) Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

On 26 August 2015, PBOC removed the upper limit of interest rate of time deposit with term longer than a year (excluding one year), and set the upper limit of interest rate of other kinds of deposit as 1.5 times of the benchmark interest rate. On 24 October 2015, PBOC removed the upper limit of deposit interest rate of commercial banks and rural cooperative financial institutions. On 20 July 2013 PBOC also removed the bottom limit (i.e. 70% of benchmark) for loans (excluding retail mortgage loans). The Group determines the loan interest rate independently.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarises the Group's exposures to interest rate risk. The table presents the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.2 Market risk (Continued)

(2) Interest rate risk (Continued)

	31 December 2018					Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets							
Cash and balances with central bank	428,273	-	-	-	-	15,450	443,723
Due from banks and other financial institutions	62,828	10,530	20,525	-	-	401	94,284
Placements with banks and other financial institutions	28,429	15,254	79,517	17,787	-	1,264	142,251
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments:							
Trading assets	4,199	6,745	35,445	37,082	25,924	285,145	394,540
Debt investments	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
Other debt investments	22,561	8,912	51,610	179,288	111,617	4,872	378,860
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	399,310	6,178,400

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.2 Market risk (Continued)

(2) Interest rate risk (Continued)

	31 December 2018					Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Liabilities							
Due to central bank	9,020	30,090	178,630	-	-	3,263	221,003
Due to banks and other financial institutions	819,520	108,817	135,176	-	-	4,256	1,067,769
Placements from banks and other financial institutions	75,330	33,977	32,852	5,431	499	533	148,622
Trading liabilities	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Bonds issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	263,830	418,032

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.2 Market risk (Continued)

(2) Interest rate risk (Continued)

	31 December 2017					Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets							
Cash and balances with central bank	468,527	-	-	-	-	18,004	486,531
Due from banks and other financial institutions	65,259	7,455	23,634	-	-	-	96,348
Placements with banks and other financial institutions	34,434	15,212	24,159	7,034	-	-	80,839
Financial assets at fair value through profit or loss	31,811	66,738	24,125	19,662	322	-	142,658
Derivative financial assets	-	-	-	-	-	28,264	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	-	-	13,974
Interest receivable	-	-	-	-	-	31,094	31,094
Loans and advances to customers	1,814,563	331,891	776,013	140,111	41,275	-	3,103,853
Available-for-sale financial assets	28,154	18,797	77,105	235,613	39,859	-	399,528
Investment securities - held-to-maturity	12,776	4,095	42,689	246,938	138,228	-	444,726
Investment securities - loans and receivables	38,967	57,553	330,084	280,876	125,118	-	832,598
Other financial assets	39,734	216	1,067	-	-	56,387	97,404
Total financial assets	2,548,199	501,957	1,298,876	930,234	344,802	133,749	5,757,817

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.2 Market risk (Continued)

(2) Interest rate risk (Continued)

	31 December 2017					Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Liabilities							
Due to central bank	13	17,143	165,231	-	-	-	182,387
Due to banks and other financial institutions	576,379	459,703	277,738	-	-	498	1,314,318
Placements from banks and other financial institutions	57,004	41,675	34,700	3,070	2,333	-	138,782
Financial liabilities at fair value through profit or loss	-	-	2,051	10,695	466	15,121	28,333
Derivative financial liabilities	-	-	-	-	-	30,034	30,034
Financial assets sold under repurchase agreements	166,431	10,427	7,606	-	-	-	184,464
Deposits from customers	2,103,261	313,668	459,616	161,391	-	-	3,037,936
Interest payable	-	-	-	-	-	35,064	35,064
Bonds issued	58,100	226,982	213,321	127,538	60,355	-	686,296
Other financial liabilities	493	-	1,393	2,800	-	22,362	27,048
Total financial liabilities	2,961,681	1,069,598	1,161,656	305,494	63,154	103,079	5,664,662
Total interest repricing gap	(413,482)	(567,641)	137,220	624,740	281,648	30,670	93,155

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.2 Market risk (Continued)
(2) Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the balance sheet date.

	31 December 2018		31 December 2017	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(Decrease)/Increase in net profit	(2,964)	2,964	(1,069)	1,069
Increase/(Decrease) in other comprehensive income under equity	10,637	(10,407)	5,620	(5,318)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, which the maturity date is within three months or more than three months but will be repricing within one year, are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end. Due to the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate.

11.3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and emergency management and drilling.

In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external fundings and manages the maturities of its assets and liabilities in accordance with the Group's liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group's business development.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(1) Cash flows of non-derivative financial assets and liabilities

	31 December 2018						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Assets							
Cash and balances with central bank	-	443,723	-	-	-	-	443,723
Due from banks and other financial institutions	-	60,315	13,738	21,932	-	-	95,985
Placements with banks and other financial institutions	-	-	43,367	83,786	17,069	-	144,222
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments:							
Trading assets	1,583	285,145	10,816	38,598	44,340	29,469	409,951
Debt investments	4,351	-	159,543	197,612	640,567	326,329	1,328,402
Other debt investments	130	-	20,063	62,378	241,825	130,684	455,080
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	815,009	1,132,602	1,470,467	1,999,287	1,878,436	7,373,213

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(1) Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2018						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Liabilities							
Due to central bank	-	-	40,400	184,602	-	-	225,002
Due to banks and other financial institutions	-	719,855	212,466	139,684	-	-	1,072,005
Placements from banks and other financial institutions	-	-	110,154	33,773	6,374	704	151,005
Trading liabilities	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Bonds issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,446,497)	(734,304)	77,423	1,580,921	1,746,888	1,301,649

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(1) Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	486,750	-	-	-	-	486,750
Due from banks and other financial institutions	-	61,395	11,650	24,339	-	-	97,384
Placements with banks and other financial institutions	-	-	50,074	27,448	7,951	-	85,473
Financial assets at fair value through profit or loss	-	-	97,133	26,384	22,059	398	145,974
Financial assets purchased under resale agreements	-	-	13,998	-	-	-	13,998
Loans and advances to customers	78,608	-	750,499	919,638	980,569	1,208,804	3,938,118
Available-for-sale financial assets	628	-	48,961	86,362	269,895	48,567	454,413
Investment securities - held-to-maturity	-	-	12,997	55,715	295,881	160,573	525,166
Investment securities - loans and receivables	3,760	-	95,022	359,884	342,503	142,333	943,502
Other financial assets	261	26,292	2,798	40,840	29,202	4,965	104,358
Total financial assets	83,257	574,437	1,083,132	1,540,610	1,948,060	1,565,640	6,795,136

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(1) Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Liabilities							
Due to central bank	-	-	17,701	170,607	-	-	188,308
Due to banks and other financial institutions	-	240,097	804,853	285,941	-	-	1,330,891
Placements from banks and other financial institutions	-	-	99,537	35,566	3,295	3,258	141,656
Financial liabilities at fair value through profit or loss	234	15,121	-	2,159	10,676	490	28,680
Financial assets sold under repurchase agreements	-	-	177,161	7,670	-	-	184,831
Deposits from customers	-	1,547,147	926,228	480,484	177,435	-	3,131,294
Bonds issued	-	-	288,883	223,146	148,638	72,096	732,763
Other financial liabilities	-	22,479	985	2,879	801	-	27,144
Total financial liabilities	234	1,824,844	2,315,348	1,208,452	340,845	75,844	5,765,567
Net liquidity	83,023	(1,250,407)	(1,232,216)	332,158	1,607,215	1,489,796	1,029,569

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(2) Cash flow of derivative financial instruments

(i) Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options, precious metals derivatives and foreign currency derivatives settled in Shanghai Clearing House. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(2) Cash flow of derivative financial instruments (Continued)

(i) Derivative financial instruments settled on a net basis (Continued)

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018						
Foreign exchange derivatives	812	988	1,394	5	-	3,199
Interest rate swap	(278)	(290)	(957)	(730)	(29)	(2,284)
Foreign exchange options	41	393	351	50	-	835
Precious metals derivatives	655	53	(282)	-	-	426
Commodity swap contracts	6	7	-	-	-	13
Total	1,236	1,151	506	(675)	(29)	2,189
31 December 2017						
Foreign exchange derivatives	(945)	(1,743)	(3,336)	(17)	-	(6,041)
Interest rate swap	23	(36)	(23)	340	(1)	303
Foreign exchange options	358	82	109	5	-	554
Precious metals derivatives	179	218	(206)	-	-	191
Commodity swap contracts	-	2	111	432	-	545
Total	(385)	(1,477)	(3,345)	760	(1)	(4,448)

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.3 Liquidity risk (Continued)

(2) Cash flow of derivative financial instruments (Continued)

(ii) Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
31 December 2018					
Foreign exchange derivatives					
- Outflow	(359,205)	(198,799)	(277,172)	(43,315)	(878,491)
- Inflow	358,717	198,006	277,176	43,515	877,414
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
31 December 2017					
Foreign exchange derivatives					
- Outflow	(160,745)	(97,608)	(228,632)	(25,944)	(512,929)
- Inflow	160,599	97,182	230,056	26,353	514,190

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.3 Liquidity risk (Continued)
(3) Off-balance sheet items

Group 31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Bank bill acceptance	419,815	-	-	419,815
Acceptance bills of exchange under letter of credit	147,587	-	-	147,587
Letters of guarantee issued	66,175	32,658	2,170	101,003
Letters of credit issued	11,945	1,024	564	13,533
Credit cards and other commitments	351,725	-	-	351,725
Total	997,247	33,682	2,734	1,033,663
Group 31 December 2017	Within 1 year	1 to 5 years	Over 5 years	Total
Bank bill acceptance	396,414	-	-	396,414
Acceptance bills of exchange under letter of credit	144,602	-	-	144,602
Letters of guarantee issued	70,679	45,051	5,616	121,346
Letters of credit issued	13,381	762	-	14,143
Credit cards and other commitments	269,748	-	-	269,748
Total	894,824	45,813	5,616	946,253

11.4 Fair value of financial instruments
(1) Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.
- Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.
- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)
(2) Financial instruments not measured at fair value

As at 31 December 2018, The financial assets and financial liabilities not measured at fair value in the financial statements include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (amortized cost), investments measured at amortized cost, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued (31 December 2017: Include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, investment securities-classified as loans and receivables, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued).

The table below summarises the carrying amount and relevant fair value of the Group's investment securities classified as investments at amortized cost, held-to-maturity and loans and receivable, bonds issued as at financial reporting date.

Group	31 December 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets - debt investments	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities:					
Bonds issued	841,440	-	844,012	-	844,012
Group	31 December 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities - held-to-maturity	444,726	-	432,780	-	432,780
Investment securities - loans and receivables	832,598	-	251,739	570,282	822,021
Financial liabilities:					
Bonds issued	686,296	-	684,611	-	684,611

(i) Financial assets - debt investments

Debt investment is classified into level 1 when its fair value is based on quoted market price. Debt investment is classified into level 3 if its market information is not available and fair value is calculated using discounted cash flow model. Debt investment is classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

(ii) Bonds issued

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(2) Financial instruments not measured at fair value (Continued)

(iii) Investment securities classified as held-to-maturity, investment securities-classified as loans and receivables

Held-to-maturity securities and loans and receivables are classified into level 1 when its fair value is based on quoted market price. Held-to-maturity securities and loans and receivables are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities and loans and receivables are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying amount is approximate to the fair value.

(3) Assets and liabilities measured at fair value on a recurring basis

As at 31 December 2018, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

Group	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial investments:				
Trading assets				
- Bond investments	174	56,620	-	56,794
- Trust and asset management plans	-	16,069	52,600	68,669
- Fund investments	260,117	-	3,074	263,191
- Equity investments	345	-	783	1,128
- WMPs managed by other banks	-	-	208	208
- Other investments	-	-	5,678	5,678
Other debt investments				
- Bonds and other debt instruments	35	376,338	-	376,373
- Trust and asset management plans	-	1,274	1,213	2,487
Other equity investments	398	-	3,640	4,038

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)
(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

Group 31 December 2018	Level 1	Level 2	Level 3	Total
Loans and advances to customers				
- at fair value through other comprehensive income	-	249,153	-	249,153
- at fair value through profit or loss	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilities	-	42,793	-	42,793
Trading liabilities				
- Financial liabilities related to precious metals	-	24,504	-	24,504
- Interest of other unitholders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	1,107	67,316	9,282	77,705

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)
(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

Group	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets at fair value through profit or loss				
- Bond investments held for trading	-	49,425	-	49,425
- Trust and asset management plans	-	3,032	-	3,032
- Fund investments	11,004	-	1,084	12,088
- Other debt instruments	-	88,224	5,009	93,233
- Other investments	455	-	4,633	5,088
Available-for-sale financial assets				
- Available-for-sale bonds and other debt instruments	111	392,576	-	392,687
- Fund investments	143,039	72,357	-	215,396
- Available-for-sale equity investment	406	-	1,831	2,237
- Trust and asset management plans	-	45,317	7,634	52,951
- WMPs managed by other banks	-	-	354	354
- Others	-	565	318	883
Derivative financial assets	-	28,264	-	28,264
Total financial assets	155,015	679,760	20,863	855,638
Derivative financial liabilities	-	30,034	-	30,034
Financial liabilities at fair value through profit or loss				
- Financial liabilities related to precious metals	-	15,121	-	15,121
- Interest of other unitholders in consolidated structured entities	-	18	13,194	13,212
Total financial liabilities	-	45,173	13,194	58,367

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. For the year ended 31 December 2018, there was no transfer between level 1 and level 2.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data (if any) as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instrument's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bond investments, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, and interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

(ii) Financial instruments in level 3

Movements of the Group's financial assets and liabilities classified as level 3 are listed below:

Group	Financial investments Trading assets	Financial investments Other debt investments	Financial investments Other equity investments	Trading liabilities	Total
1 January 2018 (Restated)	76,991	1,868	1,140	13,194	66,805
Purchase	24,792	362	1,985	961	26,178
Sales	(40,263)	(1,221)	-	(4,985)	(36,499)
Changes in fair value recognised in profit or loss	823	211	-	112	922
Changes in gains or losses recognised in other comprehensive income	-	(7)	515	-	508
31 December 2018	<u>62,343</u>	<u>1,213</u>	<u>3,640</u>	<u>9,282</u>	<u>57,914</u>
Unrealised gain or loss recognised in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	<u>823</u>	<u>-</u>	<u>-</u>	<u>(112)</u>	<u>711</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

(ii) Financial instruments in level 3 (Continued)

Movements of the Group's financial assets and liabilities classified as level 3 are listed below (Continued):

Group	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Total
1 January 2017	28,118	19,063	5,223	41,958
Purchase	5,010	5,755	8,734	2,031
Sales	(22,662)	(14,770)	(1,220)	(36,212)
Changes in fair value recognised in profit or loss	260	258	457	61
Changes in fair value recognised in other comprehensive income	-	(169)	-	(169)
31 December 2017	<u>10,726</u>	<u>10,137</u>	<u>13,194</u>	<u>7,669</u>
Unrealised gain or loss recognised in profit or loss for the year ended 31 December 2017 for the positions held at 31 December 2017	<u>260</u>	<u>(169)</u>	<u>(457)</u>	<u>(366)</u>

**NOTES TO THE FINANCIAL STATEMENTS
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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

Group	Fair value as at 31 December 2018	Valuation technique	Unobservable inputs		
			Note	Range/weighted average	Correlation with fair value
Financial investments:					
Trading assets					
- Trust and asset management plans	52,600	Income approach	Discount rate	1.82% - 8.81%	Negative
- Equity investments	783	Income approach	Discount rate	5.50% - 6.40%	Negative
- Fund investments	3,074	Based on the most recent transaction	NA	NA	NA
- WMPs managed by other banks	208	Income approach	Discount rate	5.10% - 5.50%	Negative
- Other investments	5,678	Note 1	Note 1	Note 1	Note 1
	<u>62,343</u>				
Other debt investments					
- Trust and asset management plans	1,213	Income approach	Discount rate	4.95% - 7.00%	Negative
	<u>1,213</u>				
Other equity investments					
- Equity investments	649	Market approach	Discount For Liquidity P/B ratio	14.82% 0.88%	Negative Positive
	697	Market approach	Discount For Liquidity P/B ratio	19.27% 0.86	Negative Positive
	309	Market approach	Discount For Liquidity PE	26.68% 8.43	Negative Positive
	1,985	Based on the most recent transaction	NA	NA	NA
	<u>3,640</u>				

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

	Fair value as at 31 December 2018	Valuation technique	Unobservable inputs		
			Note	Range/weighted average	Correlation with fair value
Trading liabilities					
- Interest of other unitholders in consolidated structured entities	9,282	Note 2	Note 2	Note 2	Note 2
	<u>9,282</u>				
Group	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs		
			Note	Range/weighted average	Correlation with fair value
Financial assets at fair value through profit or loss					
- Fund investments	1,084	Based on the most recent transaction Income approach	NA Discount rate	NA	NA
- Other debt instruments	5,009	Note 1	Note 1	1.65% - 7.78% Note 1	Negative Note 1
- Other investments	4,633				
	<u>10,726</u>				

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.4 Fair value of financial instruments (Continued)

(3) Assets and liabilities measured at fair value on a recurring basis (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs		
			Name	Range/weighted average	Correlation with fair value
Available-for-sale financial assets					
- Available-for-sale equity investments	620	Market approach Based on the most recent transaction	Discount For Liquidity P/B ratio	20% 0.99	Negative Positive
	104	Income approach Based on the most recent transaction	NA Discount rate	NA 6.53% - 6.93%	NA Negative
	691	Income approach Based on the most recent transaction	NA Discount rate	NA 5.25% - 8.80%	NA Negative
- Trust and asset management plans	416	Income approach	Discount rate	5.45% - 5.90%	Negative
	4,142	Income approach	Discount rate	4.98%	Negative
- WMPs managed by other banks	3,492	Income approach	Discount rate	8.30%	Negative
	354	Income approach	Discount rate		
- Others	318	Income approach	Discount rate		
	<u>10,137</u>				
Financial liabilities at fair value through profit or loss					
- Interest of other unitholders in consolidated structured entities	13,194	Note 2	Note 2	Note 2	Note 2
	<u>13,194</u>				

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.4 Fair value of financial instruments (Continued)

- (3) Assets and liabilities measured at fair value on a recurring basis (Continued)
- (ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

Note 1: This refers to the fair value of the assets managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank's long term employee benefit plan. All of the underlying assets are financial assets and the methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the Money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instrument is calculated using discounted cash flow model and unobservable discount rates, ranging from 4.75%-6.70% (31 December 2017: 4.75%-7.25%).

Note 2: The fair value of interest of other unitholders in consolidated structured entities is calculated based on the net asset value of the structured entities.

11.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirement of the Accounting Standard for Business Enterprises, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2018, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

11.6 Capital management

The Group adopts the capital management approaches that can adequately respond to the interest risks associated with the Group's business and manages capital adequacy strictly in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximise shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as preference shares and tier-two capital instruments etc.

From 1 January 2013, the Group calculates the capital adequacy ratios in accordance with *Provisional Administrative Rule on Capital Management of Commercial Banks* (CBRC [2012] No.1) issued by the CBRC on 7 June 2012.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

11 FINANCIAL RISK MANAGEMENT (CONTINUED)
11.6 Capital management (Continued)

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Core tier 1 capital – net	435,120	388,200	408,426	366,921
Tier 1 capital - net	465,398	418,425	438,346	396,841
Capital - net	<u>589,308</u>	<u>490,884</u>	<u>561,231</u>	<u>468,467</u>
Total risk weighted assets	<u>4,311,886</u>	<u>4,084,499</u>	<u>4,196,285</u>	<u>3,982,115</u>
Core tier 1 capital adequacy ratio	10.09%	9.50%	9.73%	9.21%
Tier 1 capital adequacy ratio	10.79%	10.24%	10.45%	9.97%
Capital adequacy ratio	<u>13.67%</u>	<u>12.02%</u>	<u>13.37%</u>	<u>11.76%</u>

- (1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.
- (2) The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserves, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation).
- (3) The Group's Deductible Items from Core Tier-one Capital include other intangible assets (excluding land use rights).
- (4) The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.
- (5) The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.
- (6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardised approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

12 ASSETS PLEDGED

Following assets of the Group are pledged as collateral under repurchase agreements and for fiscal deposits.

	31 December 2018	31 December 2017
Financial assets- other debt investments	87,717	NA
Financial assets - debt investments	55,324	NA
Discounted bills and rediscounted bills	34,067	21,592
Investment securities - loans and receivables	NA	27,327
Available-for-sale financial assets	NA	163,526
Investment securities - held-to-maturity	<u>NA</u>	<u>20,035</u>
Total	<u>177,108</u>	<u>232,480</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in millions of RMB unless otherwise stated)
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13 EVENTS AFTER THE REPORTING DATE

As of 22 March 2019, the Group has no material events that require additional disclosure in its financial statements for the year ended 31 December 2018.

14 COMPARATIVE DATA

In order to be consistent with the presentation of financial statements for the current year, a number of comparative figures have been reclassified.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

[English translation for reference only.]

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in millions of RMB unless otherwise stated)
[English translation for reference only]

1 RETURN ON EQUITY AND EARNINGS PER SHARE

2018	Weighted average return on equity	Earnings per share (RMB: Yuan)	
		Basic	Diluted
Net profit attributable to the Bank's ordinary shareholders	13.14%	1.85	1.85
Net profit attributable to the Bank's ordinary shareholders after deducting non-recurring profit or loss	13.08%	1.84	1.84
2017	Weighted average return on equity	Earnings per share (RMB: Yuan)	
		Basic	Diluted
Net profit attributable to the Bank's ordinary shareholders	14.45%	1.84	1.84
Net profit attributable to the Bank's ordinary shareholders after deducting non-recurring profit or loss	14.39%	1.83	1.83

The Bank has no dilutive potential ordinary share.

2 NET PROFIT AFTER DEDUCTING NON-RECURRING PROFIT OR LOSS

Item	2018	2017
Profit or loss arising from the disposal of non-current assets	51	516
Government grants	515	488
Other non-operating (expense)/income, net	(59)	(447)
Effect of income tax for the non-recurring profit or loss	(147)	(269)
Total	360	288
Including:		
Non-recurring profit or loss attributable to ordinary equity holders of the parent company	271	212
Non-recurring profit or loss attributable to minority interests	89	76

Government grants refer to special fund for enterprise development and tax return received from local governments and authorities of all levels.

The Group recognises non-recurring profit or loss items according to the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Securities to the Public - Non-recurring Profit and Loss* (CSRC Announcement [2008] No.43). Gains on fair value changes of financial assets and liabilities at fair value through profit and loss arising from the Group's normal operations, and investment income from disposals of financial assets and liabilities at fair value through profit and loss and debt instruments at fair value through other comprehensive income are not disclosed as non-recurring gains or losses.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

**FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent Auditor's Report

2019/SH-0080
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To the Shareholders of Shanghai Pudong Development Bank Co., Ltd.

Opinion

What we have audited

The financial statements of Shanghai Pudong Development Bank Co., Ltd. (“the Bank”) and its subsidiaries (the “Group”) set out on pages 10 to 181, which comprise:

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and the Bank’s financial position as at 31 December 2018, and the consolidated and the Bank’s financial performance and the consolidated and the Bank’s cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

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

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

- Measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments
- Consolidation assessment of structured entities
- Impairment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments Refer to Notes 2.7, 3.1, 6.17, 6.21(b), 6.28, 6.34, 11.1.1, 11.1.3, 11.1.4, 11.1.5, 11.1.7 to the financial statements. As at 31 December 2018, the Group's principal of loans and advances to customers amounted to RMB 3,549,205 million, and loss allowance amounted to RMB 105,339 million; the principal of financial investment - debt investments amounted to RMB 1,136,889 million, and loss allowance amounted to RMB 7,488 million; the exposure of financial guarantees and loan commitments amounted to RMB 1,033,663 million, and provision amounted to RMB 4,747 million. The balances of loss allowances for loans and advances to customers, financial investment - debt investments and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under ECL models of International Financial Reporting Standard 9: Financial Instruments.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, primarily including: (1) Governance over ECL models, including the selection, approval and application of modelling methodology; (2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, determination of defaults and credit impairments, and forward - looking adjustments; (3) Internal controls relating to the accuracy and completeness of key inputs used by the models; (4) Internal controls relating to the information systems for model - based measurement. The substantive procedures we preformed, primarily including:

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group assesses whether the credit risk of loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments have increased significantly since their initial recognition, and applies a three - stage impairment model to measure their ECL. For loans and advances to customers, financial investment - debt investments and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Criteria for determining a significant increase in credit risk, default and credit impairments; (3) Economic indicators for forward - looking measurement, and the application of economic scenarios and weightings. The Group established controls for the measurement of expected credit losses.	We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the measurement of the models on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management. We selected samples, in consideration of the financial information and non - financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit - impaired loans. For forward - looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed; we assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. .

