2017 Annual Report

Australia and New Zealand Bank (China) Company Limited

Table

I. Company Profile and Milestones in 2017

Opened in October 2010, Australia and New Zealand Bank (China) Company Limited (“ANZ China or the Bank”) is a wholly owned subsidiary by Australia and New Zealand Banking Group Company Limited (“ANZ”). As one of the largest Australian investors, ANZ’s presence in China can be traced to more than 30 years ago. Now ANZ is the only Australian bank which is locally incorporated in China and ANZ China is also the only Australian bank with both local and foreign currency capabilities in Mainland China.

As of end of 2017, ANZ China has branches in Beijing, Shanghai, Guangzhou, Chongqing, Chengdu, Hangzhou and Qingdao.

Key Milestones of ANZ China in 2017:

June: ANZ’s Board Directors and group executive members held a study tour in China across Beijing, Shanghai and Hangzhou to meet with government officials and clients, they have emphasized ANZ’s commitment to China and Chinese corporate clients.

July: The transfer of ANZ China’s Retail and Wealth business to DBS China was successfully completed on 15th July, 2017. Going forward, ANZ will focus and strengthen its Institutional Business in Asia and continue its focus on China. ANZ China will continue to leverage its unique regional network and expertise to support our customers who are driven by the trade and capital flows across the region.

December: ANZ China won the Leading Foreign Bank Award in 2017 by Pengpai Media.

ANZ is one of the largest companies in Australia and New Zealand. As of the end of 2017, ANZ’s network covers 29 markets in Asia Pacific and 34 markets globally. For the fifth consecutive year in 2017, ANZ remains Top 4 Corporate Bank in Asia in Greenwich Associates Large Corporate Banking survey.

II. Basic Information of the Company (as of 31st December 2017)

1. Legal Name：Australia and New Zealand Bank (China) Company Limited

   Legal Representative：Farhan Faruqui

2. Registered Address：17th & 15th Floor and Unit 12B, Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai.

   Post Code：200120

   Telephone: +86 21 6169 6001

   Retail Hotline：400 920 8880 /+86 21 61696127

   Retail Complaint：800 820 7072 /+86 21 61696127

   Website：www.anz.com.cn

3. Other Information

Date of Incorporation：	16 September 2010
Registration Authority：	Shanghai Municipal Administration for Industry and Commerce
Centralized Social Credit Code：	91310000561913643B
Registered Capital：	RMB 6,225,000,000
Shareholder：	Australia and New Zealand Banking Group Limited
Shareholding：	100%
Type of Company：	Limited Liability Company (Wholly Foreign Owned)
Business Scope：	To provide all kinds of foreign exchange services and Renminbi services to all types of customers within the following scope: taking deposits from the public; extending short-term, medium-term and long-term loans; acceptance and discounting of negotiable instruments; trading of treasury bonds, financial bonds and other foreign currency denominated securities (other than stocks); provision of letter of credit services and guarantees; domestic or international settlements; sales and purchase of foreign exchange and acting as an agent for selling and purchasing foreign exchange; insurance agency; inter-bank lending; bank card business; safety box services; creditability investigations and consultancy services; such other businesses as approved by the CBRC.（Business operation

	that involves administrative permit shall run with the permit）.
Auditor：	KPMG Huazhen (Special General Partnership) Shanghai Branch

III. Summary of Financial Status

As at 31 December 2017, ANZ China's total assets is RMB42.90 billion which includes loans & advances (gross) amounting to RMB9.42 billion, the Bank's total liabilities is RMB35.25 billion which includes total deposit amounting to RMB 17.80 billion. In terms of financial results in 2017, the Bank achieved RMB 0.92 billion as operating income, with RMB0.13 billion NPAT (net profit after tax). In 2017, the Bank sold its retail business which caused decrease of assets and liabilities, however, the Bank still keeps all prudential ratios well within regulatory requirements, with its capital adequacy ratio at 19.27%, loan-to-deposit ratio (RMB business) at 47.58% and non-performing-loan ratio at 0.50%.

	Y2017	**Y2016**	
	RMB million	**RMB million**	**Change Rate**
Business Performance			
Total Operating Incomes	922.76	1,322.29	-30.22%
Net Profit after Tax	126.39	327.54	-61.41%
Balance Sheet			
Loans & Advances (Gross amount)	9,402.13	14,525.86	-35.27%
Total Assets	42,899.26	46,997.68	-8.72%
Total Deposits	17,800.35	20,511.38	-13.22%
Equity	7,654.36	7,746.77	
Main Ratio			
Loan to Deposit Ratio (RMB Business)	47.58%	74.29%	
Cost Income Ratio	87.39%	63.44%	
Liquidity Ratio	84.10%	89.08%	
Capital Adequacy Ratio	19.27%	17.54%	
Leverage Ratio	14.10%	12.44%	

*Noted: Cost Income Ratio = Operating Expenses / Operation Income X 100%

IV. Risk Management

A. Wholesale Credit Risk

1. Oversight by the Board of Directors, two level Risk Management Committee and the Senior Management

The Board of Directors of ANZ China is responsible for overall risk appetite of the bank, reviewing and approving the bank's risk management targets and strategies. The Board of Directors approves the Credit Approval Discretion (CAD) schedule and delegates the credit authority down to CRO, who will further delegate to relevant personnel in credit risk management roles to ensure the independence of the daily credit decision-making framework at ANZ China.

Under the Board of Directors, there are two levels of Risk Management Committees (Board Level Risk Management Committee -- BL RMC; and Management Level Risk Management Committee -- ML RMC) responsible for assisting the Board in managing and monitoring risks; setting up and maintaining the independent and robust risk management framework and early alert mechanism; independently reviewing and objectively evaluating various risks as well as identifying, measuring, mitigating and managing all of the risks associated with ANZ China's business. ML RMC has been split into ML RMC-CMRC (Credit and Markets Risk Committee) and ML RMC-ORCC (Operational Risk and Compliance Committee).

The key senior risk management officers of ANZ China include Chief Risk Officer, Head of Credit Risk, wholesale credit approvers, retail credit approvers, credit portfolio monitoring and risk governance managers, Head of Market Risk, market risk managers, and operational risk manager. As one of the senior executives, China CRO reports directly to China CEO. CRO undertakes supervision responsibilities through engagement in formulating the risk management strategy and policies, and daily management of all risk areas including credit risk, market risk and operational risk etc. CRO will, via ML RMC and BL RMC, update the bank's senior management and the Board of Directors on the implementation of the risk management strategies and the overall status of the risk management. New credit risk management policies are recommended by CRO and ML RMC-CMRC to the Board or BL RMC for approval, to ensure an independent credit risk management framework in ANZ China. In addition, CRO will maintain smooth communication with the regulatory authorities to ensure they are well informed of the risk management status of ANZ China, which will provide ANZ China with timely guidance.

2. Credit Risk Management Policies, Procedures and Risk Limit Management

Credit risk management policies/procedures of ANZ China outlines the detailed credit application, approval, and monitoring process and defines roles and responsibilities to ensure that the Bank complies with Banking Law, the ANZ Group policies/procedures and the local regulatory requirements. According to the requirements outlined in the CBRC regulations for credit risk management, the Bank has developed and implemented the following internal credit risk management policies, procedures and processes: Wholesale Judgmental Credit Requirements, CBRC Risk-based 5-Grade Categorization Guideline and Procedure, Implementation Measures for Working Capital Loan Management, Implementation Measures for Fixed Asset Loans Management, Implementation Measures for Project Finance, Country Risk Management Procedure and Process, Credit Asset Transfer Business Guideline, Implementation Measures for Property Loan Management, Syndication Management Guideline and Green Credit Guide.

The regulatory ratios required by the CBRC and the Credit Risk Management Principles issued by the Basel Committee are well understood by the Bank, of which the importance to the risk management has been fully acknowledged. The Bank ensures that all regulatory ratios are complied with in the process of credit risk management.

As an important part of credit risk management policy, limits management policies of ANZ China have established provisions in detail as follows: limit management, transfer of limit between customers, change of product type and reinstatement of revolving limits, limits recording, documentation, credit approval discretion delegation, limit excess management, country limits, optimizing risk return, business writing strategy, industry concentration caps, single group/customer concentration limits etc. Daily limit excess report is generated by risk system to monitor limit excess constantly.

3. Risk Measurement, Monitoring and Management Reporting Systems

The Bank uses the global risk information system of ANZ Group to provide complete and timely information management reports to senior management, Risk and Operations departments.

To improve system capability for end-to-end credit approval process through more automated system support to ensure accurate and complete records of all approval terms and conditions set out throughout credit chain, we have implemented the credit approval and management system i.e. Risk Origin.

Under the support of ANZ Group, ANZ China has completed the 2017 regular wholesale credit stress testing and presented the results to the Senior Management and the Board. There were three levels of stressed scenarios applied, namely Mild, Severe and Extreme. Stressed factors include slow-down in China GDP growth, China unemployment rate, China CPI annual percentage change, China commercial property price, and RMB depreciation. EAD growth and default rate migration under stress scenarios were simulated based on internal PD/LGD and Monte Carlo models, with provisions calculated for stressed portfolios. The stress test results are summarized as follows:

Loss rate of wholesale credit assets given customer downgrades under stress are:

- 2.6% of the book is defaulted by year 2 in the Extreme scenario;
- 1.0% of the book is defaulted by year 2 in the Severe scenario;
- 0.2% of the book is defaulted by year 2 in the Mild scenario.

Provisioning impacts simulated based on the stressed portfolios exerting higher loss rates are:

- Individual Provision Charges peak in year 2 at CNY84m, CNY441m, and CNY891m for the Mild, Severe and Extreme Scenarios respectively.

- Collective Provision Charges peak in year 2 at CNY42m, CNY131m, and CNY196m for the Mild, Severe and Extreme Scenarios respectively. Total Provision Charges peak in year 2 at CNY104m, CNY543m, CNY1,089m for the Mild, Severe and Extreme scenarios respectively.

The testing results indicate that our current wholesale credit profile exhibits manageable level of assets quality deterioration and provision impacts under stress scenarios.

ANZ China and its subsidiary branch, i.e. Shanghai Branch, Beijing Branch and Chengdu Branch have performed property loan stress test based on local CBRC requirements in 2017. Given the minimal property loan exposure of ANZ China, the impact on overall asset quality and capital adequacy is limited.

ANZ China also performed country risk stress test in 2017. The impact on provisioning and capital adequacy is limited under all stress scenarios and all country risk exposure at the time of stress testing is booked at low-risk countries.

4. Internal Control

The principle of independency has been embedded in the bank's end-to-end credit process from customer acquisition, credit approval, loan disbursement, post-credit monitoring activities carried out by frontline, middle office and back office to achieve segregation of duties.

ICG and Research & Analysis (R&A) at the frontline are responsible for business development, due diligence, evaluating customers' comprehensive banking needs, developing account strategies, and submitting credit risk assessment and credit application report for Risk for approval. They are also accountable for monitoring risk profile of the customers after facility drawdown, and taking prompt actions in the case of any emerging risk events.

Risk, as middle office, is in charge of wholesale credit risk management, and management of non-performing assets based on the expert and technical support of Lending Services of ANZ Group.

The back office is operation divisions, which include payment operations, trade operations, credit administration, lending operations, market operations, accounts and customer services, finance, and operations divisions in branches/sub-branches.

The bank set up New Product Forum for reviewing and approving new and major variation products. The forum is chaired by CRO and joined by CEO, COO, Head of Business units, Compliance and Legal to formalize new product approval process and ensure the compliance of new product launch with local market conditions and legal and regulatory requirements and comprehensive assessment of the associated product and credit and markets risks etc. through proper evaluation of technology support, resource allocation and internal process.

5. Collection / Recovery of Non-performing Assets

In accordance with the related policies of ANZ China, Guidelines for Disposal of Non-performing Financial Assets and Interim Procedures in Non-performing Assets Monitoring and Assessment of Commercial Banking issued by CBRC and other relevant laws and regulations, the bank has established procedures for problem loan management, which are strictly followed for managing and collection of non-performing assets.

Collection/recovery of non-performing assets is currently outsourced to Lending Services North East Asia of ANZ Group. They are responsible for providing expert opinion and technical support for high risk account management i.e. mainly collection for non-performing assets. BL RMC under the delegation of ANZ China Board holds the final decision making power for bad debt write-off. Through entering into Statement of Work (SOW) between ANZ China and Lending Services North East Asia, detailed roles and responsibilities of ANZ China and ANZ Group are defined and the local accountability of supervision and final decision making are highlighted.

6. Green Credit Business

According to ANZ China Green Credit Guide, the bank will support industries and projects ("Preferred") focusing on energy saving and environmental protection and in line with the State Government's Industry Development Guideline, with reference to environmental protection laws and regulations. Priority will be given to industries and customers involving environment and eco-system protection, environment treatment, sewage and waste treatment and recycling, public services, and in particular energy-saving projects. Preferential consideration will be given to industries including advanced information technology, advanced manufacturing, biology, renewable energy (including renewable-energy automobile), and renewable material, subject to meeting ANZ's normal credit underwriting standards.

Report on lending to customers exposed to high environmental risk (if any) is provided to CBRC on regular basis.

B. Retail Credit Risk

ANZ China has strong credit risk management capabilities, primarily identifies, measures, tests and controls relevant credit risk by following retail business risk management policies and procedures in risk limits requirements, risk measurement and monitoring and management information systems.

Retail Credit Risk Management Function, as the integral part of the Risk Department of ANZ China, has responsibilities as follows:

Propose and implement clear policies and procedures covering the whole life cycle of credit to ensure adherence to risk appetite. These include policies and procedures relating to credit approval and risk mitigation. These must conform to the policies established by ANZ China and ANZ Group Risk management.

Ensure adequate and appropriate capability of support and allied functions to risk management such as credit operations, collections, etc. that directly impact credit risk.

Propose and implement policies and procedures relating to the use of vendors, agents, dealers, brokers and other third parties/intermediaries that directly or indirectly impact credit risk (e.g., appraisers, realtors/brokers, law firms, servicing agents, collection agencies etc.). Policies must cover criteria and due diligence required prior to appointment, approval process including credit sign-off required and terms (e.g., recourse for fraud, remittance of funds etc.) and process for periodic audits and reviews.

Monitor adherence to these policies and report any deviations in the performance of the portfolio to China CRO and ML RMC-CMRC as well as to China Retail Risk Management.

Day-to-day responsibility of retail credit management and approve retail credit facilities under delegated authority. Mortgage Coordinator will endorse eligibility of the loan application and the required supporting documents to Retail Credit. The loan will be approved by Retail Credit CAD Holders within their delegated credit authorities.

Identify the post-lending credit risk, monitor the quality of credit assets, collect information and report on credit exposure and risk management situation faced by the bank.