Key Audit Matter	How our audit addressed the Key Audit Matter
For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investment - debt investments, exposures of financial guarantees and loan commitments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	For corporate loans and advances and financial investment - debt investments in stage 3, we examined, on a sample basis, the difference of loss allowance between the allowance from ELC models and the allowance from the discounted forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and advances to customers, financial investment - debt investments, financial guarantees and loan commitments, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.
Consolidation assessment of structured entities Refer to Notes 2.3, 3.4 and 6.45 to the financial statements. The Group managed or invested in a number of structured entities. As of 31 December 2018, structured entities of approximately RMB 67,167 million were consolidated by the Group; structured entities of RMB 2,533,543 million managed by the Group and structured entities of RMB 745,127 million invested by the Group were not consolidated. We focused on this area because the number of structured entities was significant and the assessment of whether the Group should consolidate these structured entities involved significant judgements, including the judgements regarding the Group's power over the structured entities' relevant activities, the Group's variable returns generated from the structured entities, and the Group's ability to affect these returns.	
The audit procedures we performed regarding consolidation assessment of structured entities included: We understood, evaluated and validated the design and operating effectiveness of the relevant controls over the completeness of managed or invested structured entities, and the controls relating to management's assessment on whether or not to consolidate the structured entities. We checked the completeness of the list of structured entities. We verified the Group's assessment on whether the Group controlled the structured entities by examining supporting documents of selected samples of structured entities managed or invested by the Group by performing the following procedures:	

Key Audit Matter	How our audit addressed the Key Audit Matter
	1.Evaluating whether the Group has power over structured entities' relevant activities by analyzing business structures and related contractual terms; 2.Reviewing contractual terms regarding variable returns of structured entities, including management fee relating to the Group's compensation in the investment contracts, the rate of return from the investments' contracts made by the structured entities and the investors' investment contracts to the structured entities, and the returns from lending support. We also checked these terms against the information in the management's list of structured entities. We recalculated the magnitude and variability of returns to the Group from these structured entities. We assessed whether the Group acted as principle or agent based on our analysis of the Group's power, the Group's variable returns generated from the structured entities, and the Group's ability to affect the returns, and compared our assessment result with management's assessment result. Based on the audit work performed, we found management's judgements in relation to the consolidation of structured entities acceptable.
Impairment of goodwill	
Refer to Notes 2.14, 2.16, 3.5 and 6.25 to the financial statements.	The audit procedures we performed regarding impairment test of goodwill included:
In March 2016, the Group acquired Shanghai International Trust Investment Company and recognised goodwill amounted to RMB 6,981 million.	Based on industry practice, we assessed the appropriateness of valuation techniques used by the management to forecast present value of future cash flows.

Key Audit Matters	How our audit addressed the Key Audit Matter
In the impairment test of goodwill, the Group allocated carrying amount of goodwill to each of the cash-generating units (“CGUs”), forecasted the future cash flows of each CGU, and applied appropriate discount rate for the calculation of present value of future cash flows. The future cash flow of CGUs is estimated based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term average growth rates. The key assumptions used by the management in the calculation of present value of future cash flow including: (1) Forecast period growth rate; (2) Stable period growth rate; (3) Discount rate. We focus on this area because the calculation of recoverable amount of CGUs requires significant judgement, including forecasting future cash flows of each CGU and selecting discount rate to calculate discounted future cash flows.	We compared the actual performance of the CUGs for the year ended 31 December 2018 with the previous forecast data to assess whether the management's forecast of cash flows are reliable. We compared the main data used in cash flow models with the corresponding approved budget. We evaluated management's key assumptions by performing the following procedures: (1) Compare the five-year detailed forecast period growth rate with the historical growth rate of the CGUs and the industry historical data; (2) Compare growth rate beyond the five-year period with our independent expectations based on economic data; (3) In consideration of the market risk-free interest rate and asset-liability ratio, we assess the reasonableness of the discount rate used by management by recalculating the weighted average cost of capital of the CGUs and comparable companies in the same industry. For the sensitivity analysis prepared by management, we focus on the assumptions that have a significant impact on the present value of cash flows and assess the magnitude and likelihood that such changes will result in goodwill impairments. We tested the accuracy of the calculation of the net present value of future cash flows and compared the calculated results with the carrying amount of related goodwill. Based on the audit work performed, we found that the parameters and the key assumptions used in the goodwill impairment test are acceptable.

Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Zhang Zhou.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

22/March/2019

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	Group		Bank	
		2018	2017	2018	2017
Interest income	6.1	267,488	245,818	263,315	241,698
Interest expense	6.1	(155,644)	(138,906)	(153,198)	(136,696)
Net interest income		111,844	106,912	110,117	105,002
Fee and commission income	6.2	46,205	50,773	42,247	46,732
Fee and commission expense	6.2	(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income		39,009	45,580	35,047	41,520
Dividend income		40	239	166	164
Net trading income	6.3	16,175	9,064	15,724	8,607
Net gains arising from financial investments	6.4	339	388	82	332
Other operating income		4,097	6,609	2,678	5,503
Employee benefit expenses	6.5	(24,643)	(23,296)	(23,093)	(21,905)
Operating expenses	6.6	(16,538)	(16,293)	(15,653)	(15,201)
Depreciation expenses for property and equipment		(2,931)	(2,577)	(2,215)	(2,087)
Tax and surcharges	6.7	(1,852)	(1,610)	(1,755)	(1,540)
Impairment losses	6.8	(60,420)	(55,285)	(59,823)	(55,037)
Share of results of associates and joint ventures		164	97	176	100
Profit before income tax		65,284	69,828	61,451	65,458
Income tax expense	6.9	(8,769)	(14,826)	(7,826)	(13,728)
Net profit		56,515	55,002	53,625	51,730

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	Group		Bank	
		2018	2017	2018	2017
Other comprehensive income	6.10				
<i>Items that may be reclassified to profit or loss</i>					
- Changes in fair value of debt instruments at fair value through other comprehensive income		6,324	NA	6,518	NA
- Credit impairment allowance of debt instruments at fair value through other comprehensive income		62	NA	(71)	NA
- Changes in fair value of available-for-sale financial assets		NA	(5,440)	NA	(5,373)
- Exchange differences from the translation of foreign operations		266	(132)	110	(104)
<i>Items that will not be reclassified to profit or loss</i>					
- Changes in fair value of equity instruments at fair value through other comprehensive income		331	NA	331	NA
- Other comprehensive income, after tax		6,983	(5,572)	6,888	(5,477)
Total comprehensive income		63,498	49,430	60,513	46,253
Net profit attributable to:					
Shareholders of the Bank		55,914	54,258		
Non-controlling interests		601	744		
		56,515	55,002		
Total comprehensive income attributable to:					
Shareholders of the Bank		62,893	48,690		
Non-controlling interests		605	740		
		63,498	49,430		
Basic and diluted earnings per share attributable to the holders of the Bank's ordinary shares (expressed in RMB per share)	6.11	1.85	1.84		

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

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

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Assets					
Cash and balances with central bank	6.12	443,723	486,531	439,900	482,118
Due from and placements with banks and other financial institutions	6.13	236,535	177,187	232,916	172,581
Precious metals		10,475	10,261	10,475	10,261
Financial assets at fair value through profit or loss	6.14	NA	162,866	NA	157,268
Derivative financial assets	6.15	43,274	28,264	43,274	28,264
Financial assets purchased under resale agreements	6.16	11,573	13,974	11,573	13,974
Loans and advances to customers	6.17	3,455,489	3,103,853	3,434,578	3,083,728
Available-for-sale financial assets	6.18	NA	664,508	NA	654,837
Investment securities					
- held-to-maturity	6.19	NA	444,726	NA	444,726
Investment securities					
- loans and receivables	6.20	NA	832,598	NA	817,939
Financial investments:	6.21				
Trading assets - financial investment at fair value through profit or loss		395,668	NA	382,492	NA
Debt investments-at amortized cost		1,144,249	NA	1,133,993	NA
Other debt investments-at fair value through other comprehensive income		378,860	NA	374,171	NA
Other equity investments-at fair value through other comprehensive income		4,038	NA	4,038	NA
Investments in associates and joint ventures	6.22	1,968	1,006	1,757	804
Investments in subsidiaries	5	-	-	24,307	23,056
Property and equipment	6.23	23,718	21,877	12,052	11,853
Construction in progress	6.24	4,499	4,674	4,499	4,674
Intangible assets	6.25	9,257	9,346	-	-
Deferred income tax assets	6.26	36,877	29,022	36,078	28,381
Other assets	6.27	89,403	146,547	36,765	100,569
Total assets		<u>6,289,606</u>	<u>6,137,240</u>	<u>6,182,868</u>	<u>6,035,033</u>

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2018

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

		Group		Bank	
	Note	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Liabilities					
Due to central bank		221,003	182,387	220,263	181,500
Due to and placements from banks and other financial institutions	6.29	1,216,391	1,453,100	1,185,333	1,423,494
Trading liabilities - at fair value through profit or loss	6.30	34,912	28,333	24,504	15,121
Derivative financial liabilities	6.15	42,793	30,034	42,793	30,034
Financial assets sold under repurchase agreements	6.31	119,564	184,464	119,564	184,464
Deposits from customers	6.32	3,253,315	3,037,936	3,222,589	3,006,604
Income tax payable		16,657	16,435	16,182	15,957
Bonds issued	6.33	841,440	686,296	832,873	682,109
Deferred income tax liabilities	6.26	643	680	-	-
Provision	6.34	4,747	NA	4,742	NA
Other liabilities	6.35	59,761	86,590	49,885	75,626
Total liabilities		5,811,226	5,706,255	5,718,728	5,614,909
Equity					
Ordinary shares	6.36	29,352	29,352	29,352	29,352
Preference shares	6.37	29,920	29,920	29,920	29,920
Capital surplus	6.38	81,760	81,760	81,710	81,710
Surplus reserves	6.39	109,717	94,198	109,717	94,198
General risk reserve	6.40	75,946	75,702	74,900	74,900
Other reserves	6.41	4,659	(5,335)	4,627	(5,289)
Retained earnings	6.42	140,208	119,807	133,914	115,333
Equity attributable to the Bank's shareholders		471,562	425,404	464,140	420,124
Non-controlling interests	6.43	6,818	5,581	-	-
Total equity		478,380	430,985	464,140	420,124
Total liabilities and equity		6,289,606	6,137,240	6,182,868	6,035,033

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

These financial statements were approved for issue by the Board of Directors of the Bank on 22 March 2019.

Chairman:	Governor:	Chief Financial Officer:	Head of finance and accounting department:

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Note	Equity attributable to the Bank's shareholders							Non-controlling interests	Total
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings		
	6.36	6.37	6.38	6.39	6.40	6.41	6.42	6.43	
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581 430,985
Changes of accounting Policies(note 4)	-	-	-	-	-	3,015	(15,090)	(12,075)	64 (12,011)
Balance at 1 January 2018	29,352	29,920	81,760	94,198	75,702	(2,320)	104,717	413,329	5,645 418,974
Net profit for the year	-	-	-	-	-	-	55,914	55,914	601 56,515
Other comprehensive income	-	-	-	-	-	6,979	-	6,979	4 6,983
Total comprehensive income	-	-	-	-	-	6,979	55,914	62,893	605 63,498
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	799 799
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	244	-	(15,763)	-	- -
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	- (2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	- (1,725)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(231) (231)
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818 478,380

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in millions of RMB unless otherwise stated)

	Equity attributable to the Bank's shareholders							Non-controlling interests	Total
	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings		
Note	6.36	6.37	6.38	6.39	6.40	6.41	6.42	6.43	
Balance at 1 January 2017	21,618	29,920	74,678	78,689	65,493	233	97,316	367,947	4,987 372,934
Net profit for the year	-	-	-	-	-	-	54,258	54,258	744 55,002
Other comprehensive income	-	-	-	-	-	(5,568)	-	(5,568)	(4) (5,572)
Total comprehensive income	-	-	-	-	-	(5,568)	54,258	48,690	740 49,430
Non-controlling interest increased from capital increase of subsidiary	-	-	-	-	-	-	-	-	92 92
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816	- 14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	10,209	-	(25,718)	-	- -
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)	- (4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	- (1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-	- -
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(238) (238)
Balance at 31 December 2017	29,352	29,920	81,760	94,198	75,702	(5,335)	119,807	425,404	5,581 430,985

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE BANK'S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Note	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
	6.36	6.37	6.38	6.39	6.40	6.41	6.42	
Balance at 31 December 2017	29,352	29,920	81,710	94,198	74,900	(5,289)	115,333	420,124
Changes of accounting Policies(note 4)	-	-	-	-	-	3,028	(14,865)	(11,837)
Balance at 1 January 2018	29,352	29,920	81,710	94,198	74,900	(2,261)	100,468	408,287
Net profit	-	-	-	-	-	-	53,625	53,625
Other comprehensive income	-	-	-	-	-	6,888	-	6,888
Total comprehensive income	-	-	-	-	-	6,888	53,625	60,513
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	-	-	(15,519)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2018	29,352	29,920	81,710	109,717	74,900	4,627	133,914	464,140
Note	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
	6.36	6.37	6.38	6.39	6.40	6.41	6.42	
Balance at 1 January 2017	21,618	29,920	74,628	78,689	65,045	188	95,016	365,104
Net profit	-	-	-	-	-	-	51,730	51,730
Other comprehensive income	-	-	-	-	-	(5,477)	-	(5,477)
Total comprehensive income	-	-	-	-	-	(5,477)	51,730	46,253
Private placement of ordinary shares	1,248	-	13,568	-	-	-	-	14,816
Appropriations to surplus reserves and general risk reserve	-	-	-	15,509	9,855	-	(25,364)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(4,324)	(4,324)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Ordinary shares converted from capital surplus	6,486	-	(6,486)	-	-	-	-	-
Balance at 31 December 2017	29,352	29,920	81,710	94,198	74,900	(5,289)	115,333	420,124

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Group		Bank	
	2018	2017	2018	2017
1. Cash flows from operating activities				
Profit before income tax	65,284	69,828	61,451	65,458
Adjusted by:				
Depreciation	2,931	2,577	2,215	2,087
Impairment losses of loans and advances to customers	58,383	52,799	58,077	51,821
Other impairment losses	2,037	2,486	1,746	3,216
Interest expense	155,644	138,906	153,198	136,696
Interest income	(267,488)	(245,818)	(263,315)	(241,698)
Net gains on disposal of property and equipment	(33)	(16)	(34)	(17)
Dividend income	(40)	(239)	(166)	(164)
Share of results of associates and joint ventures	(164)	(97)	(176)	(100)
Unrealized (gains)/losses on derivative financial instruments	(2,695)	4,912	(2,695)	4,912
Net gains arising from financial investments	(339)	(388)	(82)	(332)
Exchange (gains)/losses from investing and financing activities	(10)	12	(10)	12
Net decrease/(increase) in operating assets:				
Mandatory reserves with central bank	74,107	2,312	74,070	2,637
Due from and placements with banks and other financial institutions	(48,259)	105,957	(45,372)	104,209
Financial assets at fair value through profit or loss	NA	14,337	NA	14,153
Financial assets held for trading	30,565	NA	29,741	NA
Financial assets purchased under resale agreements	2,406	(10,973)	2,406	(10,973)
Precious metals	(214)	(713)	(214)	(713)
Loans and advances to customers	(411,136)	(431,794)	(409,983)	(429,664)
Other assets	57,144	(53,688)	63,804	(52,693)
Net increase/(decrease) in operating liabilities:				
Due to central bank	35,354	34,765	35,500	34,500
Due to and placements from banks and other financial institutions	(241,452)	14,005	(242,839)	16,425
Financial assets sold under repurchase agreements	(65,014)	91,264	(65,014)	91,536
Deposits from customers	189,082	35,921	190,314	32,155
Trading liabilities- at fair value through profit or loss	6,579	(1,193)	9,383	(9,401)
Other liabilities	(45,183)	(13,830)	(51,849)	(13,377)
Cash used from operating activities	(402,511)	(188,668)	(399,844)	(199,315)
Interest received	208,029	177,909	204,219	174,202
Interest paid	(130,413)	(112,305)	(120,796)	(110,348)
Income tax paid	(13,465)	(17,609)	(12,291)	(16,253)
Net cash used from operating activities	(338,360)	(140,673)	(328,712)	(151,714)

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE CONSOLIDATED AND THE BANK'S STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Group		Bank	
	2018	2017	2018	2017
2. Cash flows from investing activities				
Redemption of investment securities	1,673,028	4,740,191	1,667,415	4,740,191
Investment income received	76,363	66,441	75,570	65,782
Proceeds from disposal of property and equipment	88	151	73	131
Purchase of property and equipment	(4,857)	(3,981)	(2,484)	(1,327)
Purchase of other long term assets	(1,077)	(4,449)	(1,068)	(4,445)
Cash paid for additional equity investments	(852)	(5)	(2,082)	(77)
Proceeds from disposal of equity investments	-	1	-	-
Purchase of investment securities	(1,484,804)	(4,760,549)	(1,480,137)	(4,749,777)
Net cash generated/(used) in investing activities	257,889	37,800	257,287	50,478
3. Cash flows from financing activities				
Proceeds from equity investments	799	14,908	-	14,816
Proceeds from issuance of bonds and deposit certificates	1,288,077	1,332,184	1,283,232	1,327,237
Repayment of bonds and deposit certificates issued	(1,137,019)	(1,310,571)	(1,136,399)	(1,309,811)
Interest paid on bonds and deposit certificates issued	(29,063)	(25,415)	(28,866)	(25,398)
Dividends paid	(4,891)	(6,286)	(4,660)	(6,049)
Net cash generated from financing activities	117,903	4,820	113,307	795
4. Effect of exchange rate changes on cash and cash equivalents	2,754	(1,900)	2,734	(1,899)
5. Net increase/(decrease) in cash and cash equivalents	40,186	(99,953)	44,616	(102,340)
Cash and cash equivalents at the beginning of the year	147,458	247,411	138,838	241,178
Cash and cash equivalents at the end of the year	187,644	147,458	183,454	138,838
6. Composition of cash and cash equivalents				
Cash	6,036	7,284	5,894	7,121
Excess reserves with central bank	70,709	38,905	69,687	37,354
Due from and placements with banks and other financial institutions with original maturities no more than three months	110,899	101,269	107,873	94,363
Total	187,644	147,458	183,454	138,838

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

1 GENERAL INFORMATION

Shanghai Pudong Development Bank Co., Ltd. (“the Bank” or “SPD”) is a joint-stock commercial bank incorporated in Shanghai, the People’s Republic of China (“the PRC”) on 28 August 1992 in accordance with the approval from the People’s Bank of China (“the PBOC” or “Central Bank”) (YinFu [1992] No.350). The Address of the headquarter is 12 First East Zhongshan Road, Shanghai. The Bank obtained its business licence from Shanghai Municipal Administration of Industry and Commerce (“SMAIC”) on 19 October 1992 and commenced its business on 9 January 1993. On 10 November 1999, the Bank’s ordinary shares denominated in RMB were listed and traded on Shanghai Stock Exchange.

The national organization code of the Bank is 9131000013221158XC, and the financial service certificate No. of the Bank is B0015H131000001.

As of 31 December 2018, the Bank’s ordinary shares were RMB 29,352 million, with RMB 1 Yuan par value, of which RMB 1,248 million were restricted for trading. The Bank’s preference shares were RMB 29,920 million.

The Bank and its subsidiaries (collectively referred to as “the Group” or “SPDB Group”) are mainly engaged in financial businesses. The scope of business mainly includes commercial banking services, financial leasing businesses and trust services approved by the PBOC and the China Banking and Insurance Regulatory Commission (“the CBIRC”), investment banking and fund management business defined by Type 4 license (Advising on securities), Type 6 (Advising on corporate finance) and Type 9 (Asset Management) licenses issued by Securities & Futures Commission of Hong Kong. The Bank’s principal regulator is the CBRC. The Bank’s overseas branches and subsidiaries are subject to the supervision by local regulators.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The Group’s accounting year starts on 1 January and ends on 31 December.

The financial statements are prepared in accordance with International Financial Report Standards (“IFRS”), on the basis of going concern. The financial statements have been prepared under the historical cost convention, except for precious metals, loans and advances to customers at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, financial investments-trading assets, financial investments-other debt investments, financial investments-other equity instruments, and trading liabilities-at fair value through profit or loss, which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. Estimates and judgements significant to the financial statements are disclosed in Note 3.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018

The Group has applied following new or amended IFRSs, which are applicable for the Group since 1 January 2018 and are set out below:

IFRS15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
Amendment to IAS 28	Annual Improvements to IASB 2014-2016 Cycle
Amendment to IFRS 4	Application of IFRS9
Amendments to IAS 40	Transfers of investment property
Amendment to IFRS 2	Share-based Payment
IFRIC 22	Foreign Currency Transactions and Advance Consideration

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

IFRS 9

The Group has adopted International Financial Report Standard 9 "Financial Instruments" ("IFRS 9") as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018(Continued)

IFRS 9 (Continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

The Group’s impact of adopting IFRS 9 is disclosed at note 4. Further details of the specific IFRS 9 accounting policies applied in the current year (as well as the previous IAS 39 accounting policies applied in the comparative period) are listed at note 2.7.

Amendments to IAS 28 (Revised)

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment by- investment basis, upon initial recognition.

Amendments to IFRS 4 (Revised)

These amendments provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Amendments to IAS 40 (Revised)

These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IFRS 2 (Revised)

These amendments provide guidance on three matters regarding classification and measurement. These amendments also provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs applied which were effective in 2018(Continued)

IFRIC 22

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

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

(b) New and revised IFRSs issued but not yet effective

		Effective for annual period beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 16	Leases	1 January 2019
Amendments to IFRS 10 and IAS 28(Revised)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with negative compensation and modifications of financial liabilities	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IAS 28(Revised)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IAS 19(Revised)	Plan Amendment, Curtailment or Settlement	1 January 2019

IFRIC 23

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRS 16

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognize leases in balance sheets. For lessees, the new leasing standards will recognize all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognize the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Group will adopt the standards for annual periods beginning on or after January 1, 2019 and intends to use the simple transition methods stated in the standards to restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the Group will measure the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases of inventory using the new standards as from the beginning of the lease period. For short-term and low-value leases, the Group is subject to the recognition exemptions.

The Group expects that the first adoption of the new standards will not have a significant impact on the financial statements.

Amendments to IFRS 10 and IAS 28 (Revised)

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

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

Amendments to IFRS :The Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 - Business Combinations, the amendments to IFRS 11 - Joint Arrangements, the amendments to IAS 12 - Income taxes and IAS 23 - Borrowing Costs.

Amendments to IFRS 9

These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued applicable to the Group but not yet effective (Continued)

IFRS 17

IFRS 17 was issued as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IAS 28(revised)

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

IAS 19(Revised)

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must :

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change;
- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling;
- separately recognise any changes in the asset ceiling through other comprehensive income.

The adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Business Combinations

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Acquisition-related costs are expensed as incurred. The transaction costs incurred for the issuance of equity or debt securities in connection with the business combination are included in part of the initial recognition cost of these securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation

The scope of consolidation is determined based on control, including the financial statements of the Bank and all its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements.

The Group determines whether it is an agent or a principle in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principle if it acts primarily for itself, and therefore controls the structured entity.

Where necessary, amounts reported by subsidiaries have been adjusted to conform to the policies adopted by the Group. Intra-group balances, transactions and unrealised profits on transactions between group companies are eliminated. The Group's non-controlling interests, including subsidiaries' equity, net profit for the year and comprehensive income that are not attributable to the Bank's shareholders, are separately presented in the respective sections of the consolidated financial statements.

With respect to a subsidiary acquired through business combination, the consideration paid and the identifiable net assets acquired in a business combination are measured at initially their fair values on the acquisition date. Goodwill is initially measured at cost being the excess of the aggregate fair value of the consideration paid and the acquirer's interest in the fair value of the acquiree's net identifiable assets. If the fair value of consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss. The operating results and cash flows of the subsidiary shall be consolidated into the Group's financial statements from the date the Group obtains control of the subsidiary and deconsolidated from the Group's financial statements when the Group loses the control of the subsidiary. While preparing the consolidated financial statements, the Group should adjust the subsidiary's financial statements by using the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

2.4 Foreign currency translation

The functional currency of the Group's operations in Mainland China is Renminbi (RMB). The functional currency of the Group's operations overseas depends on the primary economic environment in which the entity operates. The presentation currency of the Group is RMB.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

At the financial reporting date, monetary items denominated in foreign currencies are translated to RMB using the exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other reserves of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation(Continued)

At the financial reporting date, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates at the date of transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets at fair value through other comprehensive income are recognized in other reserves in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the profit or loss.

The results and financial positions of the Group entities that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

- (i) asset and liability items are translated at the closing rate at the date of the statement of financial position;
- (ii) income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions.

The resulting translation differences are recorded in other comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents are cash on hand, deposits that can be readily drawn on demand, and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash, excess reserves with central bank, due from and placements with banks and other financial institutions within original maturities no more than three months.

2.6 Precious metals

Precious metals held by the Group are mainly gold traded in financial market. They are initially recognized at acquisition cost and subsequently measured at fair value at the financial reporting date. Gain or loss arising from fair value re-measurement is recognized in profit or loss.

2.7 Financial assets and financial liabilities

2.7.1 Recognition and derecognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchased and sales of financial assets are recognized on trade-date. Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and the transfer satisfies the new financial instrument guidelines for the derecognition of financial assets. When the current obligations of financial liabilities have been discharged, the Group derecognizes the financial liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities(Continued)

2.7.1 Recognition and derecognition(Continued)

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assessed whether or not the new items are substantially different to the original terms.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired ("POCI") financial assets). In assessing whether the credit risk of the relevant financial assets has increased significantly, the Group compares the risk of default on the statement of financial position based on the changed contract terms with the risk of default based on the original contract terms at initial recognition.

The impact of modification of financial assets on the expected credit loss calculation is discussed in Note 11.1.3

Derecognition other than on modification

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities(Continued)

2.7.1 Recognition and derecognition(Continued)

Derecognition other than on a modification(Continued)

Collateral (shares or bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

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

2.7.2 Classification and measurement

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When there is a difference between the fair value and the transaction price at the initial recognition of a financial asset or financial liability, the Group distinguishes between the following:

- a) At initial recognition, the fair value of a financial asset or financial liability is determined based on the quotation of the same asset or liability in an active market or valuation techniques using only observable market data, the difference between the fair value and the transaction price is recognized as a gain or loss.
- b) In the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction price is deferred. After the initial recognition, the deferred difference is recognized as the gain or loss of the corresponding accounting period based on the degree of change in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Fair value

Fair value refers to the price that a market participant can received from sell an asset or transfer a liability in an orderly transaction that occurs on the balance sheet date. The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. At the time of valuation, the Group adopts valuation techniques that are applicable under current circumstances and that are sufficiently supported by data and other information, inputs that are consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. These valuation techniques maximise the use of observable market data where it is available.

Financial assets

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

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

Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Financial assets (Continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

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

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income; or
- (iii) Fair value through profit or loss.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. The Group determines business model based on key management personnel's specific business objectives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Financial assets(Continued)

Debt instruments(Continued)

Cashflow Characteristics: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the contractual clause is consistent with a basic lending arrangement, i.e. whether the contractual cash flows of related financial assets generated in specific date solely payments of principal and interest ("SPPI"). Principal is the fair value of on initial recognition; it may changes due to early prepayments; interest includes consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement, where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement.

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by expected credit loss allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognised in profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss.

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

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

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- (b) Financial assets that are not POCI but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.2 Classification and measurement (Continued)

Financial assets(Continued)

Equity instruments

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

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, is recognised in profit or loss as "Dividend income" when the following criteria are met:

- (i) The Group's right to receive dividends is established;
- (ii) The economic interest relating to the dividend is very likely to flow in the Group; and
- (iii) The amount of dividends can be measured reliably.

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

Financial liabilities

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.7.1; and
- Financial guarantee contracts not mentioned above, and loan commitments promised to provide loans at below market interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets and financial liabilities (Continued)

2.7.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument carried at amortized cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 11.1.3.

When the financial assets are uncollectible, the Group writes off the financial assets and offsets the corresponding provisions after completing all necessary procedures and determining the amount of the loss.

2.7.4 Offset

The Group shows financial assets and financial liabilities separately in the statement of financial position and may not offset each other, except for:

- (i) The Group has a statutory right to offset the confirmed amount and the legal right is now enforceable;
- (ii) The Group plans to net settle the assets and liabilities or realize the financial assets and repay the financial liabilities at the same time.

2.8 Derivatives and hedging activities

Derivative are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes (Note 2.7.2). Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Derivatives and hedging activities (Continued)

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group's overseas branch implanted fair value hedge and cash flow hedge, by designated selected derivative instruments to hedge the specific fair value or cash flow related risk of recognized assets.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Currently overseas branch uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as net trading profit or loss in the profit or loss as ineffective portion.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity and recorded as net interest income.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Assets purchased under resale agreements (“Reverse repos”) and assets sold under repurchase agreements (“Repos”)

Reverse repo refers to the agreement under which the Group purchases an asset with an obligation to resell it to the same counterparty at a pre-determined price on a specified date. Reverse repo are recorded at the actual amount paid and presented in “assets purchased under resale agreements” on the statement of financial position, while assets bought are not recognized. Repo refers to the agreement under which the Group sells an asset with an obligation to repurchase it from the same counterparty at a pre-determined price on a specified date. Repos are recorded at the actual amounts received and presented in “assets sold under repurchase agreements” on the statement of financial condition, while assets sold are not derecognized. Interest earned from resale agreement and interest paid under repurchase agreement is recorded as interest income or interest expense respectively using effective interest method.

2.10 Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decision process but does not control or jointly control those policy decisions.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates and joint ventures are initially recognized at cost and are accounted for using the equity method of accounting. The Group’s “Investments in associates and joint ventures” includes goodwill.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interests in the associates and joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognized for the amounts by which the investments in associates and joint ventures’ carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures’ fair value less costs to sell and value in use.

2.11 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The cash dividends and profit announced by subsidiaries are recognized as dividend income in profit or loss as “Dividend income”.

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
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FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Property and equipment

2.12.1 Recognition and initial measurement

Property and equipment mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, office equipment, aircraft equipment, software and leasehold improvement, etc.

Property and equipment shall be recognized only when the economic benefits associated with the asset will likely flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for property and equipment that meet the recognition criteria shall be included in the cost of the asset, and carrying amount of the component of the asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss.

Property and equipment are initially measured at cost, comprising purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and other surcharge.

2.12.2 Depreciation methods of property and equipment

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the impaired property and equipment, the annual depreciation amount should be calculated on the basis of carrying amount less impairment and estimated remaining useful life. The estimated useful lives, estimated residual values and annual depreciation rates are as follows:

Category	Useful life	Estimated residual value	Annual depreciation rate
Buildings	30 years	3-5%	3.17-3.23%
Motor Vehicles	5 years	3-5%	19.00-19.40%
Mainframe computers	5 years	3-5%	19.00-19.40%
Computer equipment	3-5 years	3-5%	19.00-32.33%
Electronic equipment	5 years	3-5%	19.00-19.40%
Office equipment	5 years	3-5%	19.00-19.40%
Software	5 years	0%	20%
Leasehold improvement	5 years	0%	20%
Aircraft equipment	20 years	5%	4.75%

The Group's Aircraft equipment is purchased to conduct operating lease activities.

Estimated useful lives, residual values, and depreciation method are reviewed and adjusted if appropriate at the end of each year by the Group.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.16).

2.13 Constructions in progress

Construction in progress is stated at cost. Cost comprises cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences from the following month after such assets are transferred to property and equipment. When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount (Note 2.16).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Intangible assets

The Group's intangible assets mainly include goodwill, brand, franchise right and contractual customer relationships etc., Brand, franchise right and contractual customer relationships acquired in a business combination are measured with fair value.

Goodwill is recognized at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date. Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment.

Brand and franchise right are intangible assets with no expected useful lives, which are not subject to amortization but require impairment test annually.

Customer contract relationship is amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

The Group reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary. Intangible assets with indefinite useful life are not subject to amortization and are tested annually for impairment.

When the recoverable amount is lower than its carrying amount, book value should be reduced to the recoverable amount (Note 2.17).

2.15 Foreclosed assets

Foreclosed assets included in 'Other assets' are initially recognized at fair value plus related costs when they are obtained as the compensation for the loan principal and interest and subsequently measured at the lower of their carrying amount and net realizable value. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its net realizable value, through profit or loss.

2.16 Impairment of long term assets

Except for goodwill, property and equipment, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the reporting date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows independently of the cash flows from other assets or groups of assets.

Goodwill arises on acquisition shall be subject to an impairment test annually or more frequently, and whenever events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. Impairment is recognized if the impairment testing indicates the recoverable amount of the CGU containing the goodwill is lower than the carrying amount. The amount of the impairment loss shall be firstly offset by the carrying amount of the goodwill allocated to the CGU, and then offset by the carrying amount of other assets other than goodwill in the CGU or groups of CGUs by their proportion of the carrying amount. Any Goodwill impairment recognized cannot be subsequently reversed in future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Bonds issued

Bonds issued are initially measured at fair value less transaction cost, and subsequently measured at amortized cost, using the effective interest method.

2.18 Provisions

Except for provision arising from business combination, provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

- (i) The Group has present legal or constructive obligations as a result of past events;
- (ii) It is probable that an outflow of resources from the Group will be required to settle the obligation;
and
- (iii) The amount has been reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

At the reporting date, the Group reviews and adjusts the provisions to reflect current best estimation.

The Group's expected credit losses of financial guarantees and loan commitments are presented as provision.

2.19 Fiduciary activities

The Group acts as an agent to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

2.20 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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

- The amount of the loss allowance (calculated as described in Note 11.1.3); and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Financial guarantee contracts and loan commitments (Continued)

- The premium received on initial recognition less the accumulated amount of income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance(calculated as described in Note 11.1.3). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

The Group's expected credit losses of financial guarantees and loan commitments are presented as "provision".

2.21 Revenue and expense recognition

2.21.1 Interest income and interest expense

Other than derivative financial instruments, interest income and expense that are generated by interest generating financial instruments are calculated by using effective interest rate method. They are recognised in profit or loss as "Interest income" and "Interest expense". Interest income and expense that are generated by derivative financial instruments are recognised in profit or loss as "Net trading income".

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

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognised using the original interest rate.

2.21.2 Fee and commission income

For the performance obligation implemented at a certain point of time, the Group recognises revenue when the customer obtains and consumes the economic benefits of the performance of the Group. For the performance obligation implemented during a certain period, the Group recognizes the income according to the progress of the performance during the period.

2.22 Employee benefits

Employee benefits are all forms of benefits provided by the Group in exchange for service rendered by employees. Employee benefits are recognized in the period in which services are rendered.

The Group has participated in various defined contribution social security schemes set up by government agency including pension and medical insurance, housing fund and other social security plans. According to the relevant regulations and contracts, insurance and housing fund shall be paid to the social security agencies or insurance company based on certain percentages of the gross salary subject to a ceiling. The Group's contributions to these plans are charged to profit or loss.

Other than the social security schemes described above, the Group has no further material benefit obligations to its employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Income tax

Income tax comprises current and deferred tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years. The Group recognizes current income tax asset or liability as expected tax returns or payables on the taxable income for the year and in respect of previous periods.

Deferred income tax is provided in full, and recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/ (tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognized, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same taxable entity within the Group and the same taxation authority; and
- The taxable entity within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

- As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

- As a lessor under finance leases

At the lease commencement date, the present value of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "other assets". When making the judgment of derecognition or impairment measurement, finance lease receivables are considered as loans and receivables.

- As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease. Large amount initial direct cost is capitalized as incurred, and is recorded into profit or loss of the period over the term of the related lease with the same recognition basis as rental income; other small amount initial direct cost is charged to profit or loss of the period as incurred. Contingent rents are recorded into profit or loss of the period in which they actually arise.

2.25 Segment reporting

The Group identifies operating segment on the basis of internal organization structure, management requirement and internal report system, and forms the segment report and discloses the segment information based on operating segment.

Operating segment represents the segment satisfying the following conditions at the same time: (i) the segment produces income and expense in daily activities; (ii) the Group's management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) the Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

3.1 Expected credit loss measurement

The models and assumptions used in the measurement of the expected credit loss allowance for debt instruments measured at amortized cost and FVOCI, financial guarantee contracts and loan commitments involve future economic conditions and credit behavior of borrowers (e.g. the likelihood of customers defaulting and the resulting losses).

According to the requirement of IFRS, the measurement of ECL involves many key assumptions, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining significant increase in credit risk, default and credit-impaired; and
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

The detailed measurement method of ECL is described at Note 11.1.3.

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include reference to transaction price determined by a fair deal between two economic entities with complete information and willingness to trade in the market, reference to the fair value of a similar financial instrument in the market, or estimation using discounted cash flow analysis and option pricing model. Valuation techniques make maximum use of market information. However, when market information is not available, the Group uses calibrated assumptions as close as possible to market observable data. The management will make estimates to credit risk, volatility and correlation of the Group and its counterparties. Changes in these assumptions will influence the fair value of financial instruments.

3.3 Income taxes and value added taxes

Significant estimates are required in calculating the income tax, value added tax and other taxes. During the ordinary business activities, there is uncertainty in the final tax treatment of some transactions and events. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.4 Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

For further disclosure in respect of unconsolidated structured entities in which the Group has an interest or provides finance funds, see Note 6.45.

3.5 Impairment of Goodwill

Goodwill impairment reviews are undertaken annually or more frequently by the Group, and it's also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, Goodwill acquired in a business combination is allocated to each of the CGU, or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

3.6 Derecognition of financial assets

The Group's transfer of financial assets include transfer of loans and advances to customers, securitization and financial assets sold under repurchase agreements. When assess whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

IFRS 9 – Financial Instruments (the “New Financial Instruments Guidelines”) came into effect on January 1, 2018. The Group has adopted IFRS9 with a date of transition of 1 January 2018. As permitted by the transitional provisions of IFRS9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

The impact of the Group by adopting IFRS9 is disclosed at notes 4.1, 4.2 and 4.3. The new financial instruments accounting policies applied at the current period are disclosed at notes 2.7, 2.8, and 2.9

The financial instrument guidelines applicable during the comparative period are as follows:

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchased and sales of financial assets are recognized on trade-date. Regular way of buying or selling financial assets refers to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. The trading date is the date on which the Group commits to buy or sell financial assets.

Financial assets are derecognized when:

- i. the contractual rights to receive cash flows from the financial asset have expired;
- ii. the contractual rights to receive cash flows from the financial asset have been transferred, and the Group has transferred nearly all the risks and rewards of ownership of the financial asset to the transferee;
- iii. the Group transfers the financial asset to another party, but maintains the contractual rights to receive cash flows from the financial asset and undertaken the obligations to pay the cash flow it received to the final recipient, and meets the three conditions at the same time (the requirement of “pass-through”), and transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.
 - the Group is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.
 - in accordance with the contractual stipulations, the Group can't sell the financial asset or use it as a guaranty, but may use it as an guarantee for paying the cash flow to the final recipient.
 - the Group is obliged to pay the cash flow it receives to the final recipient in a timely manner. The Group has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments. If the Group makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Recognition and derecognition (Continued)

- iv. the financial asset has been transferred (the contractual right to receive the cash flow of the financial asset has been transferred or meet the requirement of “pass-through”) . Though the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other reserves is recognized in profit or loss.

If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A financial asset is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition: 1) The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; 2) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; 3) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Classification and measurement of financial assets(Continued)

Financial assets at fair value through profit or loss(Continued)

These financial assets are subsequently measured at fair value. Changes of fair value are recognized in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognized in profit or loss.

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity.

Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables or (c) held-to-maturity investments.

Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in equity shall be reclassified to profit or loss.

Dividends and interests relating to an available-for-sale financial asset are recognized in profit or loss.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability held for trading is the financial liability that satisfies one of the following conditions: 1) the financial liability is acquired for the purpose of selling or repurchasing in the near term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) it is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Conditions under which a financial liability is designated at fair value through profit or loss upon initial recognition is same as a financial asset.

These financial liabilities are subsequently measured at fair value. All realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An equity instrument is a contract that demonstrates the residual interest in the assets of the Group after deducting all liabilities.

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met

(a) The instrument includes no contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Equity instruments (Continued)

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

- (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity instruments issued by the Group are recognised at the amount actually received, minus the transaction costs directly attributable to equity transactions.

The distribution of dividends during the existence of other equity instruments shall be treated as profit distribution.

Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Gains or losses arising from changes in fair value on derivatives are reported in profit or loss.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

- (i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Hedge accounting

Within the Group, overseas branch of the Bank adopts hedge accounting. The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and throughout the life of the hedge whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Currently overseas branch uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as net trading profit or loss in the profit or loss as ineffective portion. If the hedge relationship no longer satisfies the criteria for hedge accounting, the unamortized carrying value adjustments to the carrying amount of a hedged item that is measured at amortized cost is amortized to profit or loss using the effective interest method over the period to maturity.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. The Group applies valuation technique that is suitable for current situation and supported by sufficient data and related information, and adopts inputs whose features on assets and liabilities are in accordance with the ones that are considered the same by market participants in relevant transactions. Observable inputs are preferred and unobservable inputs are used under the condition that relevant observable inputs are not available and not feasible to be obtained.

Impairment of financial assets

The Group assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulties of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: 1) adverse changes in the payment status of borrowers in the group; 2) national or local economic conditions that correlate with defaults on the assets in the group;

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Impairment of financial assets (Continued)

- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument; or
- other objective evidence indicating impairment of the financial asset.

Financial assets carried at amortized cost

When there is an objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial instrument guidelines applicable during the comparative period are as follows (Continued):

Financial Instruments (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired. The Group calculate the initial cost of available-for-sale equity instrument using weighted average method.

If available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in other reserves of equity is reclassified from equity to the profit or loss. The amount of the cumulative loss that is transferred out and recognized in the profit or loss equals to the difference between its initial cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in profit or loss. Any subsequent increase in the fair value of such assets is recognized in other reserves.

When an available-for-sale financial asset measured at cost is impaired, the difference between the carrying amount and the present value determined by discounting future cash flow shall be recognized as impairment loss in profit or loss. The previously recognized impairment loss shall not be reversed in later period.

Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; financial assets and financial liabilities should be presented at their net amount when both of the below criteria are met:

- (i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;
- (ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements applicable during the comparative period are as follows:

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

Held-to-maturity investments

The Group classifies certain non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has both the positive intention and the ability to hold to maturity as held-to-maturity. The classification of held-to-maturity investment requires significant judgment.

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4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.1 The Impact of the adoption of IFRS9 on the Group

The classification and measurement of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Group	31 December 2017	Reclassification	Remeasurement	1 January 2018
Financial assets				
Cash and balances with central bank	486,531	-	-	486,531
Due from and placements with banks and other financial institutions	177,187	-	(248)	176,939
Financial assets at fair value through profit or loss	162,866	(162,866)	-	NA
Derivative financial assets	28,264	(444)	-	27,820
Financial assets purchased under resale agreements	13,974	-	(66)	13,908
Loans and advances to customers	3,103,853	2,649	(17,803)	3,088,699
Available-for-sale financial assets	664,508	(664,508)	-	NA
Investment securities				
- held-to-maturity	444,726	(444,726)	-	NA
Investment securities				
- loans and receivables	832,598	(832,598)	-	NA
Financial investments				
Trading assets- at fair value through profit or loss	NA	401,559	(66)	401,493
Debt investments- at amortized cost	NA	1,477,323	2,660	1,479,983
Other debt investments- at fair value through other comprehensive income	NA	224,879	-	224,879
Other Equity instrument at fair value through other comprehensive income	NA	1,381	(24)	1,357
Other financial assets	128,498	-	1,104	129,602
Subtotal	6,043,005	2,649	(14,443)	6,031,211
Non-financial assets				
Precious metals	10,261	-	-	10,261
Deferred income tax assets	29,022	-	5,213	34,235
Other non-financial assets	54,952	-	-	54,952
Subtotal	94,235	-	5,213	99,448
Total assets	6,137,240	2,649	(9,230)	6,130,659
Income tax payable	20,034	-	903	20,937
Provision	-	2,649	1,878	4,527
Other liabilities	5,686,221	-	-	5,686,221
Total liabilities	5,706,255	2,649	2,781	5,711,685
Other reserves	(5,335)	-	3,015	(2,320)
Retained earnings	119,807	-	(15,090)	104,717
Other equity attributable to the Bank's shareholders	310,932	-	-	310,932
Total equity attributable to the Bank's shareholders	425,404	-	(12,075)	413,329
Non-controlling interests	5,581	-	64	5,645
Total equity	430,985	-	(12,011)	418,974
Total liabilities and equity	6,137,240	2,649	(9,230)	6,130,659

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4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9

The Group analyzed the business mode and cash flow characteristics of the financial assets it managed. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets at amortized cost				
Cash and balances with central bank				
Closing balance under IAS 39 and opening balance under IFRS 9	486,531	-	-	486,531
Due from and placements with banks and other financial institutions				
Closing balance under IAS 39	177,187	-	-	-
Remeasurement: ECL allowance	-	-	(248)	-
Opening balance under IFRS 9	-	-	-	176,939
Financial assets purchased under resale agreements				
Closing balance under IAS 39	13,974	-	-	-
Remeasurement: ECL allowance	-	-	(66)	-
Opening balance under IFRS 9	-	-	-	13,908
Loans and advances to customers				
Closing balance under IAS 39	3,103,853	-	-	-
Less: transfer to Loans and advances to customers at fair value through other comprehensive income(IFRS 9)	-	(134,357)	-	-
Less: impairment allowance to provision(IFRS 9)	-	2,649	-	-
Remeasurement: ECL allowance	-	-	(17,384)	-
Opening balance under IFRS 9	-	-	-	2,954,761
Investment securities - held-to-maturity				
Closing balance under IAS 39	444,726	-	-	-
Less: transfer to Debt investments- at amortized cost (IFRS 9)	-	(444,726)	-	-
Opening balance under IFRS 9	-	-	-	-
Investment securities - loans and receivables				
Closing balance under IAS 39	832,598	-	-	-
Less: transfer to Debt investments- at amortized cost (IFRS 9)	-	(767,024)	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(65,574)	-	-
Opening balance under IFRS 9	-	-	-	-

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4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets at amortized cost (Continued)				
Debt investments- at amortized cost				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Investment securities - loans and receivables	-	767,024	-	-
Addition: transfer from Investment securities-held-to-maturity	-	444,726	-	-
Addition: transfer from Financial assets at fair value through profit or loss	-	93,677	-	-
Addition: transfer from Available-for-sale financial assets	-	171,896	-	-
Remeasurement: ECL allowance	-	-	(1,362)	-
Remeasurement: from FV to amortized cost	-	-	4,022	-
Opening balance under IFRS 9	-	-	-	1,479,983
Other financial assets				
Closing balance under IAS 39	128,498	-	-	-
Remeasurement: ECL allowance	-	-	1,104	-
Opening balance under IFRS 9	-	-	-	129,602
Total financial assets measured at amortized cost				5,241,724
Financial assets at fair value through profit or loss(FVPL)				
Financial assets at fair value through profit or loss				
Closing balance under IAS 39	162,866	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss	-	(69,189)	-	-
Less: transfer to Debt investments - at amortized cost	-	(93,677)	-	-
Opening balance under IFRS 9	-	-	-	-
Trading assets- at fair value through profit or loss				
Closing balance under IAS 39				
Addition: transfer from Investment securities - loans and receivables	-	65,574	-	-
Addition: transfer from Available-for-sale financial assets	-	266,352	-	-
Addition: transfer from Derivative financial assets	-	444	-	-
Addition: transfer from financial assets at fair value through profit or loss	-	69,189	-	-
Remeasurement: from amortized cost to FV	-	-	(66)	-
Opening balance under IFRS 9	-	-	-	401,493
Derivative financial assets				
Closing balance under IAS 39	28,264	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(444)	-	-
Opening balance under IFRS 9	-	-	-	27,820
Total FVPL				429,313

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4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.2 Reconciliation of financial assets balances at statement of financial position from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 Carrying amount 1 January 2018
Financial assets at fair value through other comprehensive income (FVOCI)				
Loans and advances to customers				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Loans and advances to customers- amortized cost	-	134,357	-	-
Remeasurement: from amortized cost to FV	-	-	(419)	-
Opening balance under IFRS 9	-	-	-	133,938
Available-for-sale financial assets				
Closing balance under IAS 39	664,508	-	-	-
Less: transfer to Trading assets- at fair value through profit or loss (IFRS 9)	-	(266,352)	-	-
Less: transfer to Debt investments - at amortized cost (IFRS 9)	-	(171,896)	-	-
Less: transfer to Other debt investments- at fair value through other comprehensive income	-	(224,879)	-	-
Less: transfer to other equity investments- at fair value through other comprehensive income	-	(1,381)	-	-
Opening balance under IFRS 9	-	-	-	-
Other debt investments- at fair value through other comprehensive income				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Available-for-sale financial assets	-	224,879	-	-
Opening balance under IFRS 9	-	-	-	224,879
Other equity investments- at fair value through other comprehensive income				
Closing balance under IAS 39	-	-	-	-
Addition: transfer from Available-for-sale financial assets	-	1,381	-	-
Remeasurement: Valuation	-	-	(24)	-
Opening balance under IFRS 9	-	-	-	1,357
Total FVOCI				360,174
Total financial assets				6,031,211

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4 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

4.3 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS39/Provision under IAS 37	Reclassification	Expected credit loss	Loan loss allowance / provision under IFRS 9
Amortized cost				
Due from and placements with banks and other financial institutions	-	-	248	248
Financial assets purchased under resale agreements	7	-	66	73
Loans and advances to customers	90,747	(2,649)	17,384	105,482
Investment securities - held-to-maturity	73	(73)	-	-
Investment securities - loans and receivables	7,027	(7,027)	-	-
Debt investments- at amortized cost	-	5,648	1,362	7,010
Other assets	4,606	-	(1,104)	3,502
Financial guarantees and loan commitments	-	2,649	1,878	4,527
Fair value through other comprehensive income (FVOCI)				
Loans and advances to customers	-	-	410	410
Available-for-sale financial assets	225	(225)	-	-
Other debt investments-at fair value through other comprehensive income	-	225	200	425
Total	102,685	(1,452)	20,444	121,677

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5 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

5.1 Major subsidiaries of the Bank

Name of major subsidiaries	Place of incorporation	Percentage of equity interest %	Percentage of non-controlling interest %	Investment cost
SPD Bank Financial Leasing Co., Ltd.	Shanghai	61.02%	38.98%	3,051
Shanghai Internatioanl Trust Co., Ltd.	Shanghai	97.33%	2.67%	19,494
SPDB International Holding ,Ltd.	Hong Kong	100.00%	-	410
Mianzhu SPD Rural Bank Co., Ltd.	Sichuan	55.00%	45.00%	28
Liyang SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	118
Gongyi SPD Rural Bank Co., Ltd.	Henan	51.00%	49.00%	80
Fengxian SPD Rural Bank Co., Ltd.	Shanghai	51.00%	49.00%	113
Zixing SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	81
Chongqing Banan SPD Rural Bank Co., Ltd.	Chongqing	51.00%	49.00%	25
Zouping SPD Rural Bank Co., Ltd.	Shandong	51.00%	49.00%	89
Zezhou SPD Rural Bank Co., Ltd.	Shanxi	51.00%	49.00%	111
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Liaoning	51.00%	49.00%	25
Hancheng SPD Rural Bank Co., Ltd.	Shaanxi	51.00%	49.00%	25
Jiangyin SPD Rural Bank Co., Ltd.	Jiangsu	51.00%	49.00%	51
Pingyang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Xinchang SPD Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Yuanjiang SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Chaling SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Linchuan SPD Rural Bank Co., Ltd.	Jiangxi	51.00%	49.00%	51
Linwu SPD Rura Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Hengnan SPD Rural Bank Co., Ltd.	Hunan	51.00%	49.00%	25
Haerbin Hulan SPD Rural Bank Co., Ltd.	Heilongjiang	51.00%	49.00%	51
Gongzhuling SPD Rural Bank Co., Ltd.	Jilin	51.00%	49.00%	25
Yuzhong SPD Rural Bank Co., Ltd.	Gansu	51.00%	49.00%	25
Yunnan Fumin Rural Bank Co., Ltd.	Yunnan	51.00%	49.00%	25
Ningbo Haishu Rural Bank Co., Ltd.	Zhejiang	51.00%	49.00%	51
Urumchi Midong SPD Rural Bank Co., Ltd.	Xinjiang	51.00%	49.00%	51
Tianjin Baodi SPD Rural Bank Co., Ltd. (Note a)	Tianjin	49.00%	51.00%	49
Chongqing Tongliang SPD Rural Bank Co., Ltd.	Chongqing	51.00%	49.00%	25
Qianxinan yilong SPD Rural Bank Co., Ltd.	Guizhou	51.00%	49.00%	25
Fufeng SPD Rural Bank Co., Ltd.	Shanxi	51.00%	49.00%	25

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

(a) In accordance with Articles of association of Baodi Tianjin SPD Rural Bank Co., Ltd., resolutions on the company's operating and development strategy, operating plan and investment scheme are required to be approved by more than 50% directors and the Bank has 4 of 7 seats in the Board of Directors. Although the Bank only has 49% voting rights in Baodi Tianjin SPD Rural Bank Co., Ltd., the Bank is able to control it through the Board of Directors. As a result, it is a consolidated subsidiary of the Bank.