According to the announced "Interim Measures for the Administration of Personal Loans", ANZ China has established and implemented the "Implementation Measures for the Administration of Personal Loans" since May 2010. On the basis of existing retail credit risk management policies and procedures, the Measures has combined the new requirements of regulatory authorities for personal loans, proposed the principles of legality, regulatory compliance, prudential operation, equality, free will, fairness and good faith, and set up an effective control system over the whole process of the personal loan business, laid down the loan management rules and the operating procedures for loans, clearly defined targeted borrowers and scope of each product, implemented differential risk management, and established evaluation and responsibility in pre-lending, loan approval and post-lending stage.

After ANZ China has sold out its entire Retail Business in July 2017, ANZ China did not accept new retail mortgage loan application or provide approval. As of 31 Dec 2017, the Bank only has 16 existing retail mortgage loans with total loan outstanding balance at CNY73m equivalent. At the tail-management stage, the retail credit risk management is focusing on the post-disbursement monitoring, which include the loan collection, non-performing loan enforcement and settlement.

C. Liquidity Risk

The major business which impacts on the Bank's liquidity is traditional business such as customer deposit, wealth management product, interbank borrowing and lending, bond & investment products and customer loans.

Currently, ANZ China uses the mode of centralized fund management, where funding needs of the China branch and business operation units are arranged by Markets, to manage the funds of ANZ China effectively and control the liquidity risk at a low level.

Overall, our bank's current liquidity management framework and procedure can meet the needs of our current business development.

The main components of liquidity management are as follows:

1. Regular update to guidelines and internal limits structure to meet requirement of risk monitoring.
2. Sound internal reporting mechanism with corresponding departments, personnel and Committee, such as Risk Management Committee, Asset and Liability Committee, CRO, Market Risk Function. The Board undertakes ultimate oversight responsibility of the adequacy of liquidity risk management.
3. Specific risk monitoring system to ensure timely and accurate measurement, monitoring and reporting about liquidity risk and management.
4. Regular stress test based on the different scenario settings.
5. Independent internal audit of liquidity risk management.

ANZ China Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity conditions of ANZ China on funding. ALCO holds monthly meetings to discuss major decisions on funding, and reviews the Bank's asset & liability on respective maturity dates. ALCO is responsible for ensuring effective implementation and execution of liquidity management framework. At the monthly meeting, senior management participates in the Bank's liquidity management evaluation, oversees movement and liquidity situation in the balance sheet and discusses relevant risk management.

As of 31 December 2017, the Bank's LCR was at 180.3%, qualifying high quality liquidity assets reached RMB5bn, and the net cash outflow for the future 30-day was expected at RMB2.773bn.

Specifically speaking, the Bank's liquidity management mainly includes the following measures:

1. Liquidity Stress Testing

The Bank's cash flow model assumption setting of all the liquidity stress testing scenarios is based on the combination of external data and professional judgment and ANZ Group standard associated with China market actual liquidity status. Relevant parameters adjustment has been made to accommodate China market actual situation.

ANZ China establishes following liquidity stress testing scenarios:

a. Bank LCR

Scenario "Bank LCR" (Bank LCR) is the most severe crisis scenario and incorporates a combination of both ANZ-specific and market stress factors, including deposit outflows, deterioration of whole funding, increased collateral requirement and credit or liquidity facilities being drawn by customers. The objective of the Bank LCR is to ensure that ANZ China maintains an adequate level of unencumbered High Quality Liquid Assets ('HQLA') that can be converted into cash to meet its liquidity needs for a 30-calendar-day period under a severe liquidity stress scenario.

b. Mild LCR and Moderate LCR

Mild LCR and Moderate LCR are based on Bank LCR, which:

- Moderate LCR with the assumption to take out intragroup outflows - assuming the liquidity stress only exists in China onshore market, ANZ Group can rollover their lending to ANZ China
- Mild LCR with the assumption to take out the 5% outflow of revocable undrawn commitments plus intragroup outflow - assuming the bank can manage not to lend under cancellable commitments

The framework of liquidity metrics is as below table:

Liquidity Scenarios	Limit	Survival Horizon	Compliance Frequency
Mild LCR	>0	30(calendar days)	Quarterly
Moderate LCR	>0	30(calendar days)	Quarterly
Bank LCR	>0	30(calendar days)	Daily

2. Liquidity ratio calculation and management

The Bank also take into consideration relevant liquidity risk ratios upon setting business development planning, mainly including deposit concentration index, loan and deposit monitoring ratio and regulatory liquidity ratios.

3. Liquidity Crisis Contingency Plan

To ensure effective collaboration among each department during the liquidity crisis, ALCO regularly reviews LCCP and conduct annual rehearsal.

D. Market Risk

Currently the major products of China Markets are 1) interest rate and foreign exchange trading, including FX, RMB bond and repo, IRS; 2) Shanghai Gold Exchange and Shanghai Futures Exchange trading; 3) Credit Trading; and 4) bank asset and liability management.

For relevant interest risk, FX risk, Gold risk and credit spread risk arising from above products, the Bank adopts following measures to manage market risk:

- Based on group policies, develop and maintain China Market Risk Guideline to ensure its adaptation to local relevant regulatory requirements and propose to senior management and Board for review and approval; also to ensure the implementation of the guidelines/policies and relevant staff / committee to fully understand responsibilities and authority delegated by the risk management committee.
- Conduct risk exposure monitoring, analysis and timely communicate with Markets, Finance, Operations and other relevant supporting departments to handle the issues etc.
- Conduct limits assessment, manage the approval process and collaborate with Group Market Risk team to ensure the consistency of the limits framework.
- Conduct limits excess management and report to senior management, RMC / ALCO.
- Collaborate with new product committee to identify and assess market risk arising from new products and projects.
- Report market risk situation to RMC and ALCO.

In addition, the Bank applies following measurement and procedure to carry out overall management and monitoring.

1. Risk model

The main model used for quantifying market risk at ANZ China is VaR. This method is a statistical risk measurement of maximum expected loss (within the level of confidence) on a specific portfolio of financial assets during the holding period.

EaR is applied to ANZ China Banking Book. EaR is an estimate of the amount of the next 12 months' income that is at risk from interest rate movements over a 1 month holding period, expressed to a 97.5% level of statistical confidence. It is calculated by applying a statistically derived interest rate shock to a static repricing gap profile.

2. Limits setting, approval and excess management

The authority framework of limit setting and limit excess is an important component of market risk management. Based on bank's strategy, development and business requirements, market risk function regularly carries out limits assessment, review and adjustment. The Board is responsible for ultimate authorization of market risk arising from the trading and approves Market Risk Appetite, i.e. VaR, EaR and CLL. The RMC/ALCO approves other detailed control limits on the basis of the Bank's risk appetite. Excess record would be reported to monthly ML RMC-CMRC/ALCO for approval and tabled to quarterly board level RMC for noting.

ANZ China market risk limits framework is mainly composed of:

- Value at Risk: 99% confidence level with one day holding period.
- Earnings at Risk: 97.5% confidence level with one month holding period.
- Cumulative Loss Limits: these limits aim to stop trading for senior management to review trading strategy and markets situation from front office. The monitoring is

based on YTD, MTD and consecutive days' actual profit and loss. Any loss over the limits means limits excess.

- Detailed Control Limits: these limits aim to provide detailed control on specific risks as a supplement to the VaR.

3. Stress testing and Back testing

Stress testing of ANZ China is testing the behaviour of book trading account and balance sheet under extreme market fluctuation. Monitoring the accuracy of back testing and stress testing model to ensure it is compliant with regulatory requirements. The Board Level Risk Management Committee regularly reviews the setting and result of stress testing.

The result of stress test on market risk as of 29 December 2017 can be found as below.