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

None of these subsidiaries is restricted to transfer funds to the Bank.

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group. Therefore, the Group does not require the disclosure of such financial information.

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6 NOTES TO THE FINANCIAL STATEMENTS

6.1 Net interest income

	<u>Group</u>		<u>Bank</u>	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Interest income				
Balance with central bank	6,806	7,529	6,759	7,484
Due from and placements with banks and other financial institutions	8,434	8,225	8,287	8,003
Financial assets purchased under resale agreements	2,141	1,177	2,141	1,177
Loans and advances to customers				
- Corporate loans	85,927	81,025	85,300	80,306
- Retail loans	85,560	69,502	84,869	68,911
- Discounted and rediscounted bills	7,939	2,554	7,932	2,536
Financial investments				
- Debt investments	57,856	NA	57,537	NA
- Other debt investments	10,150	NA	9,886	NA
- Bond investments and deposit certificates	NA	37,130	NA	36,951
- Investments other than bonds investment and deposit certificates	NA	36,319	NA	35,872
Finance lease activities receivables	2,071	1,899	-	-
Others	604	458	604	458
Sub-total	267,488	245,818	263,315	241,698
Interest expense				
Due to central bank	(6,734)	(5,339)	(6,716)	(5,322)
Due to and placements from banks and other financial institutions	(54,672)	(56,463)	(53,150)	(54,887)
Financial assets sold under repurchase agreements	(3,436)	(2,432)	(3,436)	(2,432)
Deposits from customers	(59,653)	(47,776)	(59,036)	(47,240)
Bonds issued	(29,788)	(25,795)	(29,499)	(25,714)
Others	(1,361)	(1,101)	(1,361)	(1,101)
Sub-total	(155,644)	(138,906)	(153,198)	(136,696)
Net interest income	111,844	106,912	110,117	105,002

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.2 Net fee and commission income

	Group		Bank	
	Year ended 31 December 2018	2017	Year ended 31 December 2018	2017
Fee and commission income				
Fees from bank cards	23,390	17,717	23,388	17,715
Custodian and other fiduciary activities commissions	12,831	21,051	9,425	17,626
Fees from investment banking activities	3,048	3,521	2,920	3,355
Credit commitment fees	2,276	2,311	2,274	2,306
Agency commissions	1,883	1,700	1,882	1,699
Settlement and clearing fees	1,020	1,201	1,019	1,200
Others	1,757	3,272	1,339	2,831
Sub-total	46,205	50,773	42,247	46,732
Fee and commission expense	(7,196)	(5,193)	(7,200)	(5,212)
Net fee and commission income	39,009	45,580	35,047	41,520

6.3 Net trading income

	Group		Bank	
	Year ended 31 December 2018	2017	Year ended 31 December 2018	2017
Precious metals	(1,214)	942	(1,214)	942
Non-foreign exchange derivative financial instruments	(277)	1,037	(277)	1,037
Trading securities	NA	1,110	NA	1,013
Fund investments	NA	4,537	NA	4,128
Trading assets - at fair value through profit or loss	16,408	NA	15,974	NA
Financial assets designated at fair value through profit or loss	-	6,163	-	6,531
Hedged bonds	103	46	103	46
Exchange gains and losses	1,155	(5,090)	1,138	(5,090)
Others	NA	319	NA	-
Total	16,175	9,064	15,724	8,607

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.4 Net gains arising from financial investments

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Available-for-sale financial assets	NA	337	NA	281
Investment securities loans and receivables	NA	51	NA	51
Debt investments- at amortized cost	(22)	NA	(68)	NA
Other debt investments- at fair value through other comprehensive income	361	NA	150	NA
Total	339	388	82	332

6.5 Employee benefit expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Wages and salaries, bonuses, allowances and subsidies	19,137	18,238	17,818	17,035
Welfare fund	592	647	550	610
Social insurance	3,387	2,967	3,267	2,871
Housing fund	1,105	1,056	1,062	1,027
Labor union fund and staff education fund	422	388	396	362
Total	24,643	23,296	23,093	21,905

6.6 Operating expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Advertising expenses	4,535	4,616	4,474	4,589
Rental expenses	2,995	2,957	2,826	2,798
Electronic equipment operating and maintenance expenses	760	927	717	880
Cash carrier expenses	392	377	382	368
Property management expenses	347	321	334	321
General and administrative expenses	303	503	291	493
Transportation expenses	52	68	48	63
Others	7,154	6,524	6,581	5,689
Total	16,538	16,293	15,653	15,201

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.7 Business tax and surcharges

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Urban maintenance and construction tax	922	782	869	753
Education fee and levy	410	353	385	334
Others	520	475	501	453
Total	1,852	1,610	1,755	1,540

6.8 Impairment losses on assets

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Loans and advances to customers at amortized cost	58,590	52,799	58,284	51,821
Loans and advances to customers at fair value through other comprehensive income	(207)	NA	(207)	NA
Other receivables	559	575	550	554
Finance lease receivables	191	(156)	-	-
Past due interest receivable	315	340	315	340
Debt investments- at amortized cost	470	NA	556	NA
Other debt investments- at fair value through other comprehensive income	400	NA	222	NA
Financial assets purchased under resale agreements	(66)	7	(66)	7
Due from and placements with banks and other financial institutions	(42)	-	(45)	-
Provision	207	-	211	-
Foreclosed assets	3	14	3	14
Investment securities - loans and receivables	NA	1,537	NA	2,132
Available-for-sale financial assets	NA	144	NA	144
Investment securities - held-to-maturity	NA	25	NA	25
Total	60,420	55,285	59,823	55,037

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.9 Income tax expense

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Current income tax expense	13,687	20,233	12,516	18,816
Deferred income tax expense	(4,918)	(5,407)	(4,690)	(5,088)
Total	8,769	14,826	7,826	13,728

Reconciliations between the Group's income tax expense calculated using the statutory tax rate and actual amount are as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
Profit before income tax	65,284	69,828	61,451	65,458
Tax calculated at applicable tax rate	16,289	17,411	15,363	16,365
Tax effect of expenses that are not deductible for tax purpose	302	533	202	422
Tax effect arising from income not subject to tax	(7,878)	(3,158)	(7,769)	(3,093)
Adjustments on income tax for prior years which affect current profit or loss	56	40	30	34
Income tax expense	8,769	14,826	7,826	13,728

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.10 Other comprehensive income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
<i>Items that may be reclassified to profit or loss</i>				
1. Changes in fair value of Debt instrument measured at FVOCI				
Transfer in, after tax	6,595	NA	6,630	NA
Transfer out, after tax	(271)	NA	(112)	NA
Sub-total	6,324	NA	6,518	NA
2. Impairment allowances of Debt instrument measured at FVOCI				
Transfer in, after tax	144	NA	11	NA
Transfer out, after tax	(82)	NA	(82)	NA
Sub-total	62	NA	(71)	NA
3. Changes in fair value of available-for-sale financial assets				
Transfer in, after tax	NA	(2,427)	NA	(2,419)
Transfer out, after tax	NA	(3,013)	NA	(2,954)
Sub-total	NA	(5,440)	NA	(5,373)
4. Exchange differences from the translation of foreign operations				
	266	(132)	110	(104)
Sub-total	6,652	(5,572)	6,557	(5,477)
<i>Items that will not be reclassified to profit or loss</i>				
1. Changes in fair value of Equity instrument measured at FVOCI				
Transfer in, after tax	331	NA	331	NA
Transfer out, after tax	-	NA	-	NA
Sub-total	331	NA	331	NA
Total	6,983	(5,572)	6,888	(5,477)

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.11 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period. The conversion feature of preference shares is considered to fall within the category of contingently issuable ordinary shares. The triggering events of share conversion did not occur during the year of 2018. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share.

	Year ended 31 December	
	2018	2017
Profit for the year attributable to equity holders of the Bank	55,914	54,258
Less: declared dividends attributable to preference shareholders of the Bank	(1,725)	(1,725)
Profit for the year attributable to the holders of the Bank's ordinary shares	54,189	52,533
Weighted average number of outstanding ordinary shares (million)	29,352	28,520
Basic and diluted EPS (RMB)	1.85	1.84

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with aggregated par value of RMB 30 billion. The bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on non-cumulative preference shares declared in respect of the period have been deducted from the profit attributable to ordinary shareholders of the Bank.

Pursuant to the resolution of 2016 Annual General Meeting on 25 April 2017, the Bank converted the capital surplus into ordinary shares in the proportion of 3 share for every 10 shares held. The total number of shares increased due to conversion is 6,485,483,977. And the number of shares after conversion is 28,103,763,899 shares. The Bank issued 1,248,316,498 domestic RMB ordinary shares and completed share registration in September 2017. Upon the issuance, ordinary shares of the Bank was increased from 28,103,763,899 shares to 29,352,080,397 shares.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.12 Cash and balances with central bank

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash	6,036	7,284	5,894	7,121
Mandatory reserves with central bank	364,026	438,133	361,390	435,460
Excess reserves with central bank	70,709	38,905	69,687	37,354
Fiscal deposits with central bank	2,733	2,209	2,710	2,183
Interest receivable	219	NA	219	NA
Total	443,723	486,531	439,900	482,118

The Group is required to place mandatory reserves with the PBOC, including RMB and foreign currency deposit reserves which are not allowed to be used in the Group's daily operations. The reserve rate for deposits denominated in RMB is 12% on 31 December 2018 (31 December 2017: 15%). The reserve rate for deposits denominated in foreign currencies is 5% on 31 December 2018 (31 December 2017: 5%).

6.13 Due from and placements with banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due from domestic banks	48,364	54,630	41,443	48,113
Due from overseas banks	45,635	41,718	45,555	41,583
Placements with domestic banks	14,006	8,504	13,506	7,954
Placements with overseas banks	17,231	10,057	17,231	10,057
Placements with domestic other financial institutions	109,840	62,278	113,728	64,874
Interest receivable	1,665	NA	1,633	NA
Less: impairment allowance	(206)	-	(180)	-
Total	236,535	177,187	232,916	172,581

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.14 Financial assets at fair value through profit or loss

	Group	
	31 December 2018	31 December 2017
Trading financial assets:		
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	11,101
Fund investments	NA	12,088
Sub-total	NA	60,517
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	3,032
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	5,088
Sub-total	NA	102,349
Total	NA	162,866

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.14 Financial assets at fair value through profit or loss (Continued)

	Bank	
	31 December 2018	31 December 2017
Government bonds	NA	3,106
Bonds issued by policy banks	NA	12,947
Bonds issued by financial institutions	NA	78
Deposit certificates issued by other financial institutions	NA	21,197
Corporate bonds	NA	10,248
Fund investments	NA	10,700
Sub-total	NA	58,276
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 2)	NA	996
Trust and asset management plans	NA	332
Other debt instruments (Note 2, Note 3)	NA	93,233
Other investments (Note 4)	NA	4,431
Sub-total	NA	98,992
Total	NA	157,268

Note 1: There is no restriction on the realization of the financial assets held by the Group for trading purposes.

Note 2: Current year's fair value changes and the cumulative changes caused by credit risk changes of the debt instruments are not significant.

Note 3: Other debt instruments are financing products issued to corporates by the Bank. The official written documents of the Bank's risk management have stated that the credit instruments are managed, evaluated on a fair value basis and reported to key management personnel.

Note 4: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2017, the fair value of the investment amounts to RMB 4,633 million.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.15 Derivative financial instruments

	Group and Bank		
	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

	Group and Bank		
	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	1,877,844	19,561	(22,850)
Interest rate swap contracts	2,174,427	4,521	(4,322)
Option contracts	297,449	1,713	(1,154)
Precious metal derivative financial instruments	106,916	1,009	(869)
Foreign exchange forward contracts	75,092	824	(755)
Commodity contracts	9,732	512	(5)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	2,711	124	(15)
Cross-currency interest rate swap	740	-	(64)
Total		28,264	(30,034)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.16 Financial assets purchased under resale agreements

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	11,575	12,625
Deposit certificates issued by other financial institutions	-	756
Bills	-	600
Interest receivable	5	NA
Less: impairment allowance	(7)	(7)
Total	11,573	13,974

6.17 Loans and advances to customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans and advances to customers				
-Amortized cost(a)	3,299,570	3,194,600	3,277,027	3,172,916
-Fair value through other comprehensive income(b)	249,153	NA	249,153	NA
-Fair value through profit or loss(FVPL)(c)	482	NA	482	NA
Subtotal	3,549,205	3,194,600	3,526,662	3,172,916
Interest receivable	11,705	NA	11,642	NA
Impairment allowances				
-Loans and advances to customers at amortized cost(a)	(105,339)	(90,747)	(103,649)	(89,188)
-Interest receivable of loans and advances to customers at amortized cost	(82)	NA	(77)	NA
Subtotal	(105,421)	(90,747)	(103,726)	(89,188)
Net loans and advances to customers	3,455,489	3,103,853	3,434,578	3,083,728

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
(a) Loans and advances to customers measured at amortized cost				
Corporates loans				
Commercial Loans	1,778,999	1,772,962	1,769,084	1,762,221
Trade finance	36,875	44,898	36,875	44,898
Discounted bills	468	134,609	314	134,357
Retail loans				
Mortgage loans	588,988	505,135	585,007	502,836
Loans to finance family business	240,404	187,209	233,422	180,483
Credit card and overdraft	433,470	418,347	433,470	418,347
Consumer loans and others	220,366	131,440	218,855	129,774
Subtotal	3,299,570	3,194,600	3,277,027	3,172,916
Less: impairment allowance	(105,339)	(90,747)	(103,649)	(89,188)
Individual impairment allowances	NA	(22,155)	NA	(22,155)
Collective impairment allowances	NA	(68,592)	NA	(67,033)
Loans and advances to customers measured at amortized cost, net	3,194,231	3,103,853	3,173,378	3,083,728
(b) Loans and advances to customers measured at FVOCI				
Corporates loans				
Discounted bills	248,984	NA	248,984	NA
Add: Fair value changes	169	NA	169	NA
Loans and advances to customers measured at FVOCI, net	249,153	NA	249,153	NA
(c) Loans and advances to customers measured at FVPL				
Corporates loans				
Discounted bills	482	NA	482	NA
Add: Fair value changes	-	NA	-	NA
Loans and advances to customers measured at FVPL, net	482	NA	482	NA
Total loans and advances to customers	3,443,866	3,103,853	3,423,013	3,083,728

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.1 Loans and advances to customers analysed by industry

Group	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	305,290	8.60	303,242	9.49
Real estate	283,516	7.99	277,054	8.67
Lease and commercial service	265,795	7.49	312,879	9.79
Wholesale and retail	207,144	5.84	262,569	8.22
Water, environment and public facilities management	165,400	4.66	119,900	3.75
Construction	141,439	3.99	126,382	3.96
Transportation, warehouse and postal services	125,359	3.53	120,846	3.78
Mining	77,164	2.17	76,505	2.39
Electricity, heat, gas, water production and supply	64,389	1.81	61,298	1.92
Financial services	56,467	1.59	14,778	0.46
Agriculture, forestry, farming and fishery	27,205	0.77	29,765	0.93
Information transmission, software and IT services	25,023	0.71	32,447	1.02
Research and technology services	21,401	0.60	18,980	0.59
Healthcare and social welfare	11,837	0.33	10,823	0.34
Culture, sports and entertainment	10,573	0.30	10,444	0.33
Education	10,302	0.29	10,395	0.33
Hotel and catering	8,835	0.25	8,550	0.27
Resident services, repairing and other services	5,621	0.16	12,256	0.38
Public management, social security and social organization	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.05
	<u>1,815,874</u>	<u>51.17</u>	<u>1,817,860</u>	<u>56.90</u>
Discounted bank acceptances	135,273	3.81	98,611	3.09
Re-discount	111,814	3.15	34,420	1.08
Discounted commercial acceptances	3,016	0.08	1,578	0.05
	<u>250,103</u>	<u>7.04</u>	<u>134,609</u>	<u>4.22</u>
Retail loans	<u>1,483,228</u>	<u>41.79</u>	<u>1,242,131</u>	<u>38.88</u>
Total	<u>3,549,205</u>	<u>100.00</u>	<u>3,194,600</u>	<u>100.00</u>

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.1 Loans and advances to customers analysed by industry (Continued)

Bank

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	299,984	8.51	297,361	9.37
Real estate	283,488	8.04	277,039	8.73
Lease and commercial service	266,381	7.55	313,601	9.88
Wholesale and retail	205,237	5.82	260,540	8.21
Water, environment and public facilities management	165,321	4.69	119,807	3.78
Construction	140,879	3.99	125,705	3.96
Transportation, warehouse and postal services	125,240	3.55	120,746	3.81
Mining	77,019	2.18	76,340	2.41
Electricity, heat, gas, water production and supply	63,948	1.81	60,858	1.92
Financial services	56,467	1.60	14,778	0.47
Agriculture, forestry, farming and fishery	25,782	0.73	28,217	0.89
Information transmission, software and IT services	24,958	0.71	32,358	1.02
Research and technology services	21,376	0.61	18,964	0.60
Healthcare and social welfare	11,787	0.33	10,751	0.34
Culture, sports and entertainment	10,514	0.30	10,392	0.33
Education	10,257	0.29	10,348	0.33
Hotel and catering	8,656	0.25	8,385	0.26
Resident services, repairing and other services	5,551	0.16	12,182	0.38
Public management, social security and social organization	2,104	0.06	7,306	0.23
Others	1,010	0.03	1,441	0.04
	<u>1,805,959</u>	<u>51.21</u>	<u>1,807,119</u>	<u>56.96</u>
Discounted bank acceptances	135,119	3.83	98,359	3.10
Re-discount	111,814	3.17	34,420	1.08
Discounted commercial acceptances	3,016	0.09	1,578	0.05
	<u>249,949</u>	<u>7.09</u>	<u>134,357</u>	<u>4.23</u>
Retail loans	<u>1,470,754</u>	<u>41.70</u>	<u>1,231,440</u>	<u>38.81</u>
Total	<u>3,526,662</u>	<u>100.00</u>	<u>3,172,916</u>	<u>100.00</u>

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.2 Loans and advances to customers analyzed by geography

Group

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Headquarter	526,613	14.84	535,413	16.76
Yangtze River Delta	1,049,321	29.55	855,652	26.79
Pearl River Delta and West Side of Taiwan Strait	345,174	9.73	304,451	9.53
Bohai Rim	444,619	12.53	404,193	12.65
Central China	458,935	12.93	407,555	12.76
Western China	464,613	13.09	451,520	14.13
North-east China	179,470	5.06	160,985	5.04
Overseas and subsidiaries	80,460	2.27	74,831	2.34
Total	3,549,205	100.00	3,194,600	100.00

Bank

	31 December 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Headquarter	526,613	14.94	535,413	16.87
Yangtze River Delta	1,049,321	29.75	855,652	26.97
Pearl River Delta and West Side of Taiwan Strait	345,174	9.79	304,451	9.60
Bohai Rim	445,160	12.62	404,818	12.76
Central China	458,935	13.01	407,555	12.84
Western China	464,613	13.17	451,520	14.23
North-east China	179,470	5.09	160,985	5.07
Overseas and subsidiaries	57,376	1.63	52,522	1.66
Total	3,526,662	100.00	3,172,916	100.00

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.3 Loans and advances to customers analysed by collateral type

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Collateralized loans	1,284,367	1,180,094	1,273,603	1,171,050
Guaranteed loans	739,258	723,672	729,446	713,351
Unsecured loans	1,325,740	1,090,899	1,324,946	1,090,121
Pledged loans	199,840	199,935	198,667	198,394
Total	3,549,205	3,194,600	3,526,662	3,172,916

6.17.4 Overdue loans and advances to customers

Group	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,486	14,817	12,744	485	41,532
Collateralized loans	7,363	7,952	5,132	2,473	22,920
Unsecured loans	6,215	9,591	1,610	177	17,593
Pledged loans	810	1,853	777	47	3,487
Total	27,874	34,213	20,263	3,182	85,532

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,426	16,391	11,523	624	45,964
Collateralized loans	7,657	10,209	9,573	817	28,256
Unsecured loans	4,251	4,592	3,044	433	12,320
Pledged loans	949	986	855	202	2,992
Total	30,283	32,178	24,995	2,076	89,532

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.4 Overdue loans and advances to customers (Continued)

Bank

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	13,195	14,295	12,269	451	40,210
Collateralized loans	7,260	7,754	4,996	2,429	22,439
Unsecured loans	6,198	9,551	1,539	177	17,465
Pledged loans	754	1,853	756	47	3,410
Total	27,407	33,453	19,560	3,104	83,524

	31 December 2017				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Guaranteed loans	17,153	16,099	11,236	622	45,110
Collateralized loans	7,533	10,103	9,452	816	27,904
Unsecured loans	4,249	4,585	3,044	433	12,311
Pledged loans	948	983	840	202	2,973
Total	29,883	31,770	24,572	2,073	88,298

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	31,168	35,384	38,930	105,482
Additions/ (Deduction), net (Note 1)	(6,172)	(871)	65,604	58,561
Write-off and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(95)	(7,822)	7,917	-
Transfer from stage 1 to stage 2	(2,387)	2,387	-	-
Transfer from stage 1 to stage 3	(550)	-	550	-
Transfer from stage 2 to stage 1	2,720	(2,720)	-	-
Transfer from stage 2 to stage 3	-	(7,642)	7,642	-
Transfer from stage 3 to stage 2	-	153	(153)	-
Transfer from stage 3 to stage 1	122	-	(122)	-
Recovery of loans and advances written off in previous years	-	-	3,748	3,748
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	25,042	26,693	53,604	105,339

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on the measurement of expected credit losses.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance (Continued)

(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	30,587	35,308	37,908	103,803
Additions/ (Deduction), net (Note 1)	(6,084)	(999)	65,333	58,250
Write-off and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(93)	(7,810)	7,903	-
<i>Transfer from stage 1 to stage 2</i>	<i>(2,381)</i>	<i>2,381</i>	<i>-</i>	<i>-</i>
<i>Transfer from stage 1 to stage 3</i>	<i>(540)</i>	<i>-</i>	<i>540</i>	<i>-</i>
<i>Transfer from stage 2 to stage 1</i>	<i>2,718</i>	<i>(2,718)</i>	<i>-</i>	<i>-</i>
<i>Transfer from stage 2 to stage 3</i>	<i>-</i>	<i>(7,607)</i>	<i>7,607</i>	<i>-</i>
<i>Transfer from stage 3 to stage 2</i>	<i>-</i>	<i>134</i>	<i>(134)</i>	<i>-</i>
<i>Transfer from stage 3 to stage 1</i>	<i>110</i>	<i>-</i>	<i>(110)</i>	<i>-</i>
Recovery of loans and advances written off in previous years	-	-	3,670	3,670
Unwind of discount on impairment allowance	-	-	(1,309)	(1,309)
Exchange difference	141	2	4	147
Balance at the end of the year	24,551	26,501	52,597	103,649

Note 1: This item includes PD, EAD, LGD change due to routine updates to model parameters, and the impact of stage changes on the measurement of expected credit losses.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.5 Movements of ECL allowance (Continued)

(a) Movements of ECL allowance of loans and advances to customers at amortized cost (Continued)

Group	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	72,774	88,249
Charge for the year	19,680	33,119	52,799
Write-off	(17,435)	(33,819)	(51,254)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/ (transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at end of the year	22,155	68,592	90,747

Bank	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	15,475	71,882	87,357
Charge for the year	19,680	32,141	51,821
Write-off	(17,435)	(33,508)	(50,943)
Recovery of loans and advances written off in previous years	768	1,992	2,760
Unwind of discount on impairment allowance	(977)	(461)	(1,438)
Other transfer in/ (transfer out)	4,644	(4,644)	-
Exchange difference	-	(369)	(369)
Balance at end of the year	22,155	67,033	89,188

(b) Movements of ECL allowance of loans and advances to customers at FVOCI

Group and Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	409	1	-	410
Additions/ (Deduction), net	(210)	3	-	(207)
Balance at end of the year	199	4	-	203

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	2,804,951	184,302	70,989	3,060,242
Additions/ (Deduction), net	384,654	(39,043)	(15,899)	329,712
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-offs and disposal	-	-	(61,290)	(61,290)
Transfer between stages:	(103,254)	11,639	91,615	-
<i>Transfer from stage 1 to stage 2</i>	<i>(78,369)</i>	<i>78,369</i>	<i>-</i>	<i>-</i>
<i>Transfer from stage 1 to stage 3</i>	<i>(55,598)</i>	<i>-</i>	<i>55,598</i>	<i>-</i>
<i>Transfer from stage 2 to stage 1</i>	<i>30,397</i>	<i>(30,397)</i>	<i>-</i>	<i>-</i>
<i>Transfer from stage 2 to stage 3</i>	<i>-</i>	<i>(36,719)</i>	<i>36,719</i>	<i>-</i>
<i>Transfer from stage 3 to stage 2</i>	<i>-</i>	<i>386</i>	<i>(386)</i>	<i>-</i>
<i>Transfer from stage 3 to stage 1</i>	<i>316</i>	<i>-</i>	<i>(316)</i>	<i>-</i>
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,070,112	157,207	72,251	3,299,570

Note 1: The Group transfers Loans and advances to customer to third parties.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.17 Loans and advances to customers (Continued)

6.17.6 Impact of movements of gross carrying amount of loans and advances to customers to impairment allowance (Continued)

(a) Movements of gross carrying amount of loans and advances to customers at amortized cost (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	2,785,830	183,666	69,063	3,038,559
Additions/ (Deduction), net	382,332	(38,483)	(15,375)	328,474
Transfer out (Note 1)	(22,049)	-	(13,277)	(35,326)
Write-offs and disposal	-	-	(60,912)	(60,912)
Transfer between stages:	(100,998)	10,250	90,748	-
<i>Transfer from stage 1 to stage 2</i>	<i>(76,920)</i>	<i>76,920</i>	-	-
<i>Transfer from stage 1 to stage 3</i>	<i>(54,756)</i>	-	<i>54,756</i>	-
<i>Transfer from stage 2 to stage 1</i>	<i>30,387</i>	<i>(30,387)</i>	-	-
<i>Transfer from stage 2 to stage 3</i>	-	<i>(36,603)</i>	<i>36,603</i>	-
<i>Transfer from stage 3 to stage 2</i>	-	<i>320</i>	<i>(320)</i>	-
<i>Transfer from stage 3 to stage 1</i>	<i>291</i>	-	<i>(291)</i>	-
Exchange difference	5,810	309	113	6,232
Balance at the end of the year	3,050,925	155,742	70,360	3,277,027

Note 1: The Bank transfers Loans and advances to customer to third parties.

(b) Movements of gross carrying amount of loans and advances to customers at fair value through other comprehensive income

The following table illustrates the changes in the gross carrying amount of loans and advances to customers to explain the impact of these changes on the allowance for impairment losses on loans and advances to customers:

Group and Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	134,315	34	-	134,349
Additions/ (Deduction), net	114,706	(33)	-	114,673
Transfer between stages:	(48)	48	-	-
<i>Transfer from stage 1 to stage 2</i>	<i>(48)</i>	<i>48</i>	-	-
Changes in fair value	331	3	-	334
Balance at the end of the year	249,304	52	-	249,356

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.18 Available-for-sale financial assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<u>At fair value:</u>				
Government bonds	NA	64,429	NA	64,429
Bonds issued by policy banks	NA	29,770	NA	29,770
Bonds issued by financial institutions	NA	63,089	NA	63,089
Deposit certificates issued by other financial institutions	NA	24,872	NA	24,872
Corporate bonds	NA	41,251	NA	37,682
Assets backed securities ("ABS")	NA	169,276	NA	169,276
Trust and asset management plans	NA	52,951	NA	48,809
Equity investments	NA	2,237	NA	1,468
Wealth management products managed by other banks	NA	354	NA	-
Fund investments	NA	215,396	NA	215,124
Others	NA	883	NA	318
Total	NA	664,508	NA	654,837

6.19 Investment securities - held-to-maturity

	Group and Bank	
	31 December 2018	31 December 2017
Government bonds	NA	269,515
Bonds issued by policy banks	NA	166,016
Bonds issued by financial institutions	NA	3,744
Corporate bonds	NA	5,524
Less: impairment allowance	NA	(73)
Total	NA	444,726

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.20 Investment securities - loans and receivables

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds				
Government bonds	NA	135,733	NA	135,733
Bonds issued by financial institutions	NA	97,509	NA	97,509
Corporate bonds	NA	20,762	NA	20,762
ABS	NA	3,411	NA	3,411
	NA	257,415	NA	257,415
Trust and asset management plans (Note 1)	NA	581,690	NA	567,626
Wealth management products managed by other banks	NA	520	NA	520
	NA	582,210	NA	568,146
Individual assessed impairment allowances	NA	(2,856)	NA	(3,451)
Collectively assessed impairment allowances	NA	(4,171)	NA	(4,171)
Sub-total	NA	(7,027)	NA	(7,622)
Loans and receivables, net	NA	832,598	NA	817,939

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trading assets - at fair value through profit or loss(a)	395,668	NA	382,492	NA
Debt investments - at amortized cost(b)	1,144,249	NA	1,133,993	NA
Other debt investments- at fair value through other comprehensive income(c)	378,860	NA	374,171	NA
Other equity investments- at fair value through other comprehensive income(d)	4,038	NA	4,038	NA
Financial instruments, net	1,922,815	NA	1,894,694	NA

(a) Trading assets- at fair value through profit or loss

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Government bonds	7,859	NA	7,859	NA
Bonds issued by policy banks	5,109	NA	5,109	NA
Bonds issued by financial institutions	5,610	NA	5,610	NA
Deposit certificates issued by other financial institutions	23,056	NA	23,056	NA
Corporate bonds	12,629	NA	12,410	NA
Fund investment	263,191	NA	257,693	NA
Assets backed securities ("ABS")	2,531	NA	2,531	NA
Equity investment	1,128	NA	97	NA
Wealth management products managed by other banks	208	NA	-	NA
Trust and asset management plans (note 1)	68,669	NA	62,683	NA
Other investment (note 2)	5,678	NA	5,444	NA
Total	395,668	NA	382,492	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

Note 2: Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group. As at 31 December 2018, the fair value of the investment amounts to RMB 5,678 million.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Government bonds	455,516	NA	455,516	NA
Bonds issued by policy banks	194,088	NA	194,088	NA
Bonds issued by financial institutions	45,167	NA	45,167	NA
Corporate bonds	25,782	NA	25,374	NA
Deposit certificates issued by other financial institutions	695	NA	695	NA
Assets backed securities ("ABS")	120,415	NA	120,415	NA
Other debt instrument (Note1)	9,650	NA	9,650	NA
Trust and asset management plans (Note 2)	285,576	NA	276,204	NA
Subtotal	1,136,889	NA	1,127,109	NA
Interest receivable	14,863	NA	14,690	NA
Impairment allowance				
—Debt investments	(7,488)	NA	(7,791)	NA
—Interest receivable of debt investments	(15)	NA	(15)	NA
Subtotal of impairment allowance	(7,503)	NA	(7,806)	NA
Debt investments, net	1,144,249	NA	1,133,993	NA

Note 1: Other debt investments are financing products issued to corporates by the Bank.

Note 2: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets etc.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost (Continued)

(i) Movements of ECL allowance:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	2,868	418	3,724	7,010
Charge for the year	1,269	47	1,584	2,900
Reverse	(1,225)	(188)	(1,022)	(2,435)
Transfers between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	(5)	5	-	-
Transfer from stage 1 to stage 3	(7)	-	7	-
Transfer from stage 2 to stage 1	4	(4)	-	-
Transfer from stage 2 to stage 3	-	(40)	40	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,909	238	4,341	7,488

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	2,778	418	4,032	7,228
Charge for the year	1,231	47	1,556	2,834
Reverse	(1,074)	(188)	(1,022)	(2,284)
Transfers between stages:	(8)	(39)	47	-
Transfer from stage 1 to stage 2	(5)	5	-	-
Transfer from stage 1 to stage 3	(7)	-	7	-
Transfer from stage 2 to stage 1	4	(4)	-	-
Transfer from stage 2 to stage 3	-	(40)	40	-
Exchange difference	5	-	8	13
Balance at the end of the year	2,932	238	4,621	7,791

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(b) Debt investments - at amortized cost (Continued)

(ii) The following table illustrates movements of gross carrying amount of debt investments to explain the impact of these changes on the allowance for impairment losses on debt investments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	1,469,339	11,348	6,306	1,486,993
Originated or purchased	616,119	-	-	616,119
Derecognised (except for write off)	(959,438)	(5,269)	(1,648)	(966,355)
Transfers between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	(679)	679	-	-
Transfer from stage 1 to stage 3	(455)	-	455	-
Transfer from stage 2 to stage 1	69	(69)	-	-
Transfer from stage 2 to stage 3	-	(1,115)	1,115	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,125,085	5,575	6,229	1,136,889

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	1,454,278	11,348	7,138	1,472,764
Originated or purchased	615,619	-	-	615,619
Derecognised (except for write off)	(954,536)	(5,269)	(1,601)	(961,406)
Transfers between stages:	(1,065)	(505)	1,570	-
Transfer from stage 1 to stage 2	(679)	679	-	-
Transfer from stage 1 to stage 3	(455)	-	455	-
Transfer from stage 2 to stage 1	69	(69)	-	-
Transfer from stage 2 to stage 3	-	(1,115)	1,115	-
Exchange difference	130	1	1	132
Balance at the end of the year	1,114,426	5,575	7,108	1,127,109

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments - at fair value through other comprehensive income

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Government bonds	153,340	NA	153,340	NA
Bonds issued by policy banks	73,947	NA	73,947	NA
Bonds issued by financial institutions	57,177	NA	57,177	NA
Deposit certificates issued by other financial institutions	20,804	NA	20,804	NA
Corporate bonds	54,251	NA	50,775	NA
Assets backed securities ("ABS")	11,982	NA	11,982	NA
Trust and asset management plans (note 1)	2,487	NA	1,274	NA
Subtotal	373,988	NA	369,299	NA
Interest receivable	4,872	NA	4,872	NA
Total	378,860	NA	374,171	NA

(i) Analysis of relevant information on other debt investments is as follows:

	Group		Bank	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Debt instrument				
—Fair value	373,988	NA	369,299	NA
—Initial recognition cost	369,901	NA	364,818	NA
— Amounts accumulated in other comprehensive income	4,151	NA	4,545	NA
—Amounts accumulated in profit or loss (note 2)	(64)	NA	(64)	NA

Note 1: Trust and asset management plans are managed and operated by the third-party, they ultimately invested in trust loans, bill assets, etc.

Note 2: The Bank's Hong Kong branch hedged the fair value changes of available-for-sale bonds caused by interest rates using cross currency and interest rate swaps. The fair value changes of these hedged bonds are recognized in current profits or losses.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments - at fair value through other comprehensive income (Continued)

(ii) Movements of ECL allowance of other debt investments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	200	-	225	425
Charge for the year	374	16	50	440
Reverse	(40)	-	-	(40)
Write-offs	-	-	(110)	(110)
Exchange difference	(4)	-	4	-
Balance at the end of the year	530	16	169	715

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	200	-	225	425
Charge for the year	198	14	50	262
Reverse	(40)	-	-	(40)
Write-offs	-	-	(110)	(110)
Exchange difference	(4)	-	4	-
Balance at the end of the year	354	14	169	537

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(c) Other debt investments at fair value through other comprehensive income (Continued)

- (iii) The following table illustrates the changes in the carrying amount of other debt instruments to explain the impact of these changes on the allowance for impairment losses on other debt instruments:

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	224,919	-	385	225,304
Originated or purchased	434,245	-	-	434,245
Derecognised (except for write off)	(294,602)	(35)	(110)	(294,747)
Write-offs	-	-	(110)	(110)
Transfers between stages:	(493)	493	-	-
<i>Transfer from stage 1 to stage 2</i>	<i>(493)</i>	<i>493</i>	<i>-</i>	<i>-</i>
Changes in fair value	8,129	4	-	8,133
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	374,072	462	169	374,703

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	219,343	-	385	219,728
Originated or purchased	434,473	-	-	434,473
Derecognised (except for write off)	(294,203)	(35)	(110)	(294,348)
Write-offs	-	-	(110)	(110)
Transfers between stages:	(493)	493	-	-
<i>Transfer from stage 1 to stage 2</i>	<i>(493)</i>	<i>493</i>	<i>-</i>	<i>-</i>
Changes in fair value	8,211	4	-	8,215
Exchange difference	1,874	-	4	1,878
Balance at the end of the year	369,205	462	169	369,836

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.21 Financial Investment (Continued)

(d) Other equity instruments

	Group and Bank	
	31 December 2018	31 December 2017
Equity instruments	4,038	NA

Analysis of relevant information on other equity instruments is as followed:

	Group and Bank	
	31 December 2018	31 December 2017
—Fair value	4,038	NA
—Initial recognition cost	3,459	NA
—Amounts accumulated in other comprehensive income	579	NA

6.22 Investments in associate and joint ventures

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Investment in associate	211	202	-	-
Investment in joint ventures	1,757	804	1,757	804
Total	1,968	1,006	1,757	804

Amounts recorded in the statement of comprehensive income are analysed as follows:

	Group		Bank	
	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2017
Investments in associates				
—Share of profits	(12)	(3)	-	-
Investments in joint ventures				
—Share of profits	176	100	176	100
—Exchange differences	10	(12)	10	(12)
Subtotal	186	88	186	88
Total	174	85	186	88

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.22 Investments in associate and joint ventures (Continued)

Major associates and joint ventures

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-AXA SPDB Investment Managers Co., Ltd.	Shanghai, China	51%	Financial industry	Equity method

According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operate and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions include the company's strategic plan, investment plan, annual financial budget and financial statements and profit appropriations etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with another major shareholder.

Name of the investees	Places of incorporation	Shareholding percentage	Nature of business	Accounting Method
Joint venture-SPD Silicon Valley Bank Co., Ltd.	Shanghai, China	50%	Financial industry	Equity method

The Group's associates and joint ventures are all unlisted companies.

As at 31 December 2018, there is no restriction for capital transfer from the Group's and the Bank's subsidiaries and joint ventures to the Group and the Bank.

There is no contingent liabilities of the Group in these associates and joint ventures.

The Bank is of the view that the above associates and joint ventures are not material to the Group in terms of their net profit and net assets and therefore no additional information disclosure is required.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.23 Property and equipment

Group	31 December 2017	Additions	Disposals	31 December 2018
Cost	39,199	4,825	(628)	43,396
Land and buildings	12,657	366	(7)	13,016
Motor vehicles	464	31	(34)	461
Software	1,941	1,013	-	2,954
Electronic computers and other equipment	7,701	844	(577)	7,968
Aircraft equipment	10,295	2,300	-	12,595
Leasehold improvement	6,141	271	(10)	6,402
Accumulated depreciation	17,322	2,931	(575)	19,678
Land and buildings	3,793	424	(3)	4,214
Motor vehicles	355	36	(31)	360
Software	1,638	450	-	2,088
Electronic computers and other equipment	5,596	896	(534)	5,958
Aircraft equipment	907	608	-	1,515
Leasehold improvement	5,033	517	(7)	5,543
Net book value	21,877			23,718
Land and buildings	8,864			8,802
Motor vehicles	109			101
Software	303			866
Electronic computers and other equipment	2,105			2,010
Aircraft equipment	9,388			11,080
Leasehold improvement	1,108			859

The depreciation expense recognized in profit or loss for the year ended 31 December 2018 is RMB 2,931 million (31 December 2017: RMB 2,577 million).

As at 31 December 2018, the net book value of 11,080 million (31 December 2017: net book value of 9,388million) of Flight equipment of Group's subsidiary SPDB Financial Leasing Co., Ltd has been leased.

As at 31 December 2018, the Group's land and buildings with cost of 388 million and net book value of 311 million (31 December 2017: the cost of 873 million, the net book value of 764 million) are already in use but the property registration are in progress.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.23 Property and equipment (Continued)

Bank	31 December 2017	Additions	Disposals	31 December 2018
Cost	27,946	2,452	(589)	29,809
Land and buildings	12,140	357	(7)	12,490
Motor vehicles	435	26	(25)	436
Software	1,902	1,004	-	2,906
Electronic computers and other equipment	7,536	809	(550)	7,795
Leasehold improvement	5,933	256	(7)	6,182
Accumulated depreciation	16,093	2,215	(551)	17,757
Land and buildings	3,745	392	(3)	4,134
Motor vehicles	336	32	(23)	345
Software	1,616	437	-	2,053
Electronic computers and other equipment	5,514	861	(519)	5,856
Leasehold improvement	4,882	493	(6)	5,369
Net book value	11,853			12,052
Land and buildings	8,395			8,356
Motor vehicles	99			91
Software	286			853
Electronic computers and other equipment	2,022			1,939
Leasehold improvement	1,051			813

The depreciation expense recognized in profit or loss for the year ended 31 December 2018 is RMB 2,215 million (31 December 2017: RMB 2,087million).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.24 Construction in progress

Group	31 December 2017	Additions	Transfer out	31 December 2018
Buildings	1,845	57	(73)	1,829
Others	2,829	6,269	(6,428)	2,670
Total	4,674	6,326	(6,501)	4,499

Bank	31 December 2017	Additions	Transfer out	31 December 2018
Buildings	1,845	57	(73)	1,829
Others	2,829	6,269	(6,428)	2,670
Total	4,674	6,326	(6,501)	4,499

6.25 Intangible assets

Group	31 December 2017	Additions	Disposals	31 December 2018
Cost	9,905	-	-	9,905
Goodwill(Note 1)	6,981	-	-	6,981
Contractual customer relationships	688	-	-	688
Brand and franchise right	2,236	-	-	2,236
Accumulated Amortization	559	89	-	648
Goodwill	-	-	-	-
Contractual customer relationships	559	89	-	648
Brand and franchise right	-	-	-	-
Net book value	9,346			9,257
Goodwill	6,981			6,981
Contractual customer relationships	129			40
Brand and franchise right	2,236			2,236

The amortization expense recognized in profit or loss for the year ended 31 December 2018 is RMB 89 million (31 December 2017: RMB 158 million).

Note1: Goodwill is recognized on March 2016 as a result of the Bank's issuance of ordinary shares to acquire 97.33% equity of Shanghai International Trust Co., Ltd.

According to the Group's impairment test result, the brand and franchise right are not impaired as at 31 December, 2018 (31 December 2017: are not impaired).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.25 Intangible assets (Continued)

According to the Group's impairment testing result, the goodwill is not impaired as at 31 December, 2018 (31 December 2017: is not impaired).

The goodwill allocated to the CGU or CGUs according to operating segments are summarised as follows:

	31 December 2018	31 December 2017
Shanghai International Trust Co., Ltd.	4,739	4,739
Subsidiaries of Shanghai International Trust Co., Ltd.	2,242	2,242
	<u>6,981</u>	<u>6,981</u>

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation has not changed in 2018.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved five -year financial forecasts. The cash flows beyond the five-year period are forecasted based on the following estimated growth rates.

The key assumptions applied in calculating discounted future cash flows are as follows:

	Shanghai International Trust Co., Ltd		Subsidiaries of Shanghai International Trust Co., Ltd.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Forecast period growth rate	8.14%	10.96%	The management determines the revenue growth rate for the five-year detailed forecast period based on historical experience and market development forecasts	
Stable period growth rate	3.00%	3.00%	3.00%	3.00%
Discount rate, before tax	16.76%	18.50%	14.36%-17.70%	18.42%-21.92%

The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period, which is consistent with the forecasts included in industry reports and does not exceed the long-term average growth rates of each product.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax

6.26.1 The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred income tax assets	36,877	29,022	36,078	28,381
Deferred income tax liabilities	(643)	(680)	-	-

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Impairment allowances for financial assets at amortized cost	148,296	37,074	110,820	27,705
Provision	4,747	1,187	NA	NA
Amortization for long-term assets	-	-	28	7
Employee benefits payable	684	171	260	65
Fair value changes of financial assets and liabilities recognised in profit or loss	NA	NA	36	9
Fair value changes of other debt investments recognised in other comprehensive income	394	98	NA	NA
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	NA	NA	7,165	1,792
Fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	154,542	38,635	120,246	30,063

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:(continued)

Group

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (Liabilities)
Fair value changes of trading assets and trading liabilities	(1,233)	(308)	NA	NA
Fair value changes of financial assets and liabilities at fair value through profit or loss	NA	NA	(3,949)	(987)
Fair value changes of other debt investments recognized in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity instruments recognized in other comprehensive income	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(32)	(8)
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,568)	(642)	(2,676)	(669)
Others	(4)	(1)	(12)	(3)
Deferred tax liabilities before offsetting	(9,608)	(2,401)	(6,885)	(1,721)

As at 31 December 2018, the Group offset deferred income tax assets and liabilities of RMB 1,758 million (31 December 2017: RMB 1,041 million).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (continued):

Bank

	31 December 2018		31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	145,976	36,494	108,604	27,151
Provision	4,742	1,186	NA	NA
Amortization for long-term assets	-	-	28	7
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	NA	NA	7,043	1,761
Fair value changes of hedged other debt investments recognised in profit or loss	64	16	NA	NA
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	NA	NA	167	42
Fair value changes of precious metals	357	89	-	-
Fair value changes of derivative financial instruments	-	-	1,770	443
Deferred income tax assets before offsetting	151,139	37,785	117,612	29,404
Fair value changes of trading assests and trading liabilities	(1,028)	(257)	NA	NA
Fair value changes of financial assets and liabilities at fair value through profit or loss	NA	NA	(3,847)	(962)
Fair value changes of precious metals	-	-	(216)	(54)
Fair value changes of other debt investments recognized in other comprehensive income	(4,545)	(1,136)	NA	NA
Fair value changes of other equity instruments recognized in other comprehensive income	(579)	(145)	NA	NA
Fair value changes of loans at fair value through other comprehensive income	(169)	(42)	NA	NA
Fair value changes of derivative financial instruments	(481)	(120)	-	-
Depreciation	(29)	(7)	(27)	(7)
Deferred tax liabilities before offsetting	(6,831)	(1,707)	(4,090)	(1,023)

As at 31 December 2018, the Bank offset deferred income tax assets and liabilities of RMB 1,707 million (31 December 2017: RMB 1,023 million).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.26 Deferred income tax (Continued)

6.26.3 The movement of the deferred income tax account is as follows:

Group	Year ended 31 December 2018
Balance at beginning of the year	28,342
Impact of IFRS9	5,213
Restated beginning balance of the period	33,555
Credited to profit or loss (Note 6.9)	4,918
Credited to other comprehensive income (Note 6.10)	(2,239)
Balance at end of the year	36,234
Bank	Year ended 31 December 2018
Balance at beginning of the year	28,381
Impact of IFRS9	5,266
Restated beginning balance of the period	33,647
Credited to profit or loss (Note 6.9)	4,690
Credited to other comprehensive income (Note 6.10)	(2,259)
Balance at end of the year	36,078

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.27 Other assets

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Finance lease receivable (Note 1)	48,232	41,017	-	-
Settlement and clearing accounts	13,543	17,466	13,543	17,465
Margin deposits for precious metal trading	9,754	9,318	9,754	9,318
Land use rights	6,523	341	6,520	338
Other receivables (Note 2)	4,932	35,657	3,316	34,790
Payments to Trust Protection Fund on behalf of investors	2,745	3,264	-	-
Prepayment for land use rights and constructions	1,758	7,077	1,758	7,077
Past due interest receivable, net	705	-	700	-
Foreclosed assets	605	768	595	765
Other long-term assets	606	545	579	522
Interest receivable, net	NA	31,094	NA	30,294
Total	89,403	146,547	36,765	100,569

From the fiscal year beginning on January 1, 2018, the Group's interest receivable on financial instruments recognized based on the effective interest method is included in the carrying amount of the corresponding financial instrument.

“Other assets” or “Other liabilities” items only list the interest receivable that has been due but not figures received or paid at the balance sheet date. The Group has not restated the comparables.