Desk	Stress Scenario	EOM Outcome (AUD'000)	Comments
Traded - IR	Yield Down-Vol Up	-11,624	Driven by LM desk overall pay position of -78k on net 1y bucket. The result within the A$25m stress trigger.
Traded - FX	Spotdn_VolUp	-8,522	Driven by SGE desk $128m long XAU NPV. The result is within the A$30m stress trigger.
Non-Traded	-(Shift + Twist + Bend)	-13,536	The stress loss mainly came from CNY position, i.e. downward movements of the curve by 167-254bp with DV01 of -68kAUD/bp on the tenors below 3Y. The result is within the 35m stress trigger.

The results were below the thresholds and risk exposure was manageable.

4. Internal management reporting

Markets Risk prepares monthly risk report to ML RMC-CMRC and ALCO for review. The market risk management issues would be discussed and reviewed by board level RMC at its quarterly meeting.

In general, the current capability of market risk management at the Bank aligns with the requirements of business development.

E. Operational Risk

1. Operational risk management structure

ANZ China has a comprehensive risk management structure. The Bank implemented three lines of defense on risk management:

- First line of defense: All business teams and enablement teams; its main responsibilities are the implementation of operational risk control and monitoring during daily operations.

- Second line of defense: Management Level Risk Management Committee – Operational Risk & Compliance Committee chaired by Chief Risk Officer of the Bank, Operational Risk governance role under risk team, and Compliance team; its main responsibilities are to supervise the first line of defense performance and to provide guidance on risk management.

- Third line of defense: Internal Audit team; its main responsibilities are to independently assess and evaluate the execution of operational risk management of the Bank by business teams and enablement team.

The China Board and Board Level Risk Management Committee are overall responsible for the overall risk management of the Bank. As the first line of defense, Operational Risk team reports into Chief Operating Officer of the Bank. Head of Operational Risk is leading operational risk management team and quality assurance team.

To further enhance operational risk control, there is a role of risk champion set up in each business team and enablement team. They are responsible for coordinating operational risk management between business team/enablement team and operational risk team, so that operational risk could be properly identified, assessed, managed and controlled.

ANZ China categorizes operational risk in line with the following seven loss event categories, as defined by local regulator or group policy:

- Internal Fraud
- External Fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption
- Execution, delivery and process management

2. Risk management platform

<ANZ China Operational Risk Management Policy> outlines the minimum requirements for the measurement and management of operational risk at the Bank, and integrated into day-to-day business management.

Each business team has BU Risk Forum on a regular basis. The forum is held by business head, with attendance from operational risk team, compliance, operation support team. During the meeting, the business head will summarize the recent risk matters. The medium and low risk matters would be discussed and expected to be resolved at the forum; the high risk matters or significant medium risk matters would be further escalated to ML RMC-ORCC.

ML RMC-ORCC is held at least 9 times a year. The Committee is chaired by Chief Risk Officer, with attendance of all business heads and supporting function heads. The committee will address the emerging risks resulting from internal and external environment changes, regulation changes, KRI changes, loss and events, audit findings, QA results, strategy and organization changes, new product and new system changes, also external loss data, discuss the key operational risks, and adjust the risk rating if necessary, discuss the related solutions and management focus of the next phase, and review/monitor the following remediation.

Board Level Risk Management Committee is held on a quarterly basis. Chief Operating Officer presents the operational risk update and the risk management priorities going forward.

3. Operational Risk Capital Allocation and Loss

ANZ China calculates and maintains appropriate operational risk capital according to local regulatory requirements.

ANZ China is currently adopting the basic indicator approach which holds capital for operational risk equal to the average over the previous three years of 15 percentage of operating income.

In 2017, there were 30 operational risk events in ANZ China, with total loss around RMB300.

V. Corporate Governance

1. Board Composition and Board Performance

As of 31st December 2017, the Board of ANZ China composes of:

Chairman – Farhan Faruqui

Executive Director – Huang Xiaoguang

Non-Executive Director – Warwick Smith

Independent Director– Zhao Jiusu

Independent Director – Shen Minggao

The Board of Directors is mainly responsible for such major decisions as business plans, and reports to the Shareholder and implements the Shareholder resolutions. The Board takes up the ultimate responsibility for the business performance and financial status.

The Board has set up Connected Party Transaction Control Committee, Risk Management Committee, Audit Committee and Remuneration Committee.

The Board has actively fulfilled its fiduciary duty and duty of care in 2017. In 2017, the Board and its specialised committees have fulfilled its respective duties under our governance structure in accordance with laws, regulations, regulatory requirements, Articles of Association and relevant charters. The Board held its regular meetings on 23 February, 11 May, 8 September and 6 December in 2017 to receive regular updates from senior management on business performance, human resources, key IT projects, key regulation update and implementation status, and to review and discuss the bank's development strategy, financial plan, internal authority matrix, and external auditor's engagement and audit fees, etc.

2. Supervisor

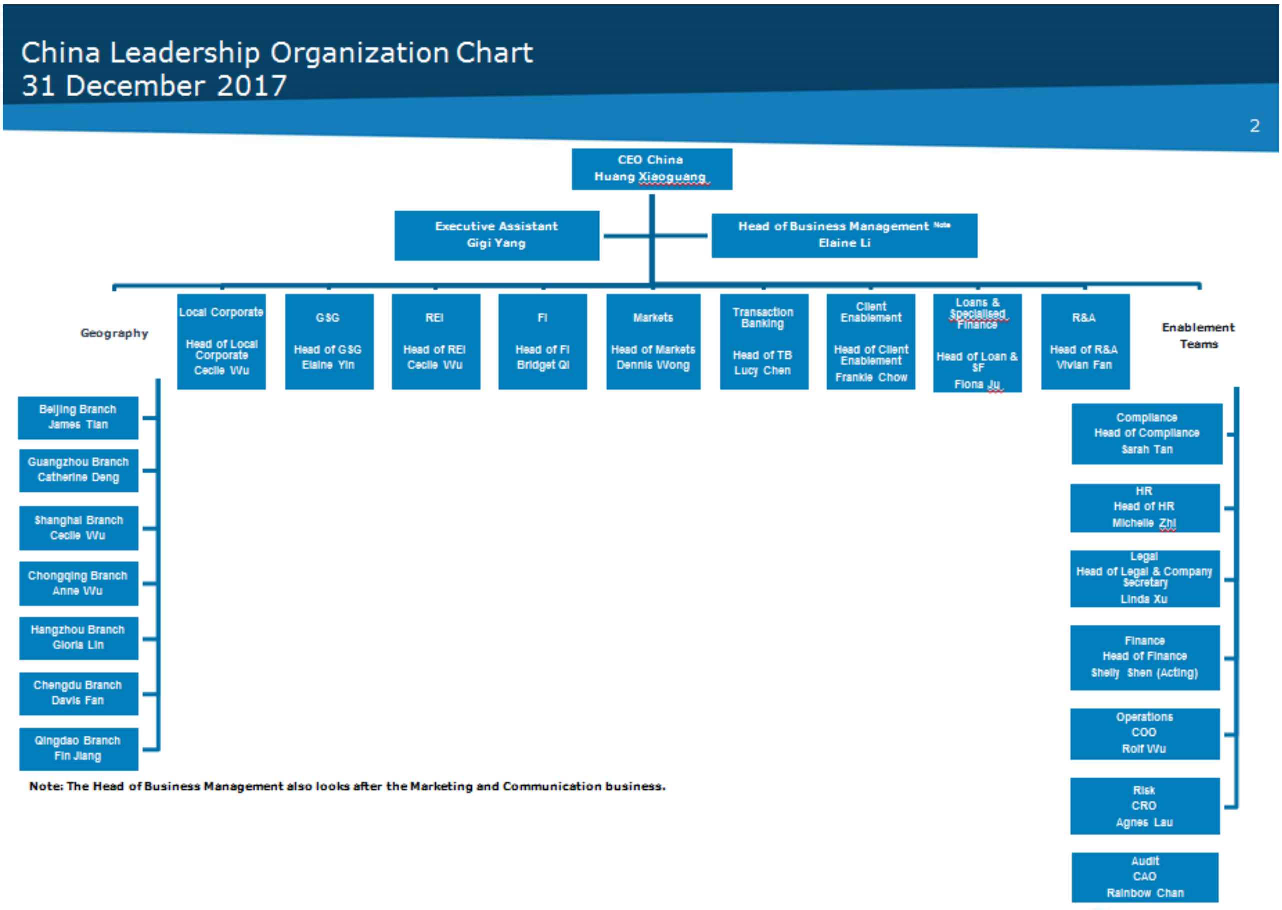
ANZ China has one Supervisor, Mr. Tim Bezencon, who is appointed by the Shareholder.

The Supervisor is responsible to Shareholder and reports to Shareholder. The Supervisor attends Board meetings and Risk Management Committee meetings, reviews Board pack, receives reports from senior management at board meeting, and participates in discussion from the perspective of Supervisor, examines the bank's financial status and supervise the performance of directors and senior management and report to the Shareholder accordingly.

3. Independent Directors

The Independent Directors owe duty of loyalty and duty of care to ANZ China and its Shareholder. The Independent Directors fulfil their duties independently in accordance with PRC laws and regulations and Articles of Association to protect the overall interest of ANZ China. In the year 2017, Mr. Shen Minggao and Mr. Zhao Jiusu actively participated in the discussion and decisions at the Board meetings, expressed their objective and independent opinions, and paid special attention to protect the depositors' interest. Mr. Shen Minggao is the chairman of the Audit Committee and member of Risk Management Committee. Mr. Zhao Jiusu is the chairman of Connected Party Transaction Control Committee and Remuneration Committee, and also a member of Risk Management Committee and Audit Committee.

4. Organizational Chart – as of 31st December 2017



5. Overall Assessment of Corporate Governance

The Bank has a sound corporate governance structure. There are clear roles and boundaries among Shareholder, Board of Directors, Supervisor and Senior Management. Various governance entities operate independently with effective checks and balance. In addition, our Directors, Supervisor and Senior Management possess sound professional background, business skills, professional ethics and industry experience.

VI. Remuneration

As per the Article 22 of Supervisory Guidelines on Sound Compensation in Commercial Banks and Attachment 15 of Administrative Measures for the Capital of Commercial Banks (for Trial Implementation), we hereby disclose the remuneration information as below:

1. The remuneration management framework and approval procedures, including the composition and limit of authority of the compensation management committee (team)

- Setup of Rem Management Committee： The REM Committee is established on April 2016, and report to the Board of ANZ China. REM Committee is comprised of 3 directors and the Chairman of the Committee is assumed by Independent Director Zhao Jiusu. The REM Committee will meet at least once annually and more frequently if it deems necessary.
- Duties and Responsibilities of REM Committee: Subject to any requirement to keep the China Board informed of its activities, and to any conflicting legal or regulatory requirements, the REM Committee has power to deal with all matters falling within the scope of its purpose and duties as set out in its Charter and all other matters that may be delegated by the China Board to the REM Committee from time to time, including:
    - the review and approval of annual Performance and Remuneration Review outcomes for ANZ China employees in aggregate;
    - the review and approval of updates to the ANZ China Remuneration Operating Guidelines;
    - Set and review annual working plan of the China Remuneration Committee, including the review of the annual internal Remuneration and Performance Evaluation Audit findings for ANZ China to ensure compliance with the legal and regulatory requirements on remuneration;
    - Make recommendations on any other matters referred to the REM Committee by the Chair of the REM Committee or by the China Board; and
    - Review the terms of this Charter on an annual basis, and where appropriate, recommend any changes to the China Board.

2. The total annual compensation, beneficiaries, and the composition and distribution of compensation

- The total 2017 annual remuneration amount is CNY401,700,000, inclusive of fixed and variable compensation (exclude benefits).
- Remuneration structure: The ANZ remuneration structure includes fixed compensation, variable compensation and benefits, and the benefits include commercial insurance, housing fund etc.

3. The standards for compensation and performance measurement and risk adjustments

- Individual remuneration outcomes are discretionary and linked to both ANZ and individual performance outcomes for all employees. Each individual's performance is assessed at year end against their agreed balanced scorecard of financial and non-financial objectives. Objectives are set and measured against four categories of measures (Financial, Customer, Process/Risk and People), and reflect ANZ's commitment to ensure a balanced approach is taken in measuring employee performance. These four categories will have different levels of importance for employees across ANZ depending on their role. The focus on different categories may also change from year to year within the one role. To reflect the relative importance of the different categories, line managers and employees must agree on a weighting to be assigned to each category. The weighting for each category must be no less than 15% and no more than 50%. Overall, the weightings for all categories must add up to 100%. All four categories of objectives are important for all employees across ANZ, regardless of their role or responsibilities. Specific objectives listed under each of the four categories can also be weighted. This is useful to place particular emphasis on a specific objective within the one category, but is not necessary if all the objectives within a category are of equal importance. Demonstration of ANZ's Values, the way employee's behave and the risk/compliance standards they adhere to are core to ANZ's culture, have a direct impact on business results and play a key role in the performance assessment process. It is essential all employees are aware of the standards of behaviour and risk/compliance that are expected of them. Failure to meet the required standards of demonstrating ANZ's Values, behaviour and risk/compliance during the year will impact an employee's values assessment and will be taken into account in the employee's performance and remuneration outcomes.

4. The information about deferred compensation payouts and non-cash compensation, including the information about clawbacks for some reasons

- Deferral and non-cash payment of variable compensation: Mandatory deferral places an increased emphasis on having a variable structure that is flexible, continues to be performance linked, has significant retention elements and motivates employees to drive continued performance over the longer term. The deferral part is granted as ANZ equity which vests at the end of 1, 2 and 3 years. The determination and payment of overall performance based compensation will be approved by the Board of Directors in advance. At the end of the relevant deferral period, the consent of the ANZ BGL Board is required before the deferred amount is released.
- No malus or clawback of variable compensation occurred in the year 2017.

5. The information about compensation of the board of directors, senior management, and those employees in posts having material impact on risks of the bank

- Board members (as of 31 December 2017) - refer to Part V 'Corporate Governance' Section 1 'Board Composition'.
- As of 31 December 2017, total fixed compensation paid to the Independent Directors is CNY 700,000.
- The roles of senior managements and those employees in posts having material impact on risks of the bank are set forth as below; the list of the roles will be adjusted from time to time.

Category	Position
Senior Management	China CEO
	Chief Risk Officer
	Chief Finance Officer
	Chief Operating Officer
	Chief Audit Officer
	Head of REI / GM Shanghai
	Head of GSG
	Head of Markets
	Head of Transaction Banking
	Head of Financial Institutions
	Head of R&A
	Head of Loan Syndications
	Head of Business Management
	Head of Compliance
	Head of Legal and Company Secretary
	Head of Talent & Culture
	GM Beijing
	GM Guangzhou
	GM Hangzhou
	GM Chongqing
	GM Chengdu
	GM Qingdao
	Head of Retail (January – September 2017)
Roles with material impact on the risk	Head of Credit Risk China
	Director, Markets Risk

- As of 31 December 2017, total income (exclude benefits) paid to senior managements and those employees in posts having material impact on risks of the bank is CNY 103,500,000 and paid part of incentive bonus is CNY 20,260,000 and the deferral part is CNY 15,090,00.