Note 1: Finance lease receivable

Group	2018-12-31	2017-12-31
Within 1 year (including 1 year)	17,424	13,524
1 to 2 years (including 2 years)	12,642	11,051
2 to 3 years (including 3 years)	9,485	8,967
Over 3 years	15,562	14,149
Gross amount of finance lease receivable	55,113	47,691
Interest receivable	502	NA
Less: Unearned finance income	(6,460)	(5,493)
Less: Impairment allowance	(923)	(1,181)
Net finance lease receivable	48,232	41,017

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.27 Other assets (Continued)

Note 2: Other receivables are analyzed by aging as follows:

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Within 1 year	6,155	36,493	4,680	35,781
1 to 2 years	315	263	161	109
2 to 3 years	61	68	51	59
Over 3 years	1,052	1,011	1,048	997
	7,583	37,835	5,940	36,946
Less: Impairment allowance	(2,651)	(2,178)	(2,624)	(2,156)
Net other receivables	4,932	35,657	3,316	34,790

6.28 Impairment allowances for assets

Group	31 December 2017	Restated beginning balance of the period	Charge and reserve	Write-off and disposal	Others	31 December 2018
Due from and placements with banks and other financial institutions	-	248	(42)	-	-	206
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Loans and advances to customers at amortized cost	90,747	105,525	58,590	(61,290)	2,596	105,421
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities- held – to –maturity	73	NA	NA	NA	NA	NA
Investments securities - loans and receivables	7,027	NA	NA	NA	NA	NA
Debt investments- at amortized cost	NA	7,020	470	-	13	7,503
Other debt investments- at fair value through other comprehensive income	NA	425	400	(110)	-	715
Other receivables	2,178	2,317	559	(225)	-	2,651
Other assets- interest receivable	1,247	NA	NA	NA	NA	NA
Other assets- past due interest receivable	-	400	315	-	-	715
Finance lease receivable	1,181	732	191	-	-	923
Foreclosed assets	178	178	3	-	(10)	171
Total	102,863	117,328	60,213	(61,625)	2,599	118,515

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.28 Impairment allowances for assets (Continued)

Bank	31 December 2017	Restated beginning balance of the period	Charge and reserve	Write-off and disposal	Others	31 December 2018
Due from and placements with banks and other financial institutions	-	225	(45)	-	-	180
Financial assets purchased under resale agreements	7	73	(66)	-	-	7
Loans and advances to customer at amortized cost	89,188	103,846	58,284	(60,912)	2,508	103,726
Loans and advances to customers at fair value through other comprehensive income	NA	410	(207)	-	-	203
Available-for-sale financial assets	225	NA	NA	NA	NA	NA
Investment securities- held –to -maturity	73	NA	NA	NA	NA	NA
Investments securities - loans and receivables	7,622	NA	NA	NA	NA	NA
Debt investments- at amortized cost	NA	7,237	556	-	13	7,806
Other debt investments- at fair value through other comprehensive income	NA	425	222	(110)	-	537
Other receivables	2,156	2,298	550	(224)	-	2,624
Other assets- interest receivable	1,247	NA	NA	NA	NA	NA
Other assets- past due interest receivable	-	396	315	-	-	711
Foreclosed assets	178	178	3	-	(10)	171
Total	100,696	115,088	59,612	(61,246)	2,511	115,965

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.28 Impairment allowances for assets (Continued)

Group	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Loans and advances to customers	88,249	52,799	(51,254)	953	90,747
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities- held-to -maturity	48	25	-	-	73
Investments securities - loans and receivables	5,809	1,537	(319)	-	7,027
Other receivables	1,887	575	(284)	-	2,178
Interest receivable	907	340	-	-	1,247
Finance lease receivable	1,337	(156)	-	-	1,181
Foreclosed assets	613	14	-	(449)	178
Total	98,937	55,285	(51,857)	498	102,863

Bank	31 December 2016	Charge and reverse	Write-off and disposal	Others	31 December 2017
Financial assets purchased under resale agreements	-	7	-	-	7
Loans and advances to customers	87,357	51,821	(50,943)	953	89,188
Available-for-sale financial assets	87	144	-	(6)	225
Investment securities- held-to -maturity	48	25	-	-	73
Investments securities - loans and receivables	5,809	2,132	(319)	-	7,622
Other receivables	1,883	554	(281)	-	2,156
Interest receivable	907	340	-	-	1,247
Foreclosed assets	613	14	-	(449)	178
Total	96,704	55,037	(51,543)	498	100,696

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.29 Due to and placements from banks and other financial institutions

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due to domestic banks	231,926	340,355	238,492	347,707
Due to other domestic financial institutions	783,406	937,994	784,655	938,945
Due to overseas banks	30,180	11,953	30,180	11,953
Due to other overseas financial institutions	18,047	24,016	18,047	24,016
Placements from domestic banks	96,104	81,919	61,910	46,514
Placements from overseas banks	48,515	52,400	45,571	51,396
Placements from other domestic financial institutions	3,470	4,463	1,800	2,963
Interest payable	4,743	NA	4,678	NA
Total	1,216,391	1,453,100	1,185,333	1,423,494

6.30 Trading liabilities - at fair value through profit or loss

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial liabilities related to precious metals	24,504	15,121	24,504	15,121
Interest of other unitholders in consolidated structured entities (Note 1)	10,408	13,212	-	-
Total	34,912	28,333	24,504	15,121

Note 1: The Group designated interests attributable to other unitholders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk. (As at 31 December 2017: no significant fair value changes have occurred).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.31 Financial assets sold under repurchase agreements

	Group and Bank	
	31 December 2018	31 December 2017
Bonds	85,383	156,778
Bills	34,067	21,488
Certificates of deposit issued	-	6,198
Interest payable	114	NA
Total	119,564	184,464

6.32 Deposits from customers

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Current deposits				
-Corporate	1,244,437	1,353,271	1,235,699	1,342,465
-Retail	219,601	184,666	216,471	181,624
Time deposits				
-Corporate	1,330,802	1,191,860	1,325,892	1,185,849
-Retail	428,273	303,767	415,068	292,474
Other deposits	3,905	4,372	3,788	4,192
Subtotal	3,227,018	3,037,936	3,196,918	3,006,604
Interest payable	26,297	NA	25,671	NA
Total	3,253,315	3,037,936	3,222,589	3,006,604

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bonds issued				
Subordinated bond issued in 2011 (Note1)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012 (Note 2)	12,000	12,000	12,000	12,000
Tier II capital bond issued in 2015 (Note3)	30,000	30,000	30,000	30,000
Hong kong USD medium-term note (Note 4)	12,015	11,396	12,015	11,396
Green Financial Bond 01 (Note 5)	20,000	20,000	20,000	20,000
Green Financial Bond 02 (Note 6)	15,000	15,000	15,000	15,000
Green Financial Bond 03 (Note 7)	15,000	15,000	15,000	15,000
2017 First Financial Bond (Note 8)	15,000	15,000	15,000	15,000
2017 Second Financial Bond (Note 9)	22,000	22,000	22,000	22,000
2017 Third Financial Bond (Note 10)	13,000	13,000	13,000	13,000
2018 Tier II First Financial Bond (Note 11)	20,000	-	20,000	-
2018 Tier II Second Financial Bond(Note 12)	20,000	-	20,000	-
SGD USD medium-term note (Note 13)	2,060	-	2,060	-
2017 SPDB Financial Leasing Financial Bond (Note 14)	3,000	3,000	-	-
2018 SPDB Financial Leasing Financial Bond(Note 15)	5,000	-	-	-
Sub-total	222,475	174,796	214,475	171,796
Less: Unamortized issue cost	(104)	(139)	(97)	(128)
Net book value of bonds issued	222,371	174,657	214,378	171,668
Assets backed securities ("ABS")				
Puxin 2017 First Leasing ABS (Note 16)	419	1,198	-	-
Deposit certificates issued	614,564	510,441	614,564	510,441
Interest payable	4,086	NA	3,931	NA
Total	841,440	686,296	832,873	682,109

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued (Continued)

Note 1: The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 2: The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 28 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 3: The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 10 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

Note 4: The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 26 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

Note 5: The Bank issued "2016 First Green Financial Bond" in the amount of RMB 20 billion in the domestic inter-bank market on 27 January 2016 which has a term of 3 years through maturity, with a fixed annual coupon rate of 2.95%.

Note 6: The Bank issued "2016 Second Green Financial Bond" in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

Note 7: The Bank issued "2016 Third Green Financial Bond" in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

Note 8: The Bank issued "2017 First Financial Bond" in the amount of RMB 15 billion in the domestic inter-bank market on 24 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

Note 9: The Bank issued "2017 Second Financial Bond" in the amount of RMB 22 billion in the domestic inter-bank market on 28 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

Note 10: The Bank issued "2017 Third Financial Bond" in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.33 Bonds issued (Continued)

Note 11: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 7 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 12: The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 18 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

Note 13: The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

Note 14: SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2017 Financial Bond” in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

Note 15: SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2018 Financial Bond” in the amount of RMB 5 billion in the domestic inter-bank market on 23 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

Note 16: On 18 August 2017, SPDB financial leasing Co., Ltd, the subsidiary of the Bank, transferred its finance lease receivables with a par value of RMB 2,286 million to a trust company to issue the “Puxin 2017 First Leasing Asset-Backed Securities”. This ABS is divided into primary and secondary tranche with a par value of totalling RMB 2,286 million. The primary tranche has a par value of RMB 1,966 million with a floating annual coupon rate, which is the benchmark interest rate plus the corresponding interest rate margin. The benchmark interest rate is the one-to-five-year benchmark lending rate announced by the PBOC. The secondary tranche has a par value of RMB 320 million with no annual coupon rate. SPDB Financial Leasing Co., Ltd. holds all the secondary tranche. As of 30 June 2018, the remaining balance of the primary tranche is RMB 716 million. Since the above-mentioned structure is not satisfied with the requirement for derecognition of the asset, the finance lease receivables transferred that have not expired are still recognised for in the balance sheet.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.34 Provision

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Impairment allowance for financial guarantees and loan commitments	4,747	NA	4,742	NA

(a) Change of impairment allowance for financial guarantees and loan commitments

Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	3,435	807	285	4,527
Charge for the year	980	612	74	1,666
Reverse for the year	(764)	(443)	(252)	(1,459)
Transfers between stages:	36	(10)	(26)	-
<i>Transfer from stage 1 to stage 2</i>	(39)	39	-	-
<i>Transfer from stage 1 to stage 3</i>	(1)	-	1	-
<i>Transfer from stage 2 to stage 1</i>	76	(76)	-	-
<i>Transfer from stage 2 to stage 3</i>	-	(23)	23	-
<i>Transfer from stage 3 to stage 2</i>	-	50	(50)	-
Exchange difference	11	2	-	13
Balance at the end of the year	3,698	968	81	4,747

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.34 Provision (Continued)

(a) Change of impairment allowance for financial guarantees and loan commitments (Continued)

Bank	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life-time ECL	Life-time ECL	
Balance at 1 January 2018	3,427	807	285	4,519
Charge for the year	980	612	73	1,665
Reverse for the year	(760)	(443)	(251)	(1,454)
Transfers between stages:	36	(10)	(26)	-
<i>Transfer from stage 1 to stage 2</i>	(39)	39	-	-
<i>Transfer from stage 1 to stage 3</i>	(1)	-	1	-
<i>Transfer from stage 2 to stage 1</i>	76	(76)	-	-
<i>Transfer from stage 2 to stage 3</i>	-	(23)	23	-
<i>Transfer from stage 3 to stage 2</i>	-	50	(50)	-
Exchange difference	10	2	-	12
Balance at the end of the year	3,693	968	81	4,742

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.35 Other liabilities

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Settlement and clearing accounts	28,527	22,362	28,527	22,362
Employee benefits payable	10,487	7,911	9,311	6,880
Business tax and surcharge, value added tax and other tax payables	4,938	3,599	3,832	3,397
Advances from and deposits under lease agreements	4,262	3,965	-	-
Accrued expenses	3,240	1,973	3,240	1,972
Contract liabilities	2,782	NA	1,156	NA
Due to Trust Protection Fund	970	3,400	-	-
Relending	724	793	724	793
Proceeds from customers for subscribing mutual funds	627	549	627	549
Fiscal deposits in transition	607	376	535	374
Long term undrawn deposits	122	117	122	117
Interest payable	NA	35,064	NA	34,422
Others	2,475	6,481	1,811	4,760
Total	59,761	86,590	49,885	75,626

From the fiscal year beginning on January 1, 2018, the Group's interest receivable on financial instruments recognized based on the effective interest method is included in the carrying amount of the corresponding financial instrument.

“Other assets” or “Other liabilities” items only list the interest receivable that has been due but not figures received or paid at the balance sheet date. The Group has not restated the comparables.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.36 Ordinary shares

	Group and bank	
	31 December 2018	31 December 2017
RMB ordinary shares	29,352	29,352

6.37 Preference shares

(a) Information of other equity instruments

Name of other equity instrument	Dividend rate	Par value	Number	2017-12-31 Carrying value	Increase in this Year	2018-12-31 Carrying value	Maturity Date	Converted (Yes/No)
Pufayou 1	6% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
Pufayou 2	5.5% for the first five years	100	150 million	14,960	-	14,960	No Maturity Date	No
				29,920	-	29,920		

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the total par value of RMB 30 billion. The proceeds after deducting transaction costs amounted to RMB 29.92 billion and were recorded as Preference shares. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBRC, the Bank's outstanding preference shares shall be mandatorily converted in part or full to the Bank's ordinary shares:

- When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;
- When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 10.96 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.37 Preference shares (Continued)

Pursuant to the relevant laws and regulations, and the Approval from CBRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(b) Equity attributable to the holders of other equity instruments

	Group	
	31 December 2018	31 December 2017
Equity attributable to the Bank's shareholders		
Equity attributable to the Bank's ordinary shareholders	441,642	395,484
Equity attributable to the Bank's other equity shareholders (Note1)	29,920	29,920
Non-controlling interests	6,818	5,581

Note 1: For cash dividends paid to preference shareholders in 2018, please refer to Note 6.42.

6.38 Capital surplus

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share premium	81,689	81,689	81,689	81,689
Other capital surplus—				
Capital increase of subsidiaries	50	50	-	-
Others	21	21	21	21
Total	81,760	81,760	81,710	81,710

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.39 Surplus reserves

Group and Bank

	31 December 2017	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

	31 December 2016	Addition	31 December 2017
Statutory reserve	22,206	-	22,206
Discretionary reserve	56,483	15,509	71,992
Total	78,689	15,509	94,198

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

6.40 General risk reserve

Group

	31 December 2017	Addition	31 December 2018
General risk reserve	75,702	244	75,946

	31 December 2016	Addition	31 December 2017
General risk reserve	65,493	10,209	75,702

Bank

	31 December 2017	Addition	31 December 2018
General risk reserve	74,900	-	74,900

	31 December 2016	Addition	31 December 2017
General risk reserve	65,045	9,855	74,900

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by the Ministry of Finance (“MOF”), the Bank and its domestic subsidiaries are required to make appropriation to a general risk reserve effective from 1 July 2012 and the balance of such reserve shall not be less than 1.5% of the entity’s risk assets in five-year time.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.41 Other reserves

Group	Changes in fair value of available-for-sale financial assets	Fair value changes of debt instruments at fair value through other comprehensive income	Impairment allowance of debt instruments at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Fair value changes of equity instruments at fair value through other comprehensive income	Total
31 December 2017	(5,370)	NA	NA	35	-	(5,335)
Impact of IFRS 9	5,370	(3,084)	626	-	103	3,015
1 January 2018	NA	(3,084)	626	35	103	(2,320)
Changes in fair value of debt instruments at fair value through other comprehensive income:						
Transfer in, after tax	NA	6,595	-	-	-	6,595
Transfer out, after tax	NA	(271)	-	-	-	(271)
Debt instruments at fair value through other comprehensive income:						
Impairment allowance	NA	-	145	-	-	145
Transfer out, after tax	NA	-	(82)	-	-	(82)
Exchange differences from the translation of foreign operations	NA	-	-	261	-	261
Fair value changes of equity investments-at fair value through other omprehensive income	NA	-	-	-	331	331
31 December 2018	NA	3,240	689	296	434	4,659
Group		Changes in fair value of available-for-sale financial assets		Exchange differences from the translation of foreign operations		Total
31 December 2016			69		164	233
Changes in fair value of available-for-sale financial assets:						
Transfer in, after tax			(2,426)		-	(2,426)
Transfer out, after tax			(3,013)		-	(3,013)
Exchange differences from the translation of foreign operations			-		(129)	(129)
31 December 2017			(5,370)		35	(5,335)

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.41 Other reserves (Continued)

Bank	Changes in fair value of available -for-sale financial assets	Fair value changes of debt instruments at fair value through other comprehensive income	Impairment allowance of debt instruments at fair value through other comprehensive income	Exchange difference s from the translation of foreign operations	Fair value changes of equity instruments at fair value through other comprehensive income	Total
31 December 2017	(5,281)	NA	NA	(8)	-	(5,289)
Impact of IFRS 9	5,281	(2,982)	626	-	103	3,028
1 January 2018	NA	(2,982)	626	(8)	103	(2,261)
Changes in fair value of debt investments- at fair value through other comprehensive income:						
Transfer in, after tax	NA	6,630	-	-	-	6,630
Transfer out, after tax	NA	(112)	-	-	-	(112)
Debt instruments at fair value through other comprehensive income:						
Impairment allowance	NA	-	12	-	-	12
Transfer out, after tax	NA	-	(83)	-	-	(83)
Exchange differences from the translation of foreign operations	NA	-	-	110	-	110
Fair value changes of equity investments- at fair value through other comprehensive income	NA	-	-	-	331	331
31 December 2018	NA	3,536	555	102	434	4,627

Bank	Changes in fair value of available-for-sale financial assets	Exchange differences from the translation of foreign operations	Total
31 December 2016	92	96	188
Changes in fair value of available-for-sale financial assets:			
Transfer in, after tax	(2,419)	-	(2,419)
Transfer out, after tax	(2,954)	-	(2,954)
Exchange differences from the translation of foreign operations	-	(104)	(104)
31 December 2017	(5,281)	(8)	(5,289)

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.42 Retained earnings

Group

	Year ended 31 December	
	2018	2017
Opening balance of retained earnings	119,807	97,316
Impact of IFRS 9	(15,090)	NA
Restated opening balance of retained earnings	104,717	NA
Plus: Net profit attributable to the Bank's Shareholders for the year	55,914	54,258
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	(244)	(10,209)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	140,208	119,807

Bank

	Year ended 31 December	
	2018	2017
Opening balance of retained earnings	115,333	95,016
Impact of IFRS 9	(14,865)	NA
Restated opening balance of retained earnings	100,468	NA
Plus: Net profit attributable to the Bank's Shareholders for the year	53,625	51,730
Less: Appropriation to discretionary reserve	(15,519)	(15,509)
Appropriation to general risk reserve	-	(9,855)
Cash dividends paid to ordinary shareholders	(2,935)	(4,324)
Cash dividends paid to preference shareholders	(1,725)	(1,725)
Ending balance of retained earnings	133,914	115,333

In accordance with a resolution of the board meeting on 2 March 2018, the Bank declared cash dividends on Pufayou 2. The dividend is calculated at a rate of 5.50% of the Par value of Pufayou 2. The dividend was paid at a rate of RMB 5.50 per share (before tax), totaling RMB 825 million (before tax).

In accordance with a resolution of the 2017 Annual General Meeting on 2 May 2018, the Bank appropriated 30% of its net profit for the year ended 31 December 2017 to the discretionary reserve in the amount of RMB 15,509 million. The Bank also appropriated cash dividends of RMB 2,935 million (RMB 1 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2017.

In accordance with a resolution of the board meeting on 22 November 2018, the Bank declared cash dividends on Pufayou 1. The dividend is calculated at a rate of 6.00% of the Par value of Pufayou 1. The dividend was paid at a rate of RMB 6.00 per share (before tax), totaling RMB 900 million (before tax).

In accordance with a resolution of the board meeting on 22 March 2019, the Board of Directors proposed to appropriate 30% of the Bank's net profit for the year ended 31 December 2018 to the discretionary reserve in the amount of RMB 16,088 million. Cash dividends of RMB 10,273 million (RMB 3.5 before tax per 10 ordinary shares) based on the total number of ordinary shares of 29,352,080,397 at the end of 2018. These appropriations are subject to final approval by Annual General Meeting.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.43 Non-controlling interests

Non-controlling interests of the Group are as follows:

	31 December 2018	31 December 2017
SPD Financial Leasing Co., Ltd.	3,212	2,117
Shanghai International Trust Co., Ltd.	1,447	1,332
Mianzhu SPD Rural Bank Co., Ltd.	46	58
Liyang SPD Rural Bank Co., Ltd.	181	171
Gongyi SPD Rural Bank Co., Ltd.	152	156
Fengxian SPD Rural Bank Co., Ltd.	170	145
Zixing SPD Rural Bank Co., Ltd.	122	108
Chongqing Banan SPD Rural Bank Co., Ltd.	63	65
Zouping SPD Rural Bank Co., Ltd.	62	128
Zezhou SPD Rural Bank Co., Ltd.	179	168
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	35	34
Hancheng SPD Rural Bank Co., Ltd.	58	52
Jiangyin SPD Rural Bank Co., Ltd.	111	103
Pingyang SPD Rural Bank Co., Ltd.	76	71
Xinchang SPD Rural Bank Co., Ltd.	126	117
Yuanjiang SPD Rural Bank Co., Ltd.	48	43
Chaling SPD Rural Bank Co., Ltd.	67	58
Linchuan SPD Rural Bank Co., Ltd.	109	112
Linwu SPD Rural Bank Co., Ltd.	68	53
Hengnan SPD Rural Bank Co., Ltd.	56	44
Haerbing hulan SPD Rural Bank Co., Ltd.	52	56
Gongzhulin SPD Rural Bank Co., Ltd.	18	21
Yuzhong SPD Rural Bank Co., Ltd.	23	52
Yunnan Fumin Rural Bank Co., Ltd.	40	37
Ningbo Haishu Rural Bank Co., Ltd.	65	60
Urumchi Midong SPD Rural Bank Co., Ltd.	76	70
Tianjin Baodi SPD Rural Bank Co., Ltd.	83	75
Qianxinan Yilong SPD Rural Bank Co., Ltd.	33	30
Chongqing Tongliang SPD Rural Bank Co., Ltd.	20	22
Fufeng SPD Rural Bank Co., Ltd.	20	23
Total	<u>6,818</u>	<u>5,581</u>

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.44 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

The disclosure of financial assets sold under repurchase agreements refers to Note 6.31. For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 119,728 million through asset backed securitization transactions, external transfer and securities lending transactions of financial assets.(2017: RMB 157,600 million)

Assets backed securitization transaction

For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 7,893 million through assets backed securitization transactions, all have met the requirement of derecognition (For the year ended 31 December 2017, the Group transferred financial assets amounted to RMB 19,669 million through assets backed securitization transactions, all have met the requirement of derecognition except for Puxin 2017 First Leasing ABS (Note 6.33) issued by the Bank's subsidiary SPD Financial Leasing Co., Ltd.).

Transfer of loans assets

For the year ended 31 December 2018, the Group directly transferred total amount of RMB 67,595 million loan assets to third parties. Among them, the Group transferred total amount of RMB 22,049 million loan assets to structured entities and all have met the requirement of derecognition (For the year ended 31 December 2017, the Group directly transferred total amount of RMB 98,388 million loan assets to third parties. Among them, the Group transferred total amount of RMB 56,185 million loan assets to structured entities and all have met the requirement of derecognition). The Group transferred total amount of RMB 45,546 million impaired loans to assets management companies and all have met the requirement of derecognition (2017: RMB 42,203 million, all have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognize the relevant securities. As at December 31, 2018, the book value of the assets transferred by the Group in securities lending transactions was RMB 44,240 million.(2017: Nil).

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities

(1) Structured entities that are not consolidated

i) Unconsolidated structured entities managed by the Group

As at 31 December 2018, unconsolidated structured entities managed by the Group amounted to RMB 2,533,543 million. It mainly includes wealth management product vehicles, securitization vehicles and trust plans that the Group established and managed as an agent.

(a) Wealth management products

These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, a fixed management fee and a floating management fee based on performance of the product. The Group has performed analysis and concluded that its variable return related to these structured entities is not material.

As at 31 December 2018, the total assets invested by non-principle guaranteed wealth management products ("WMPs") amounted to RMB 1,375,683 million (December 31, 2017: RMB 1,535,344 million). During the year ended 31 December 2018, the Group's interest in these WMPs mainly included net fee and commission income of RMB 6,290 million (2017: RMB 14,101 million), and net interest income of RMB 177 million, which related to placements and repo transactions entered into by the Group with these WMP vehicles (2017: RMB 89 million).

The Group enters into placements and repo transactions at market interest rates with these WMPs, which represented the Group's maximum exposure to the WMPs. The average balance during 2018 and the outstanding balance as at 31 December 2018 of these transactions were RMB 3,490 million (2017: RMB 2,721 million) and RMB 4,000 million (31 December 2017: RMB 16,000 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2018 and 31 December 2017, the outstanding balance of these transactions was presented in due from and placements with banks and other financial institutions and financial assets purchased under resale agreements.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the years ended 31 December 2018 and 31 December 2017. The Group was not required to absorb any losses incurred by WMPs ahead of other parties. During the years ended 31 December 2018 and 2017, no losses were incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

(b) The special purpose vehicles established by trust company for the asset securitization

In the Group's asset securitization business, another type of unconsolidated structured entities originated by the Group is the special purpose vehicles ("SPV") established by trust company for the asset securitization of part of the Group's credit assets. The Group acts as a service provider and manages loan assets transferred to SPVs and is entitled to the commission fee. The Group also holds part of the issued asset backed securities. The Group concluded that its variable returns from these SPVs are not material. As at 31 December 2018, the Group's maximum risk exposure in these unconsolidated SPVs amounted to RMB 10,586 million (31 December 2017: RMB 15,253 million), being the aggregated carrying value of asset backed securities classified as "investments", and the Group's loan service agency commission fee income is not material.

As at 31 December 2018, total assets of these unconsolidated SPVs amounted to RMB 27,009 million (31 December 2017: RMB 43,557 million). The Group has not provide any financing support to these unconsolidated SPVs (2017: Nil).

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

i) Unconsolidated structured entities managed by the Group (Continued)

(c) Trust plans managed by the Group

In accordance with the 'Trust Law of the People's Republic of China', "Trust property should be separated from properties owned by trustee ("inherent property"), and cannot be included or become part of the inherent property". Inherent property and trust property are managed and accounted for separately by the Group. Trust plans managed by the Group refer to a basic unit of trust property under the Group's separately or collectively management, utilization and disposal as per agreement. Each trust plan is an independent accounting subject which is accounted for independently as regards to the trust property's management, utilization and disposal.

As at 31 Dec 2018, total assets of these unconsolidated trust plans amounted to RMB 751,250 million (31 December 2017: RMB 888,091 million). The Bank did not provide financing support to these unconsolidated trust plans for 2018 (2017: Nil).

(d) Asset management plans managed by the Group

Entrusted assets management refers to business that the Group, as the manager, signed entrusted assets management contracts with clients and invests and manages the assets as various financial portfolios in financial market to maximize profit. The Group provides professional services and charges management fee, trustee fee, etc. The clients bear risks and gain profits per contracts.

As at 31 Dec 2018, total assets of these unconsolidated asset management plans amounted to RMB 423 million (31 December 2017: RMB 3,482 million). The Group did not provide financing support to these unconsolidated asset management plans for 2018 (2017: Nil).

(e) Securities investment funds

In accordance with the 'Securities Investment Fund Law of the People's Republic of China', "Fund assets shall be independent from a fund management institution's or a fund custodian's own assets. The fund management institution or fund custodian shall not incorporate any fund assets into its own assets". The Group charges management fee by managing the fund property for investors. Investors take the relative risks and profits according to the contractual agreements.