6. The preparation and filing of the annual compensation plan, and the information about the assessment of the accomplishment of the indicators on economy, risks and social responsibilities

- It is essential that all employees are aware of the standards of ANZ Values, behaviour and risk/compliance that are expected of them. Failure to meet the required standards during the year will result in a negative impact to performance and remuneration outcomes.
- ANZ also review staff's compliance with external laws and regulations and internal process and regulator's feedback on regular basis, and inform the senior management team in a timely manner.
- From bank level, we ensure close monitor and supervision on our position on regulatory index such as capital adequacy ratio and provision.
- For front-line positions that have major impact on the risk, risk related performance targets such as the credit quality of clients, adherence to internal risk preference, and ensuring no regulatory breach as 1st line of defence have all been incorporated and will have direct impact on employee's performance outcome.

7. The exceptions to the original compensation plan, including the affecting factors, and the composition, form, number and beneficiaries of the compensation changes

- No exceptions to the original compensation plan occurred in 2017 financial year.

8. Remuneration Policy

- The ANZ China Remuneration Operating Guideline is updated on annual basis. ANZ has updated ANZ China Remuneration Operating Guideline in 2017 and received the approval from Remuneration Committee. In the Guideline, the Remuneration structure, fix remuneration and variable remuneration are introduced, and the Guideline is applicable to all staff of ANZ China.

VII. Significant Matters

- The transfer of ANZ China's Retail business to DBS China was completed on 15 July 2017.

- In September 2017, ANZ announced its sale of 20% stake in Shanghai Rural Commercial Bank (SRCB) to China COSCO Shipping Corporation Limited and Baoshan Iron & Steel Co., Ltd. The sale remains subject to customary closing conditions and regulatory approvals.

VIII. Financial Statements

Our financial statements have been audited by KPMG and find the details in attached audit accounts.

IX. Network and Contact

(as of 31 December, 2017）

ANZ China Network	Address	Telephone	Fax
ANZ China Headquarter	15th, 17th, 12th Floor Unit 12B, Mirae Asset Tower, 166 Lujiazui Ring Road Pudong, Shanghai	+86 21 6169 6000	+86 21 6169 6199
Shanghai Branch	Unit A,C,D,E &F, 12F, Mirae Asset Tower, No. 166 Lujiazui Ring Road Pudong, Shanghai	+86 21 6169 6223	+86 21 6169 6229
Shanghai Free Trade Zone Sub-branch	Unit 501-505,507, 3UDC Building, 2 Hua Jing Road, Shanghai	+86 21 6010 9888	+86 21 6010 9899
Beijing Branch	Unit 01A,02,03,05A,07, Floor 32, Tower 3, China Central Place, No. 77 Jianguo Road, Chaoyang District, Beijing	+86 10 6599 8188	+86 10 8588 8696
Guangzhou Branch	Room 2002, 20F, International Finance Place 8 Huaxia Road, Pearl River New Town, Guangzhou	+86 20 3814 1088	+86 20 3814 1077
Chongqing Branch	11F, Metropolitan Tower, 68 Zourong Road, Yuzhong District, Chongqing	+86 23 8810 5900	+86 23 8810 5971
Hangzhou Branch	Unit302-303,Building 1 (C),Euro America Center (EAC),18 Jiao Gong Road, Hangzhou	+86 571 2689 0888	+86 571 2689 0877
Chengdu Branch	Unit No. 3 on Level 30 of Office Tower 1, International Finance Square, No. 1, Section 3, Hongxing Road, Jinjiang District, Chengdu, Sichuan	+8628 6872 1911	+8628 6872 1901
Qingdao Branch	Unit 2502-2503, Shangri-la Centre, No.9, Xianggang Zhong Road, Shinan District, Qingdao	+86 532 81633688	+86 532 81633608

Australia and New Zealand Bank
(China) Company Limited

English translation of financial statements
for the year 1 January 2017 to 31 December 2017
If there is any conflict of meaning between the Chinese version
and its English translation, the Chinese version will prevail

AUDITORS' REPORT

毕马威华振沪审字第 1801174 号

The Board of Directors of Australia and New Zealand Bank (China) Company Limited:

Opinion

We have audited the accompanying financial statements of Australia and New Zealand Bank (China) Company Limited ("the Bank") set out on pages 1 to 80 which comprise the balance sheet as at 31 December 2017, the income statement, the cash flow statement and the statement of changes in owner's equity for the year then ended, and notes to the financial statements.

In our opinion, the allowance for impairment losses of loans and advances to customers is recognised in all material respects in accordance with the preparation basis as stated in Note 2 to the financial statements, and the rest of the Bank's financial statements are in all material respects in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. On this basis, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and the financial performance and the cash flows of the Bank for the year then ended.

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("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 are independent of the bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The bank's management is responsible for the other information. The other information comprises all the information included in 2017 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.

Other Information (continued)

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 is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises and the requirement of CBRC for the allowance for impairment losses of loans and advances to customers as stated in Note 2 to the financial statements, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Auditors' 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 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 judgement 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.

毕马威华振沪审字第 1801174 号

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.

- 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 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 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.

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.

KPMG Huazhen LLP
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of China

Li Ying
(Signed on Chinese original)

Shanghai, China

Xue Ying
(Signed on Chinese original)

Date:

Australia and New Zealand Bank (China) Company Limited
Balance Sheet as at 31 December 2017
(Expressed in RMB)

	Note	*2017*	*2016*
Assets:			
Cash and deposits with central bank	*6*	4,011,580,686.46	7,714,575,969.36
Deposits with financial institutions	*7*	3,996,969,830.59	3,686,582,154.94
Precious metals		191,704,089.28	95,386,827.52
Placements with financial institutions	*8*	11,497,391,957.97	7,820,803,882.12
Financial assets at fair value through profit or loss	*9*	2,532,272,011.02	2,405,760,816.22
Derivative financial assets	*10*	5,280,407,674.61	5,368,793,639.45
Interest receivable	*11*	243,586,555.68	249,077,164.61
Loans and advances to customers	*12*	9,166,907,014.87	14,162,409,363.55
Available-for-sale financial assets	*13*	3,901,214,137.39	3,094,558,815.30
Fixed assets	*14*	43,778,391.78	46,607,034.50
Intangible assets	*15*	17,661,034.53	26,683,423.05
Deferred tax assets	*16*	92,973,974.20	-
Other assets	*17*	1,922,809,476.40	2,326,436,571.72
Total assets		42,899,256,834.78	46,997,675,662.34

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Balance Sheet as at 31 December 2017 (continued)
(Expressed in RMB)

	Note	*2017*	*2016*
Liabilities:			
Deposits from financial institutions	*18*	1,403,157,739.88	1,672,349,962.08
Borrowings from financial institutions	*19*	6,524,847,048.90	8,910,436,422.84
Financial assets sold under repurchase agreements	*20*	2,175,800,000.00	1,669,800,000.00
Derivative financial liabilities	*10*	5,301,312,875.53	4,975,296,481.06
Customer deposits	*21*	17,800,354,372.89	20,511,376,286.06
Interest payable	*22*	49,671,860.56	70,640,520.49
Employee benefits payable	*23*	32,015,482.37	24,149,824.82
Taxes payable	*24*	139,755,062.51	89,139,570.73
Deferred tax liabilities	*16*	-	9,146,821.02
Other liabilities	*25*	1,817,984,969.49	1,318,572,856.99
Total liabilities		35,244,899,412.13	39,250,908,746.09

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Balance Sheet as at 31 December 2017 (continued)
(Expressed in RMB)

	Note	*2017*	*2016*
Owner's equity:			
Paid-in capital	*26*	6,225,000,000.00	6,225,000,000.00
Other comprehensive income	*27*	(28,369,820.35)	(6,070,926.75)
Surplus reserve	*28*	152,168,985.32	139,530,045.32
General reserve	*29*	200,028,578.49	200,028,578.49
Retained earnings		1,105,529,679.19	1,188,279,219.19
Total owner's equity		7,654,357,422.65	7,746,766,916.25
Total liabilities and owner's equity		42,899,256,834.78	46,997,675,662.34

These financial statements were approved by the Board of Directors of Australia and New Zealand Bank (China) Company Limited.

Xiaoguang Huang Chief Executive Officer	Loh Kah Lee Acting Chief Financial Officer	Australia and New Zealand Bank (China) Company Limited (Stamp)

Date:

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Income Statement for the year ended 31 December 2017
(Expressed in RMB)

	Note	*2017*	*2016*
Operating income		922,765,308.10	1,322,292,083.96
Net interest income	*31*	372,403,174.76	462,205,513.80
Interest income		983,235,365.92	962,515,495.02
Interest expenses		(610,832,191.16)	(500,309,981.22)
Net fees and commission income	*32*	171,069,233.01	223,376,906.52
Fees and commission income		211,981,481.51	260,148,366.00
Fees and commission expenses		(40,912,248.50)	(36,771,459.48)
Investment income	*33*	401,218,834.38	247,579,298.76
(Losses) / gains from changes in fair value	*34*	(434,793,137.44)	184,812,006.28
Foreign exchange gains		407,799,820.37	204,318,358.60
Other income	*35*	5,067,383.02	-
Operating expenses		(760,164,818.25)	(915,099,381.60)
Taxes and surcharges		(5,987,601.67)	(25,010,066.84)
General and administrative expenses	*36*	(806,436,244.32)	(838,878,421.81)
Reversal / (provision) of impairment losses	*37*	62,693,991.37	(51,183,167.01)
Losses from asset disposals	*38*	(2,624,162.15)	(27,725.94)
Other operating expenses		(7,810,801.48)	-
Operating profit		162,600,489.85	407,192,702.36
Add: Non-operating income	*39*	14,649,986.82	27,615,883.55
Less: Non-operating expenses		(3,349.56)	(1,002,293.80)
Profit before tax		177,247,127.11	433,806,292.11
Less: Income tax expense	*40*	(50,857,727.11)	(106,263,225.75)
Net profit		126,389,400.00	327,543,066.36
Other comprehensive income, net of tax subsequently classified to profit and loss	*41*		
- Losses arising from changes in fair value of available-for-sale financial assets		(18,950,226.08)	(34,106,293.30)
- Effective portion of losses arising from cash flow hedging instruments		(3,348,667.52)	-
Total comprehensive income		104,090,506.40	293,436,773.06

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2017
(Expressed in RMB)

	Note	*2017*	*2016*
Cash flows from operating activities:			
Net decrease in deposits with central bank and financial institutions		3,124,751,758.29	-
Net decrease in financial assets at fair value through profit or loss		-	255,592,734.65
Net decrease in loans and advances to customers		5,058,801,012.76	-
Net increase in deposits from customers and financial institutions		-	5,857,601,385.57
Cash received from interest, fees and commission		1,202,060,863.45	1,222,330,044.27
Other cash received relating to operating activities		1,750,692,521.11	809,657,971.13
Sub-total of cash inflows		11,136,306,155.61	8,145,182,135.62
Net increase in deposits with central bank and financial institutions		-	(4,267,646,049.76)
Net increase in financial assets at fair value through profit or loss		(141,028,732.25)	-
Net decrease in placements with financial institutions and financial assets purchased under resale agreements		(2,333,350,668.01)	(348,693,105.33)
Net increase in loans and advances to customers		-	(989,153,098.14)
Net increase in available-for-sale financial assets		(831,922,290.19)	(411,228,271.99)
Net decrease in deposits from customers and financial institutions		(2,980,214,135.37)	-
Net decrease in borrowings from financial institutions and financial assets sold under repurchase agreements		(1,879,589,373.94)	(4,711,056,990.99)
Cash paid for interest, fees and commission		(671,904,618.35)	(498,547,025.71)
Cash paid to and for employees		(460,463,425.83)	(450,277,616.13)
Cash paid for all types of taxes		(110,169,173.78)	(123,090,258.10)
Other cash paid relating to operating activities		(317,012,869.12)	(1,831,345,360.89)
Sub-total of cash outflows		(9,725,655,286.84)	(13,631,037,777.04)
Net cash flow generated from / (used in) operating activities	42(1)	1,410,650,868.77	(5,485,855,641.42)

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2017 (continued)
(Expressed in RMB)

	Note	*2017*	*2016*
Cash flows from investing activities:			
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		(8,249,623.12)	(8,461,075.30)
Sub-total of cash outflows		(8,249,623.12)	(8,461,075.30)
Net cash outflow from investing activities		(8,249,623.12)	(8,461,075.30)
Cash flows from financing activities:			
Payment for profit distributions		(196,500,000.00)	-
Sub-total of cash outflows		(196,500,000.00)	-
Net cash outflow from financing activities		(196,500,000.00)	-
Effect of foreign exchange rate changes on cash and cash equivalents		(125,277,327.40)	143,874,526.24
Net increase / (decrease) in cash and cash equivalents	*42(2)*	1,080,623,918.25	(5,350,442,190.48)
Add: Cash and cash equivalents at the beginning of the year		8,709,423,928.05	14,059,866,118.53
Cash and cash equivalents at the end of the year	*42(3)*	9,790,047,846.30	8,709,423,928.05

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Statement of Changes in Owner's Equity for the year ended 31 December 2017
(Expressed in RMB)

	Note	*Paid-in capital*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Total*
Balance at 1 January 2017		6,225,000,000.00	(6,070,926.75)	139,530,045.32	200,028,578.49	1,188,279,219.19	7,746,766,916.25
Changes in equity during the year							
1. Other comprehensive income		-	(22,298,893.60)	-	-	126,389,400.00	104,090,506.40
2. Appropriation of profits							
- Surplus reserve	*28, 30*	-	-	12,638,940.00	-	(12,638,940.00)	-
- Distributions to owner	*30*	-	-	-	-	(196,500,000.00)	(196,500,000.00)
Sub-total of 1 & 2		-	(22,298,893.60)	12,638,940.00	-	(82,749,540.00)	(92,409,493.60)
Balance at 31 December 2017		6,225,000,000.00	(28,369,820.35)	152,168,985.32	200,028,578.49	1,105,529,679.19	7,654,357,422.65

The notes on pages 9 to 80 form part of the financial statements.

Australia and New Zealand Bank (China) Company Limited
Statement of Changes in Owner's Equity for the year ended 31 December 2016
(Expressed in RMB)

	Note	*Paid-in capital*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Total*
Balance at 1 January 2016		6,225,000,000.00	28,035,366.55	106,775,738.70	200,028,578.49	893,490,459.45	7,453,330,143.19
Changes in equity during the year							
1. Other comprehensive income		-	(34,106,293.30)	-	-	327,543,066.36	293,436,773.06
2. Appropriation of profits - Surplus reserve	*28, 30*	-	-	32,754,306.62	-	(32,754,306.62)	-
Sub-total of 1 & 2		-	(34,106,293.30)	32,754,306.62	-	294,788,759.74	293,436,773.06
Balance at 31 December 2016		6,225,000,000.00	(6,070,926.75)	139,530,045.32	200,028,578.49	1,188,279,219.19	7,746,766,916.25

The notes on pages 9 to 80 form part of the financial statements.