As at 31 Dec 2018, total assets of these unconsolidated securities investment funds amounted to RMB 379,178 million (31 December 2017: RMB 469,642 million). The Group did not provide financing support to these securities investment funds for 2018 (2017: Nil).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group

As at 31 Dec 2018 unconsolidated structured entities that are invested by the Group amounted to RMB 745,127million (31 December 2017: RMB 1,039,778 million), mainly included wealth management products, asset backed securities, and trust and assets management plans. The Group did not provide financing support to these structured entities in 2018 (2017: Nil).

The carrying value (includes interest receivable) of assets of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows:

As at 31 December 2018	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Trading assets- at fair value through profit or loss			
Trust and asset management plans	68,669	68,669	77,126
Wealth management products managed by other banks	208	208	Note 1
Fund investments	263,191	263,191	Note 1
Assets backed securities ("ABS")	2,531	2,531	Note 1
Other investments	5,678	5,678	5,678
Debt investments- at amortized cost			
Trust and asset management plans	281,140	281,140	285,701
Assets backed securities ("ABS")	121,223	121,223	Note 1
Other debt investments- at fair value through other comprehensive income			
Trust and asset management plans	2,487	2,487	177,199

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.45 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group (Continued)

As at 31 December 2017	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Financial assets at fair value through profit or loss			
Trust and asset management plans	3,032	3,032	42,363
Fund investments	12,088	12,088	Note 1
Other investments	4,633	4,633	4,633
Available-for-sale financial assets			
Trust and asset management plans	52,951	52,951	168,281
Fund investments	215,396	215,396	Note 1
Wealth management products managed by other banks	354	354	Note 1
ABS	170,492	170,492	Note 1
Others	888	888	Note 1
Investment securities - loans and receivables			
Wealth management products managed by other banks	520	520	Note 1
ABS	3,481	3,481	Note 1
Trust and asset management plans	575,943	575,943	583,204

Note 1: Total volume of these unconsolidated structured entities is not available from the public information.

The Group earns interest income, commission income and investment income as return on holding these investments or providing services to these structured entities.

(2) Consolidated structured entities

Consolidated structured entities include wealth management product vehicles established and managed by the Group with the total amount of RMB 67,167 million at 31 December 2018 (RMB 84,226 million at 31 December 2017). The Group did not provide financial support to these consolidated structured entities in 2018 (2017: Nil).

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7 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarter:	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait:	Guangdong, Fujian
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong
Central China:	Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi, Hainan
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli, Tibet
North-east China:	Liaoning, Jilin, Heilongjiang
Overseas and subsidiaries:	Overseas branches and domestic and overseas Subsidiaries

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7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2018										
Interest income	247,422	131,074	48,998	61,916	46,287	37,206	16,894	10,547	(332,856)	267,488
<i>Including: External interest income</i>	<i>111,510</i>	<i>51,678</i>	<i>18,622</i>	<i>22,711</i>	<i>22,865</i>	<i>21,273</i>	<i>8,848</i>	<i>9,981</i>	<i>-</i>	<i>267,488</i>
<i>Internal interest income</i>	<i>135,912</i>	<i>79,396</i>	<i>30,376</i>	<i>39,205</i>	<i>23,422</i>	<i>15,933</i>	<i>8,046</i>	<i>566</i>	<i>(332,856)</i>	<i>-</i>
Interest expense	(222,140)	(96,871)	(39,503)	(48,932)	(32,662)	(28,020)	(12,879)	(7,493)	332,856	(155,644)
<i>Including: External interest expense</i>	<i>(47,381)</i>	<i>(35,075)</i>	<i>(18,652)</i>	<i>(23,463)</i>	<i>(11,719)</i>	<i>(6,943)</i>	<i>(5,354)</i>	<i>(7,057)</i>	<i>-</i>	<i>(155,644)</i>
<i>Internal interest expense</i>	<i>(174,759)</i>	<i>(61,796)</i>	<i>(20,851)</i>	<i>(25,469)</i>	<i>(20,943)</i>	<i>(21,077)</i>	<i>(7,525)</i>	<i>(436)</i>	<i>332,856</i>	<i>-</i>
Net interest income	25,282	34,203	9,495	12,984	13,625	9,186	4,015	3,054	-	111,844
Net fee and commission income	26,699	1,495	1,864	1,571	1,500	1,042	457	4,381	-	39,009
Dividend income	40	-	-	-	-	-	-	-	-	40
Net trading income	15,314	128	9	(122)	231	14	4	597	-	16,175
Net gains arising from financial investment	82	-	-	-	-	-	-	257	-	339
Other operating income	447	736	281	567	312	216	119	1,419	-	4,097

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7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2018										
Employee expenses, depreciation and other general and administrative expenses	(14,453)	(8,524)	(3,304)	(4,599)	(4,098)	(3,711)	(1,782)	(3,641)	-	(44,112)
Tax and surcharges	(513)	(440)	(145)	(184)	(206)	(188)	(75)	(101)	-	(1,852)
Impairment losses	(22,491)	(5,579)	(401)	(9,988)	(3,910)	(12,308)	(5,024)	(719)	-	(60,420)
Net investment income of associates and joint ventures	164	-	-	-	-	-	-	-	-	164
Total profit	30,571	22,019	7,799	229	7,454	(5,749)	(2,286)	5,247	-	65,284
31 December 2018										
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

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7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2017										
Interest income	231,598	120,669	51,767	71,870	50,657	46,964	19,917	7,960	(355,584)	245,818
<i>Including: External interest income</i>	76,832	44,051	21,079	33,460	26,645	24,913	11,384	7,454	-	245,818
<i>Internal interest income</i>	154,766	76,618	30,688	38,410	24,012	22,051	8,533	506	(355,584)	-
Interest expense	(211,526)	(93,446)	(42,336)	(57,031)	(35,817)	(34,031)	(15,084)	(5,219)	355,584	(138,906)
<i>Including: External interest expense</i>	(37,904)	(31,837)	(18,384)	(21,041)	(11,044)	(8,171)	(5,669)	(4,856)	-	(138,906)
<i>Internal interest expense</i>	(173,622)	(61,609)	(23,952)	(35,990)	(24,773)	(25,860)	(9,415)	(363)	355,584	-
Net interest income	20,072	27,223	9,431	14,839	14,840	12,933	4,833	2,741	-	106,912
Net fee and commission income	30,965	3,393	1,418	1,768	1,731	1,289	572	4,444	-	45,580
Dividend income	37	-	-	-	-	-	-	202	-	239
Net trading income	8,079	435	56	79	-	-	-	415	-	9,064
Net gains arising from financial investment	338	74	-	(78)	5	-	-	49	-	388
Other operating income	2,340	1,434	386	652	232	207	109	1,249	-	6,609

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7 SEGMENT REPORTING (Continued)

	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and Subsidiaries	Elimination between Segments	Total
Year ended 31 December 2017										
Employee expenses, depreciation and other general and administrative expenses	(12,248)	(8,674)	(3,040)	(4,908)	(4,002)	(4,088)	(1,903)	(3,303)	-	(42,166)
Tax and surcharges	(538)	(331)	(109)	(158)	(153)	(177)	(73)	(71)	-	(1,610)
Impairment losses	(2,663)	(10,291)	(568)	(7,022)	(7,891)	(22,388)	(4,036)	(426)	-	(55,285)
Net investment income of associates and joint ventures	97	-	-	-	-	-	-	-	-	97
Total profit	46,479	13,263	7,574	5,172	4,762	(12,224)	(498)	5,300	-	69,828
31 December 2017										
Loans and advances to customers	523,689	839,777	299,361	396,191	398,757	418,553	154,807	72,718	-	3,103,853
Total assets	2,653,169	1,519,227	630,510	881,331	626,629	546,323	244,906	245,486	(1,210,341)	6,137,240
Deposits from customers	156,037	1,089,455	318,430	486,605	449,948	332,733	134,121	70,607	-	3,037,936
Total liabilities	2,252,916	1,505,964	622,936	876,159	621,867	558,547	245,404	232,803	(1,210,341)	5,706,255
Net position of assets and liabilities	400,253	13,263	7,574	5,172	4,762	(12,224)	(498)	12,683	-	430,985

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8 CONTINGENCIES AND COMMITMENTS

8.1 Credit commitment

The Group's credit commitment is listed as follows:

Item	31 December 2018	31 December 2017
Bank acceptances	419,815	396,414
Bills acceptance under letters of credit	147,587	144,602
Letters of guarantee issued	101,003	121,346
Letters of credit issued	13,533	14,143
Credit card and other commitments	351,725	269,748
Total	1,033,663	946,253

As at 31 December 2018, there is no outstanding commitment on security underwriting (31 December 2017: Nil).

8.2 Commitment on early redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2018, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,355 million (31 December 2017: RMB 4,221 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

8.3 Operating lease commitment

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2018	31 December 2017
Within 1 year	2,415	2,363
1 to 5 years	5,995	5,853
Over 5 years	1,731	1,884
Total	10,141	10,100

8.4 Capital commitment

As at 31 December 2018, the major capital commitment the Group had signed but not paid amounted to RMB 3,248 million (31 December 2017: RMB 5,293 million).

As at 31 December 2018, the major capital commitment the Group had approved but not signed amounted to RMB 175 million (31 December 2017: RMB 1,135 million).

8 CONTINGENCIES AND COMMITMENTS (Continued)

8.5 Legal proceedings

As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provision was accrued (As at 31 December 2017: the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 83 and 92, respectively. The corresponding amount involved was about RMB 1,087 million and RMB 1,108 million, respectively. The Group assessed the possibility of loss is not large, no provision was accrued).

9 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's statement of financial position. As at 31 December 2018, the balance of entrusted loan business was RMB 150,374 million (As at 31 December 2017: RMB 178,120 million).

10 RELATED PARTIES

10.1 Major related parties

The related parties of the Bank mainly include its subsidiaries, associates, joint ventures, the major shareholders who hold 5% or more ordinary shares of the Bank and their Group companies (including parent and all subsidiaries), key management personnel of the Bank (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

10.2 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Financial Services
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

10.3 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note 5 "Scope of consolidated financial statements."

10.4 Associates and joint ventures

For general information of associates and joint ventures, please refer to Note 6.22 "Investments in associates and joint ventures."

10.5 Other major related parties

Other related parties mainly include respective Group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior management) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

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10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

(1) Due from and placements with banks and other financial institutions

	31 December 2018	31 December 2017
Other major related parties - group companies of major shareholders	4,422	-
	Year ended 31 December 2018	Year ended 31 December 2017
Interests income	109	-

(2) Loans and advances to customers

	31 December 2018	31 December 2017
Associates and joint ventures	-	61
Other major related parties - group companies of major shareholders	239	500
Other major related parties - individuals	24	25
Total	263	586
	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	19	7

(3) Deposits from customers

	31 December 2018	31 December 2017
Major shareholders	5,324	6,330
Other major related parties - companies with significant influence by key management personnel	1,500	7,494
Other major related parties - group companies of major shareholders	37,999	47,678
Total	44,823	61,502
	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	1,483	1,374

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10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(4) Due to and placements from banks and other financial institutions

	31 December 2018	31 December 2017
Associates and joint ventures	1,058	2,430
Other major related parties - group companies of major shareholders	5,113	14,798
Total	6,171	17,228
	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	124	223

(5) Commission income

	Year ended 31 December 2018	Year ended 31 December 2017
Associates and joint ventures	22	32
Other major related parties - group companies of major shareholders	3	7
Total	25	39

(6) Commission expense

	Year ended 31 December 2018	Year ended 31 December 2017
Other major related parties - group companies of major shareholders	-	40

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10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(7) Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Major shareholders	7	7
Other major related parties - group companies of major shareholders	<u>383</u>	<u>350</u>
Total	<u>390</u>	<u>357</u>

The Group makes payments to one major shareholder and its Group companies for purchase of mobile communication services.

(8) Letters of guarantee issued

	31 December 2018	31 December 2017
Associates and joint ventures	-	21
Other major related parties - group companies of major shareholders	<u>3,766</u>	<u>5,442</u>
Total	<u>3,766</u>	<u>5,463</u>

As at 31 December 2018, the outstanding letters of guarantee will expire before the end of 2020.

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10 RELATED PARTIES (Continued)

10.6 Transactions and balances with related parties (Continued)

(9) Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank (refer to Note 5 for details). Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

Balances at year end	31 December 2018	31 December 2017
Due from and placements with banks and other financial institutions	4,400	2,904
Loans and advances to customers	991	1,096
Due to and placements from banks and other financial institutions	8,025	8,382
Deposits from customers	609	454
Other assets	21	93
Other liabilities	-	24
Transactions for the year:	Year ended 31 December 2018	Year ended 31 December 2017
Loans transferred from subsidiaries	-	1,189
Interest income from Due from banks and other financial institutions	10	28
Interest income from placements with other banks and financial institutions	108	83
Interest income from loans and advances to customers	114	45
Interest expense from due to and placements from banks and other financial institutions	191	193
Fee and commission income	21	25
Fee and commission expense	41	40

(10) Compensation of key management personnel

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2018, individual amounts of transactions with key management personnel are not significant.

According to the relevant regulations, the 2018 annual compensation of Bank's directors, supervisors and senior management personnel is yet to be approved by relevant authorities. The compensation of key management personnel does not have significant impact on the Group and the Bank's financial statements of 2018 (The aggregated compensation of Bank's directors, supervisors and other senior management personnel approved by government for 2017 was RMB 19.1020 million. The aggregated compensation of Bank's other directors, supervisors and other senior management personnel was RMB 9.9358 million).

11 FINANCIAL RISK MANAGEMENT

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. Managing financial risk is core to the financial industry, and the inherent risks are an inevitable consequence of business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse impact on the Group's financial performance.

The Group designs a series of risk management policies to identify and analyse these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and commodity risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the headquarter are responsible for their implementation.

11.1 Credit risk

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a Group of otherwise unrelated counterparties could be adversely affected in their ability to fulfill their obligations due to same economic factors affecting their common industry or region.

The credit risks of trust plan are mainly arising from the possibility of counter parties' non-performance of their obligations; mainly in the process of loan, asset repurchase, subsequent financial arrangement, guarantee, performance commitment, fund transfer flow and security investment, etc.; counter parties including the borrower, the guarantor or the depository (the trustee), securities investment accounts dealer and the Bank, are failing to or unable or unwilling to perform the contract commitments, thus resulting in the possibility of potential loss of trust property or inherent property.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.1 Credit risk management

(i) Loans

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, Group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, Group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfill interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	95%-100%
PRC treasury bonds	90%-100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plant	60%
Residential property	70%
Land use right	60%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.1 Credit risk management (Continued)

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and issuer's credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB- can be invested. Overseas investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognized by the PBOC. For middle or long term RMB domestic debt securities, their credit ratings granted by PBOC recognized agencies cannot be lower than AA. For short term RMB debt securities, their credit ratings granted by the PBOC recognized agencies cannot be lower than A-1.

(iii) Other financial assets measured at amortized cost

Other financial assets measured at amortized cost, mainly include wealth management products, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

(v) Derivative financial instruments

The Group strictly controls the volume of derivative transactions. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

(vi) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

(vii) Trust plan

The Group strictly enforces the policy "pre-loan investigation, in-process review, post-loan inspection" over trust plan. In the design of the product trade structure, it introduces guarantee mechanism including financial institution credit, property mortgage, rights pledge in terms of product transaction structure design. And the Group comprehensively applies the methods of avoidance, prevention, dispersion, transfer, compensation to manage risks, disperses and transfers credit risks of financing entities, so as to reduce risk exposure.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.2 Credit risk limit measurement

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on “Guideline for Credit Risk Classification” (the “Guideline”) issued by the CBRC on 3 July 2007. The Group’s own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfill the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special Mention: loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.

Substandard: loans for which borrowers’ ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage 1 (not credit-impaired since initial recognition): 12-month expected credit losses (ECL);
Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses;
Stage 3 (credit-impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product "GDP" and consumer price index "CPI". The Group also forecasts three kind of macroeconomic scenarios (optimistic, base and pessimistic) on a timely basis, and measures ECL based on different scenarios.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Specific information related to borrowers and loans, which are collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group does not have financial assets that are identified as "low risk" and managed credit risk in accordance with IFRS 9.

Staging

Significant increase in credit risk (SICR)

The Group assesses on each balance sheet date whether the credit risk of the relevant financial asset has increased significantly since initial recognition. When considering the stage of financial assets, the Group fully considers all kinds of reasonable and evidence-based information that reflects whether the credit risk of the financial asset has significantly changed, including forward-looking information. The main factors to be considered are regulatory and business environment, internal and external credit rating, solvency, business ability, loan contract terms, repayment behavior, etc.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The Group considers whether the credit risk of financial assets has increased significantly since initial recognition by considering whether the credit risk rating has migrated down to a certain level or whether the probability of default has increased significantly since initial recognition. For example,

As at the reporting date, for corporate loans and financial investments, the counterparty's credit risk rating migrate to or lower than B; or for retail loans, the counterparty's PD is 8-10 times of initial PD.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Qualitative criteria:

Corporate loans and financial investments

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Early signs of cashflow/liquidity problems such as delay in payment of account payables/loans

Backstop:

If the borrower is more than 30 days past due on its contractual payments.

Sensitivity analysis

Assuming that there is a significant change in credit risk, causing the financial assets and credit commitments of stage 2 all transfer into stage 1, the impairment allowances and provisions in the financial statement will be reduced by RMB 5,071 million.

Default and credit-impaired

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The issuer or borrower is in significant financial difficulties
- The borrower is in breach of financial contract(s), such as past due of interest or principal
- Concessions have been made by the lender relating to the borrower's financial difficulty or contracts.
- The borrower is likely to go bankrupt or carry out other debt restructuring
- An active market for that financial asset has disappeared because of financial difficulties
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Credit-impaired assets(Continued)

Backstop:

The borrower is more than 90 days past due on its contractual payments.

The criteria above have been applied to all financial instruments held by the Group and are consistent with internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's ECL measurement.

Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- The EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each individual future exposure. This effectively calculates an ECL for each future month.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The LGD are determined based on the factors which impact the recoveries after default. These vary by product type.

Forward-looking economic information is also included in determining the 12-month and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the key economic indicators impacting credit risk and expected credit losses for each portfolio.

Based on industry best practices and the Group's internal experts' judgement, the Group chose a series of macroeconomic indicators (including GDP, industrial added value growth rate and CPI growth rate, etc.), established statistical relationship between actual PD and macro indicators for each model exposure, and then calculated forward-looking PD by using forecasted economic indicators.

In addition to the base economic scenario, the Group also sets up other possible scenarios. The number of scenarios and their attributes are reassessed at each reporting date. As at 1 January 2018 and 31 December 2018, the scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by calculating the ECL under each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting(as opposed to weighting the inputs).

The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.3 Expected credit loss measurement (Continued)

Economic indicators assumptions

In 2018, the Group considered different macroeconomic scenarios. The important macroeconomic assumptions used to estimate expected credit losses are set out below:

Item	Range
GDP	6.00%-6.50%
Consumer Price Index Growth Rate	2.00%-3.00%
Broad money Growth Rate, year-on-year	8.00%-9.00%
Consumer Confidence Index	110-120

As of 31 December 2018, comparing with the 3 scenario weighted average impairment allowance, the impairment allowance under the baseline scenario will decrease as follows:

	31 December 2018
	Amount
Corporate loans	292
Retail loans	72
Financial investments	36

If the baseline, rising and falling scenario weights are changed from 80%, 10% and 10% to 60%, 20% and 20%, the allowance of loans and advances will increase by RMB 364 million, and the impairment allowance of financial investments will increase by RMB 36 million.

11.1.4 Segmentation of business operations sharing similar credit risk characteristics

When analyzing the relativeness of ECL with macroeconomic indicators, a grouping of exposures is performed on the basis of shared risk characteristics. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type

Retail loans

- Product type (for instance , mortgage loans, consumer loan and credit card)
- Repayment type
- Utilisation percentage range
- Loan to value ratio range

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk

Financial instruments and commitment and guarantee subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The book value of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Maximum exposure to credit risk	
	31 December 2018	31 December 2017
Financial instrument		
Cash and balances with central bank (Stage 1)	437,687	479,247
Due from and placements with banks and other financial institutions (Stage 1)	236,535	177,187
Financial assets purchased under resale agreements (Stage 1)	11,573	13,974
Loans and advances to customers(a)	3,455,007	3,103,853
—Amortized cost	3,194,231	3,103,853
Stage 1	3,045,070	NA
Stage 2	130,514	NA
Stage 3	18,647	NA
—FVOCI	249,153	NA
Stage 1	249,105	NA
Stage 2	48	NA
—Interests receivable	11,623	NA
Stage 1	11,291	NA
Stage 2	332	NA
Available-for-sale financial assets	NA	399,528
Investment securities - held-to-maturity	NA	444,726
Investment securities - loans and receivables	NA	832,598
Financial investment(b)		
Debt investments	1,144,249	NA
—Amortized cost	1,129,401	NA
Stage 1	1,122,176	NA
Stage 2	5,337	NA
Stage 3	1,888	NA
—Interests receivable	14,848	NA
Stage 1	14,848	NA
Other Debt investments	378,860	NA
—FVOCI	373,988	NA
Stage 1	373,542	NA
Stage 2	446	NA
—Interests receivable	4,872	NA
Stage 1	4,872	NA
Other financial assets	70,157	128,498
Stage 1	67,402	NA
Stage 2	2,425	NA
Stage 3	330	NA
Total financial instrument	5,734,068	5,579,611
Commitment and guarantee		
Bank acceptance	418,035	396,414
Bills acceptance under letter of credit	147,346	144,602
Letters of guarantee issued	100,206	121,346
Letters of credit issued	13,473	14,143
Unused credit card and other commitments	349,929	269,748
Total commitment and guarantee	1,028,989	946,253

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk (Continued)

The Group internally ranks the asset risk characteristics according to the quality status of the assets. The credit rating of the financial assets included in the ECL measurement is classified into “low risk”, “medium risk” and “high risk” according to the internal rating scale. The rate is used by the company for internal credit risk management purposes. “Low risk” means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavorable factors; “medium risk” refers to the customer has certain solvency, but persistent major instability or poor commercial or financial economic conditions may reduce its solvency; “high risk” refers to assets that contain unfavorable factors that may have a great impact on solvency, the risk of default is high or meet the definition of default of the Group.

- (a) The analysis of the maximum credit risk exposure for loans and advances by credit rating is as follows:

	Loans and advances to customers				31 December 2017
	31 December 2018				
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	2,883,646	5,266	-	2,888,912	NA
Medium risk	426,419	69,055	-	495,474	NA
High risk	9,351	82,938	72,251	164,540	NA
Principal	3,319,416	157,259	72,251	3,548,926	3,194,600
Impairment allowance	(25,241)	(26,697)	(53,604)	(105,542)	(90,747)
Total	3,294,175	130,562	18,647	3,443,384	3,103,853

- (b) The analysis of the maximum credit risk exposure for financial investments by credit rating is as follows:

	Financial investments				31 December 2017
	31 December 2018				
	ECL stages				
	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total	Total
Credit rating					
Low risk	1,487,010	205	-	1,487,215	NA
Medium risk	12,147	4,846	-	16,993	NA
High risk	-	986	6,398	7,384	NA
Principal	1,499,157	6,037	6,398	1,511,592	1,684,111
Impairment allowance	(3,439)	(254)	(4,510)	(8,203)	(7,259)
Total	1,495,718	5,783	1,888	1,503,389	1,676,852

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.5 Maximum exposure to credit risk (Continued)

Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	Maximum exposure to credit risk	
	31 December 2018	31 December 2017
loans and advances to customers		
—at fair value through profit or loss	482	NA
Financial investment		
Trading assets- at fair value through profit or loss		
—Debt investments	56,794	NA
—Trust and asset management plans	68,669	NA
—Fund investments	263,191	NA
—Wealth management products managed by other banks	208	NA
—Other investments	5,678	NA
Subtotal	394,540	NA
Financial assets at fair value through profit or loss		
— Debt investments	NA	48,429
— Other debt investments	NA	93,233
— Loans from non bank financial institutions	NA	996
Subtotal	NA	142,658
Total	395,022	142,658

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.6 Due from and placements with banks and other financial institutions and financial assets purchased under resale agreements

The credit risks of the Group's due from and placements with banks and other financial institutions and financial assets purchased under resale agreements are in the stage 1. For due from and placements with banks and other financial institutions, the credit risk is evaluated by referring to the nature of counterparties.

	31 December 2018	31 December 2017
Domestic commercial banks	62,370	63,134
Overseas commercial banks	62,866	51,775
Domestic non-bank financial institutions	109,840	62,278
Interest receivable	1,665	NA
Less: Impairment allowance	(206)	-
Total	236,535	177,187

Other financial assets purchased under resale agreements, which are fully pledged by bank accepted bills and bonds or deposit certificates issued by other banks, amounted to RMB 11,574 million as at 31 December 2018 (31 December 2017: RMB 13,981 million). The Group does not expect significant credit risk from them.

11.1.7 Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. As at 31 December 2018, financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Corporate loan	Retail loans	Total
31 December 2018			
Total exposure	53,106	19,145	72,251
Impairment loss	(38,319)	(15,285)	(53,604)
Carrying amount	14,787	3,860	18,647
Fair value of corresponding collateral	30,974	6,198	37,172

When the Group has performed the necessary procedures and cannot reasonably expect to recover the whole or part of the financial assets, and the financial assets meet the write-off conditions required by the Ministry of Finance, the Group writes off the financial assets.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent agencies recognized by the PBOC.

Investments denominated in foreign currencies

	Financial investments Financial assets held for trading at fair value through profit or loss	Financial investments Debt investments- at amortized cost	Financial investments Other debt investments at fair value through other comprehensive income	Total	
Bonds and other investments					
31 December 2018					
AAA	62	31	2,050	2,143	
AA	83	1,138	2,368	3,589	
A and below A	929	1,401	3,380	5,710	
Unrated- Bonds	646	408	46,573	47,627	
	1,720	2,978	54,371	59,069	
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Investment securities - held-to- maturity	Investment securities - loans and receivables	Total
31 December 2017					
AAA	-	851	30	-	881
AA	-	4,221	161	926	5,308
A and below A	201	3,103	932	-	4,236
Unrated- Bonds	856	31,863	-	-	32,719
	1,057	40,038	1,123	926	43,144

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial investments Financial assets held for trading at fair value through profit or loss	Financial investments Debt investments- at amortized cost	Financial investments Other debt investments at fair value through other comprehensive income	Total
31 December 2018				
Medium or long term:				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
Under A-	-	108	210	318
Short term:				
A-1	9,705	219	2,889	12,813
Unrated bonds and other investments:				
Government bonds (Note 1)	7,443	460,614	146,716	614,773
Notes	5,109	-	-	5,109
Bonds issued by policy banks	-	199,140	75,516	274,656
Financial bonds	205	44,109	-	44,314
Deposit certificates issued by other banks	23,055	695	11,318	35,068
Wealth management products managed by other banks	208	-	-	208
Corporate bonds	538	-	35	573
Assets backed securities ("ABS")	69	-	-	69
Trust and asset management plans (Note 2)	68,669	281,140	2,487	352,296
Fund investments	263,191	-	-	263,191
Other investments	5,678	-	-	5,678
Other debt instruments (Note 3)	-	9,607	-	9,607
	<u>392,820</u>	<u>1,141,271</u>	<u>324,489</u>	<u>1,858,580</u>

Note 1: Included in unrated financial bonds held by the Group, local municipal government bonds are mainly issued under the name of local municipal government or Ministry of Finance.

Note 2: As at 31 December 2018, the notional amount of overdue fund trust plan and wealth management plan is RMB 7,591 million, and the provision for impairment recognized is RMB 4,014 million.(31 December 2017: notional amount is RMB 5,004 million, provision for impairment is RMB 2,641 million).

Note 3: Other debt instruments are financing products issued by the Bank to enterprises, as at 31 December 2018, such instruments are not overdue.(31 December 2017: not overdue)

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.1 Credit risk (Continued)

11.1.8 Bonds and other investments (Continued)

Investments denominated in RMB

	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Investment securities - held-to- maturity	Investment securities - loans and receivables	Total
31 December 2017					
Medium or long term:					
AAA	248	159,486	8,210	120,487	288,431
AA+ to AA-	61	86,909	52	7,602	94,624
A to A-	-	-	-	286	286
Under A-	-	289	-	448	737
Short term:					
A-1	9,812	1,255	-	-	11,067
Unrated bonds and other investments:					
Government bonds	3,107	56,928	269,325	31,985	361,345
Bonds issued by policy banks	12,947	29,643	166,016	-	208,606
Financial bonds	-	4,067	-	95,320	99,387
Deposit certificates issued by other banks	21,197	13,671	-	-	34,868
Corporate bonds	-	401	-	-	401
Trust and asset management plans	-	6,841	-	575,024	581,865
Wealth management products purchased from other banks	-	-	-	520	520
Loans to non-bank financial institutions	996	-	-	-	996
Other investments	93,233	-	-	-	93,233
	141,601	359,490	443,603	831,672	1,776,366

11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book face market risk, which mainly consists of interest rate risk, currency risk and commodity risk. The Group considers the exposure to the commodity risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management activities and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the Group-wide market risk management system, organisational structure with well defined roles and responsibilities, limit structures and accountability mechanism. Relevant departments of headquarter are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits etc in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, Group-wide market risk management system incorporates the established internal controls and independent inspections. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes business units as the fine line defence, market risk management and compliance departments as the second line defence and internal audit department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

11.2.1 Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in the PRC. Majority of its foreign currency business are conducted in USD.

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

Item	31 December 2018				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	436,007	7,237	185	294	443,723
Due from and placements with banks and other financial institutions	138,999	72,591	18,171	6,774	236,535
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investment:					
Trading assets- at fair value through profit or loss	386,144	9,450	74	-	395,668
Debt investments-at amortized cost	1,141,271	1,795	207	976	1,144,249
Other debt investments-at fair value through other comprehensive income	323,803	45,891	6,838	2,328	378,860
Other equity investments-at fair value through other comprehensive income	4,038	-	-	-	4,038
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Due to central bank	221,003	-	-	-	221,003
Due to and placements from banks and financial institutions	1,071,882	121,084	18,553	4,872	1,216,391
Trading liabilities - at fair value through profit or loss	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreements	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Bonds issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of financial instruments	483,262	(67,237)	(1,119)	8,292	423,198

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

Item	31 December 2017				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	476,379	9,711	210	231	486,531
Due from and placements with banks and other financial institutions	100,814	49,634	18,965	7,774	177,187
Financial assets at fair value through profit or loss	160,844	2,022	-	-	162,866
Derivative financial assets	24,911	3,139	46	168	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	13,974
Loans and advances to customers	2,965,236	110,231	16,786	11,600	3,103,853
Available-for-sale financial assets	624,470	32,412	6,530	1,096	664,508
Investment securities - held-to-maturity	443,603	1,093	-	30	444,726
Investment securities - loans and receivables	831,672	-	-	926	832,598
Other financial assets	95,240	32,409	339	510	128,498
Total financial assets	5,737,143	240,651	42,876	22,335	6,043,005
Due to central bank	182,387	-	-	-	182,387
Due to and placements from banks and financial institutions	1,307,450	116,895	25,774	2,981	1,453,100
Financial liabilities at fair value through profit or loss	21,139	7,194	-	-	28,333
Derivative financial liabilities	27,820	2,081	12	121	30,034
Financial assets sold under repurchase agreements	180,639	3,825	-	-	184,464
Deposits from customers	2,845,508	161,173	20,747	10,508	3,037,936
Bonds issued	658,791	20,771	6,207	527	686,296
Other financial liabilities	59,278	2,104	148	582	62,112
Total financial liabilities	5,283,012	314,043	52,888	14,719	5,664,662
Net position of financial instruments	454,131	(73,392)	(10,012)	7,616	378,343

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.1 Currency risk (Continued)

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

Net profit for the year (decrease)/Increase of	31 December 2018		31 December 2017	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
	-1%	1%	-1%	1%
USD against RMB	(296)	296	(60)	60
Other currencies against RMB	30	(30)	(33)	33

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Exchange rates for all currencies are fluctuating simultaneously and in the same direction;
- Foreign currency position contains spot exchange position and forward exchange position.

The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

11.2.2 Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

On 26 August 2015, PBOC removed the upper limit of interest rate of time deposit with term longer than a year (excluding one year), and set the upper limit of interest rate of other kinds of deposit as 1.5 times of the benchmark interest rate. On 24 October 2015, PBOC removed the upper limit of deposit interest rate of commercial banks and rural cooperative financial institutions. On 20 July 2013 PBOC also removed the bottom limit (i.e. 70% of benchmark) for loans (excluding retail mortgage loans). The Group determines the loan interest rate independently.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarizes the Group's exposures to interest rate risk. The table presents the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2018						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Assets							
Cash and balances with central banks	428,273	-	-	-	-	15,450	443,723
Due from and placements with banks and other financial institutions	91,257	25,784	100,042	17,787	-	1,665	236,535
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments:							
Trading assets- at fair value through profit or loss	4,199	6,745	35,445	37,082	25,924	285,145	394,540
Debt investments-at amortized cost	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
Other debt investments-at fair value through other comprehensive income	22,561	8,912	51,610	179,288	111,617	4,872	378,860
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	399,310	6,178,400

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	9,020	30,090	178,630	-	-	3,263	221,003
Due to and placements from banks and other financial institutions	894,850	142,794	168,028	5,431	499	4,789	1,216,391
Trading liabilities- at fair value through profit or loss	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Bonds issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	263,830	418,032

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	468,527	-	-	-	-	18,004	486,531
Due from and placements with banks and other financial institutions	99,693	22,667	47,793	7,034	-	-	177,187
Financial assets at fair value through profit or loss	31,811	66,738	24,125	19,662	322	-	142,658
Derivative financial assets	-	-	-	-	-	28,264	28,264
Financial assets purchased under resale agreements	13,974	-	-	-	-	-	13,974
Loans and advances to customers	1,814,563	331,891	776,013	140,111	41,275	-	3,103,853
Available-for-sale financial assets	28,154	18,797	77,105	235,613	39,859	-	399,528
Investment securities - held-to-maturity	12,776	4,095	42,689	246,938	138,228	-	444,726
Investment securities - loans and receivables	38,967	57,553	330,084	280,876	125,118	-	832,598
Other financial assets	39,734	216	1,067	-	-	87,481	128,498
Total financial assets	2,548,199	501,957	1,298,876	930,234	344,802	133,749	5,757,817

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

	31 December 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	13	17,143	165,231	-	-	-	182,387
Due to and placements from banks and other financial institutions	633,383	501,378	312,438	3,070	2,333	498	1,453,100
Financial liabilities at fair value through profit or loss	-	-	2,051	10,695	466	15,121	28,333
Derivative financial liabilities	-	-	-	-	-	30,034	30,034
Financial assets sold under repurchase agreements	166,431	10,427	7,606	-	-	-	184,464
Deposits from customers	2,103,261	313,668	459,616	161,391	-	-	3,037,936
Bonds issued	58,100	226,982	213,321	127,538	60,355	-	686,296
Other financial liabilities	493	-	1,393	2,800	-	57,426	62,112
Total financial liabilities	2,961,681	1,069,598	1,161,656	305,494	63,154	103,079	5,664,662
Total interest repricing gap	(413,482)	(567,641)	137,220	624,740	281,648	30,670	93,155

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.2 Market risk (Continued)

11.2.2 Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the financial reporting date.

	31 December 2018		31 December 2017	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(Decreases)/Increases in net profit	(2,964)	2,964	(1,069)	1,069
Increase/(Decrease) in other reserves	10,637	(10,407)	5,620	(5,318)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, which the maturity date is within three months or more than three months but will be repricing within one year, are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end.

Due to the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and emergency management and drilling.

In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet position, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external fundings and manages the maturities of its assets and liabilities in accordance with the Group's liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group's business development.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities

	31 December 2018						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Assets							
Cash and balances with central bank	-	443,723	-	-	-	-	443,723
Due from and placements with banks and other financial institutions	-	60,315	57,105	105,718	17,069	-	240,207
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments:							
Trading assets- at fair value through profit or loss	1,583	285,145	10,816	38,598	44,340	29,469	409,951
Debt investments-at amortized cost	4,351	-	159,543	197,612	640,567	326,329	1,328,402
Other debt investments-at fair value through other comprehensive income	130	-	20,063	62,378	241,825	130,684	455,080
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	815,009	1,132,602	1,470,467	1,999,287	1,878,436	7,373,213

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2018						Total
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Liabilities							
Due to central bank	-	-	40,400	184,602	-	-	225,002
Due to and placements from banks and other financial institutions	-	719,855	322,620	173,457	6,374	704	1,223,010
Trading liabilities- at fair value through profit or loss	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Bonds issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,446,497)	(734,304)	77,423	1,580,921	1,746,888	1,301,649

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	486,750	-	-	-	-	486,750
Due from and placements with banks and other financial institutions	-	61,395	61,724	51,787	7,951	-	182,857
Financial assets at fair value through profit or loss	-	-	97,133	26,384	22,059	398	145,974
Financial assets purchased under resale agreements	-	-	13,998	-	-	-	13,998
Loans and advances to customers	78,608	-	750,499	919,638	980,569	1,208,804	3,938,118
Available-for-sale financial assets	628	-	48,961	86,362	269,895	48,567	454,413
Investment securities - held-to-maturity	-	-	12,997	55,715	295,881	160,573	525,166
Investment securities - loans and receivables	3,760	-	95,022	359,884	342,503	142,333	943,502
Other financial assets	261	26,292	2,798	40,840	29,202	4,965	104,358
Total financial assets	83,257	574,437	1,083,132	1,540,610	1,948,060	1,565,640	6,795,136

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2017						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	17,701	170,607	-	-	188,308
Due to and placements from banks and other financial institutions	-	240,097	904,390	321,507	3,295	3,258	1,472,547
Financial liabilities at fair value through profit or loss	234	15,121	-	2,159	10,676	490	28,680
Financial assets sold under repurchase agreements	-	-	177,161	7,670	-	-	184,831
Deposits from customers	-	1,547,147	926,228	480,484	177,435	-	3,131,294
Bonds issued	-	-	288,883	223,146	148,638	72,096	732,763
Other financial liabilities	-	22,479	985	2,879	801	-	27,144
Total financial liabilities	234	1,824,844	2,315,348	1,208,452	340,845	75,844	5,765,567
Net liquidity	83,023	(1,250,407)	(1,232,216)	332,158	1,607,215	1,489,796	1,029,569

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.2 Cash flow of derivative financial instruments

a. Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options, precious metals derivatives and foreign currency derivatives settled in Shanghai Clearing House. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2018						
Foreign exchange derivatives	812	988	1,394	5	-	3,199
Interest rate swap	(278)	(290)	(957)	(730)	(29)	(2,284)
Foreign exchange options	41	393	351	50	-	835
Precious metals derivatives	655	53	(282)	-	-	426
Commodity swap contracts	6	7	-	-	-	13
Total	1,236	1,151	506	(675)	(29)	2,189
31 December 2017						
Foreign exchange derivatives	(945)	(1,743)	(3,336)	(17)	-	(6,041)
Interest rate swap	23	(36)	(23)	340	(1)	303
Foreign exchange options	358	82	109	5	-	554
Precious metals derivatives	179	218	(206)	-	-	191
Commodity swap contracts	-	2	111	432	-	545
Total	(385)	(1,477)	(3,345)	760	(1)	(4,448)

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.2 Cash flow of derivative financial instruments (Continued)

b. Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2018					
Foreign exchange derivatives					
-Outflow	(359,205)	(198,799)	(277,172)	(43,315)	(878,491)
-Inflow	358,717	198,006	277,176	43,515	877,414
31 December 2017					
Foreign exchange derivatives					
-Outflow	(160,745)	(97,608)	(228,632)	(25,944)	(512,929)
-Inflow	160,599	97,182	230,056	26,353	514,190

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.3 Liquidity risk (Continued)

11.3.3 Off-balance sheet items

	Within 1 year	1 to 5 years	Over 5 years	Total
31 December 2018				
Bank bill acceptance	419,815	-	-	419,815
Acceptance bills of exchange under letter of credit	147,587	-	-	147,587
Letters to guarantee issued	66,175	32,658	2,170	101,003
Letters of credit issued	11,945	1,024	564	13,533
Credit cards and other commitments	351,725	-	-	351,725
Total	997,247	33,682	2,734	1,033,663
31 December 2017				
Bank bill acceptance	396,414	-	-	396,414
Acceptance bills of exchange under letter of credit	144,602	-	-	144,602
Letters to guarantee issued	70,679	45,051	5,616	121,346
Letters of credit issued	13,381	762	-	14,143
Credit cards and other commitments	269,748	-	-	269,748
Total	894,824	45,813	5,616	946,253

11.4 Fair value of financial instruments

11.4.1 Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.
- Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.
- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.2 Financial instruments not measured at fair value

As at 31 December 2018, The financial assets and financial liabilities not measured at fair value in the financial statements include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (amortized cost), investments measured at amortized cost, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued (31 December 2017: Include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, investment securities-classified as loans and receivables, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued).

The table below summarizes the carrying amount and relevant fair value of the Group's investment securities classified as investments at amortized cost, held-to-maturity and loans and receivable, bonds issued as at financial reporting date.

		31 December 2018			
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Debt investments-at amortized cost	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities:					
Bonds issued	841,440	-	844,012	-	844,012
		31 December 2017			
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Investment securities					
- held-to-maturity	444,726	-	432,780	-	432,780
Investment securities					
- loans and receivables	832,598	-	251,739	570,282	822,021
Financial liabilities:					
Bonds issued	686,296	-	684,611	-	684,611

11.4.2.1 Investments measured at amortized cost

Investment measured at amortized cost is classified into level 1 when its fair value is based on quoted market price. Investment measured at amortized cost is classified into level 3 if its market information is not available and fair value is calculated using discounted cash flow model. Investment measured at amortized cost is classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.2 Financial instruments not measured at fair value (Continued)

11.4.2.2 Bonds issued

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

11.4.2.3 Investment securities classified as held-to-maturity, investment securities-classified as loans and receivables

Held-to-maturity securities and loans and receivables are classified into level 1 when its fair value is based on quoted market price. Held-to-maturity securities and loans and receivables are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities and loans and receivables are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value

As at 31 December 2018, Fair value hierarchy of financial instruments measured at fair value is listed as below:

Group

31 December 2018	Level 1	Level 2	Level 3	Total
Financial investment				
Trading assets- financial investment at fair value through profit or loss				
-Debt investments-at amortized cost	174	56,620	-	56,794
-Trust and asset management plans	-	16,069	52,600	68,669
-Fund investments	260,117	-	3,074	263,191
-Equity instruments	345	-	783	1,128
-Wealth management products of other banks	-	-	208	208
-Other investments	-	-	5,678	5,678
Other debt investments-at fair value through other comprehensive income				
-Bonds and other debt instruments	35	376,338	-	376,373
-Trust and asset management plans	-	1,274	1,213	2,487
Other equity investments-at fair value through other comprehensive income	398	-	3,640	4,038
Loans and advances to customers				
-at fair value through other comprehensive income	-	249,153	-	249,153
-at fair value through profit or loss	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilities	-	42,793	-	42,793
Trading liabilities - at fair value through profit or loss				
-Financial liabilities related to precious metals	-	24,504	-	24,504
-Interest of other unitholders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	1,107	67,316	9,282	77,705

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets at fair value through profit or loss				
-Trading securities	-	49,425	-	49,425
-Trust and asset management plans	-	3,032	-	3,032
-Fund investments	11,004	-	1,084	12,088
-Other debt instruments	-	88,224	5,009	93,233
-Other investments	455	-	4,633	5,088
Available-for-sale financial assets				
-Available-for-sale bonds and other debt instruments	111	392,576	-	392,687
-Fund investments	143,039	72,357	-	215,396
-Available-for-sale equity investment	406	-	1,831	2,237
-Trust and asset management plans	-	45,317	7,634	52,951
-Wealth management products of other banks	-	-	354	354
-Others	-	565	318	883
Derivative financial assets	-	28,264	-	28,264
Total financial assets	155,015	679,760	20,863	855,638
Derivative financial liabilities	-	30,034	-	30,034
Financial liabilities at fair value through profit or loss				
-Financial liabilities related to precious metals	-	15,121	-	15,121
-Interest of other unitholders in consolidated structured entities	-	18	13,194	13,212
Total financial liabilities	-	45,173	13,194	58,367

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

The Group reclassifies the financial instruments when the specific event happens which leads to conversion among different level of fair value hierarchy. For the year ended 31 December 2018, there is no financial instrument reclassification between level 1 and level 2.

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instruction's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bonds investment, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3

Movements of the Group's financial assets and liabilities classified as level 3 are listed below

Group	Financial Investment Trading assets - at fair value through profit or loss	Financial Investment Other debt investments - at fair value through other comprehensive income	Financial Investment Other equity investments - at fair value through other comprehensive income	Financial Investment Trading liabilities - at fair value through profit or loss	Total
At 1 January 2018 (Restated)	76,991	1,868	1,140	13,194	66,805
Purchase	24,792	362	1,985	961	26,178
Sales	(40,263)	(1,221)	-	(4,985)	(36,499)
Changes in fair value recognized in profit or loss	823	211	-	112	922
Changes in fair value recognized in other comprehensive income	-	(7)	515	-	508
At 31 December 2018	62,343	1,213	3,640	9,282	57,914
Unrealized gain or loss recognized in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	823	-	-	(112)	711

Group	Financial assets at fair value through profit or loss	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Total
At 1 January 2017	28,118	19,063	5,223	41,958
Purchase	5,010	5,755	8,734	2,031
Sales	(22,662)	(14,770)	(1,220)	(36,212)
Changes in fair value recognized in profit or loss	260	258	457	61
Changes in fair value recognized in other comprehensive income	-	(169)	-	(169)
At 31 December 2017	10,726	10,137	13,194	7,669
Unrealized gain or loss recognized in profit or loss for the year ended 31 December 2017 for the positions held at 31 December 2017	260	(169)	(457)	(366)

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows:

Group	Fair value as at 31 December 2018	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Financial investments:					
Trading assets- at fair value through profit or loss					
—Trust and asset management plans	52,600	Income approach	Discount rate	1.82%- 8.81%	Negative
—Equity investments	783	Income approach	Discount rate	5.50%- 6.40%	Negative
—Fund investments	3,074	Based on the most recent transaction	NA	NA	NA
—Wealth management products managed by other banks	208	Income approach	Discount rate	5.10%- 5.50%	Negative
—Other investments	5,678	Note 1	Note 1	Note 1	Note 1
	<u>62,343</u>				
Other debt investments-at fair value through other comprehensive income					
—Trust and asset management plans	1,213	Income approach	Discount rate	4.95%- 7.00%	Negative
	<u>1,213</u>				
Other equity investments-at fair value through other comprehensive income					
—Equity investments	649	Market approach	Discount For Liquidity p/b ratio	14.82% 0.88	Negative Positive
	697	Market approach	Discount For Liquidity p/b ratio	19.27% 0.86	Negative Positive
	309	Market approach	Discount For Liquidity p/b ratio	26.68% 8.43	Negative Positive
	1,985	Based on the most recent transaction	NA	NA	NA
	<u>3,640</u>				

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

Group	Fair value as at 31 December 2018	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Trading liabilities - at fair value through profit or loss					
—Interest of other unitholders in consolidated structured entities	9,282	Note 2	Note 2	Note 2	Note 2
	<u>9,282</u>				

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows(Continued):

Group	Fair value as at 31 December 2017	Valuation techniques	Unobservable Inputs		
			Note	Range/ weighted average	Correlation with fair value
Financial assets at fair value through profit or loss					
—Fund investments	1,084	Based on the most recent transaction Income approach Note 1	NA	NA	NA
—Other debt instruments	5,009		Discount rate	1.65%-7.78%	Negative
—Other investment	4,633		Note 1	Note 1	Note 1
	<u>10,726</u>				
Available-for-sale financial assets					
—Equity investment	620	Market approach	Discount for liquidity	20%	Negative
	104	Based on the most recent transaction	NA	0.99	Positive
	691		Income approach	NA	NA
	416	Based on the most recent transaction	Discount rate	6.53%-6.93%	Negative
	416		NA	NA	NA
—Trust and asset management plans	4,142	Income approach	Discount rate	5.25%-8.80%	Negative
	3,492	Income approach	Discount rate	5.45%-5.90%	Negative
—Wealth management products managed by other banks	354	Income approach	Discount rate	4.98%	Negative
—Others	318	Income approach	Discount rate	8.30%	Negative
	<u>10,137</u>				
Financial liabilities at fair value through profit or loss					
—Interest of other unitholders in consolidated structured entities	13,194	Note 2	Note 2	Note 2	Note 2
	<u>13,194</u>				

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

11 FINANCIAL RISK MANAGEMENT (Continued)

11.4 Fair value of financial instruments (Continued)

11.4.3 Financial instruments measured at fair value (Continued)

(ii) Financial instruments in level 3 (Continued)

Significant unobservable inputs used to calculate the fair value of financial instruments classified as level 3 are as follows (Continued):

Note 1: This refers to the fair value of the assets managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank's long term employee benefit plan. All of the underlying assets are financial assets and the methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the Money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instrument is calculated using discounted cash flow model and unobservable discount rates, ranging from 4.75%-6.70% (31 December 2017: 4.75%-7.25%).

Note 2: The fair value of interest of other unitholders in consolidated structured entities is calculated based on the net asset value of the structured entities.

11.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirement of IFRS, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2018, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

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11 FINANCIAL RISK MANAGEMENT (Continued)

11.6 Capital management

The Group adopts the capital management approaches that can adequately respond to the interest risks associated with the Group's business and manages capital adequacy strictly in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximize shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as preference shares and tier-two capital instruments etc.

From 1 January 2013, the Group calculates the capital adequacy ratios in accordance with Provisional Administrative Rule on Capital Management of Commercial Banks (CBRC: No.1 2012) issued by the CBRC on 7 June 2012.

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Core tier 1 capital – net	435,120	388,200	408,426	366,921
Tier 1 capital - net	465,398	418,425	438,346	396,841
Capital - net	<u>589,308</u>	<u>490,884</u>	<u>561,231</u>	<u>468,467</u>
Total risk weighted assets	<u>4,311,886</u>	<u>4,084,499</u>	<u>4,196,285</u>	<u>3,982,115</u>
Core tier 1 capital adequacy ratio	10.09%	9.50%	9.73%	9.21%
Tier 1 capital adequacy ratio	10.79%	10.24%	10.45%	9.97%
Capital adequacy ratio	<u>13.67%</u>	<u>12.02%</u>	<u>13.37%</u>	<u>11.76%</u>

- i. The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.
- ii. The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation).
- iii. The Group's Deductible Items from Core Tier-one Capital include other intangible assets (excluding land use rights).
- iv. The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.
- v. The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.
- vi. Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

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12 ASSETS PLEDGED

Following assets of the Group are pledged as collateral under repurchase agreements and for fiscal deposits.

	31 December 2018	31 December 2017
Financial assets- other debt investments	87,717	NA
Financial assets- debt investments	55,324	NA
Discounted bills and Re-discount bills	34,067	21,592
Investment securities - loans and receivables	NA	27,327
Available-for-sale financial assets	NA	163,526
Investment securities - held-to-maturity	NA	20,035
Total	<u>177,108</u>	<u>232,480</u>

13 EVENTS AFTER THE REPORTING DATE

As of 22 March 2019, the Group has no material events that requires additional disclosure in its financial statements for the year ended 31 December 2018.

14. COMPARATIVE DATA

In order to be consistent with the presentation of financial statements for the current year, a number of comparative figures have been reclassified.