1 General information

Australia and New Zealand Bank (China) Company Limited ("ANZ China" or "the Bank") is a wholly foreign-owned corporate bank incorporated in Shanghai, the People's Republic of China ("the PRC"), by Australia and New Zealand Banking Group Limited ("ANZ" or "the parent bank").

The Bank obtained a Business Licence for Enterprise on 16 September 2010. As stated in the Bank's Business Licence, the Bank has an undefined operating period. The Bank's business scope includes foreign currency business and RMB business to kinds of clients approved by relevant authorities.

The Bank closed 3 sub-branches in 2017. As at 31 December 2017, the Bank has established 7 branches and 1 sub-branch in Shanghai, Beijing, Guangzhou, Chongqing, Hangzhou, Chengdu and Qingdao.

2 Basis of preparation

These financial statements have been translated into English from the Bank's statutory financial statements issued in the PRC in Chinese.

The financial statements have been prepared on the basis of going concern.

(1) The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises - Basic Standard" issued by the Ministry of Finance ("the MOF"); in addition, allowance for impairment losses of loans and advances to customers, are determined on the basis of the requirements of China Accounting Standards ("CAS"), with reference to the relevant regulations of "*the Administrative Measures on Loan Loss Provision of Commercial Banks*" (Decree of the CBRC [2011] No. 4) as issued by the CBRC. If the difference between the allowance for impairment losses of loans and advances to customers calculated based on the Decree of the CBRC [2011] No. 4 (See Note 3(8)(a)) and that based on CAS is higher than zero, the difference will be recognised as an additional allowance for impairment losses of loans and advances to customers and form part of total allowance for impairment losses of loans and advances to customers. These accounting policies should be compliant with relevant regulations and reporting requirements of other authorities.

On above basis, the financial statements present truly and completely the financial position of the Bank as at 31 December 2017, and the financial performance and the cash flows of the Bank for the year then ended.

(2) Accounting year

The Bank's accounting year is from 1 January to 31 December.

(3) Functional currency and presentation currency

The Bank's functional currency is RMB and these financial statements are presented in RMB. Functional currency is determined by the Bank on the basis of the currency in which major income and costs are denominated and settled.

3 Significant accounting policies and accounting estimates

(1) Translation of foreign currencies

When the Bank receives capital in foreign currencies from the investor, the capital is translated to RMB at the spot exchange rate at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or rates that approximate the spot exchange rates on the dates of the transactions.

A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period or the weighted average exchange rate.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to RMB using the exchange rate at the transaction date.

(2) Financial instruments

Financial instruments of the Bank comprise cash and deposits with central bank, deposits with financial institutions, placements with financial institutions, financial assets purchased under resale agreements, financial assets at fair value through profit or loss, derivative financial assets, loans and advances to customers, available-for-sale financial assets, deposits from financial institutions, borrowings from financial institutions, financial assets sold under repurchase agreements, derivative financial liabilities, customer deposits, employee benefits payable, accounts receivable, accounts payable and paid-in capital, etc.

(a) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

Subsequent to initial recognition, financial assets and liabilities are measured as follows:

- Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

- Loans and receivables mainly comprise loans and advances to customers, deposits with central bank, deposits with financial institutions, placements with financial institutions and financial assets purchased under resale agreements.

- Loans and receivables are measured at amortised cost using the effective interest method.

- Held-to-maturity investments are measured at amortised cost using the effective interest method. As at the balance date, the Bank has no held-to-maturity investments.

- Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost. Other available-for-sale financial assets are measured at fair value and changes therein are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Dividend income is recognised in profit or loss when the investee approves the dividends. Interest is recognised in profit or loss using the effective interest method.

- Financial liabilities other than those at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. However, a financial guarantee issued by the Bank is subsequently measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles for contingent liabilities.

(b) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are generally presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Bank currently has a legally enforceable right to set off the recognised amounts; and

- the Bank intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(c) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when one of the following conditions is met:

- the Bank's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Bank transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Bank neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity

The Bank derecognises a financial liability (or part of it) only when its underlying present obligation (or part of it) is discharged, cancelled or expires.

(d) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with the above Note (a) and (b).

(e) Financial assets purchased under resale and financial assets sold under repurchase agreements

The cash advanced or received is recognised as amounts purchased under resale or sold under repurchase agreements in the balance sheet. Assets purchased under resale agreements are reported not as purchase of the assets but recorded as off-balance sheet items. Underlying assets sold under repurchase agreement are retained in the balance sheet.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised as interest income and interest expenses respectively, over the life of each agreement using the effective interest method.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted deposits with central bank, deposits and placements with financial institutions, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Bank principally for non-trading purpose are initially recognised at cost and re-measured at lower of cost or net realisable value. Precious metals that are acquired by the Bank principally for trading purpose are measured at fair value with changes in fair value recognised in profit or loss.

(5) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Bank for operation and administrative purposes with useful lives over 1 year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(8)(b)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(8)(b)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs and any other costs directly attributable to bringing the asset to working condition for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Bank, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful lives, unless the fixed asset is classified as held for sale. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Class of fixed assets	*Estimated useful life*	*Residual Value rate*	*Depreciation rate*
Office furniture	10 years	0%	10%
Office equipment	8 years	0%	12.5%
Computers	5 years	0%	20%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(6) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

(7) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(8)(b)).

For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised on the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale. The intangible assets of the Bank are software with 3 to 10 years estimated useful lives and no residual value.

(8) Impairment of assets

Except for impairment of assets in Note 3(14), impairment of assets is accounted for using the following principles:

(a) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

- Loans and receivables and held-to-maturity investments

Loans and receivables and held-to-maturity investments are assessed for impairment based on the following principles on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a loan or receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where loans or receivables or held-to-maturity investments share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting present economic conditions.

According to relevant regulations of "*the Administrative Measures on Loan Loss Provision of Commercial Banks*"(Decree of the CBRC [2011] No.4), loan loss provision rate shall not be, in principal, lower than 2.5%, and loan loss provision coverage rate shall not be, in principal, lower than 150%. The higher of the above two rates shall be the regulatory standard for commercial banks. As at 31 December 2017, the total allowance for impairment losses of loans and advances to customers the Bank recognised was RMB235,256,866.53, of which, the additional allowance made is RMB187,750,690.90, with a loan loss provision rate of 2.5% (31 December 2016: amount of RMB363,445,665.45, with an additional allowance of RMB226,150,987.33, and a loan loss provision rate of 2.5%). As at 31 December 2017, the Bank has met the regulatory requirements.

If, after an impairment loss has been recognised on loans or receivables or held-to-maturity investments, there is a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding what the amortised cost at the date of impairment reversal would have been had no impairment loss been recognised in prior years.

- Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from a decline in fair value that has been recognised directly in equity is reclassified to profit or loss even though the financial asset has not been derecognised. The reclassified amount of the cumulative loss is the difference between the acquisition cost less any principal repayment and amortisation, and the current fair value less any impairment losses on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss on an investment in an unquoted equity instrument whose fair value cannot be reliably measured is not reversed.

(b) Impairment of other assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets and construction in progress
- intangible assets
- other long-term assets

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Bank estimates the recoverable amounts of intangible assets not ready for use at least once a year irrespective of whether there is any indication of impairment.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value less costs to sell and the present value of expected future cash flows (see Note 3(9)).

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, is reduced the carrying amount of the assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be lower than the greatest amount of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(9) Fair value measurement

Unless otherwise specified, the Bank measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Bank takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(10) Employee benefits

(a) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(b) Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the People's Republic of China, the Bank participated in a defined contribution basic pension insurance plan in the social insurance system established and managed by government organisations. The Bank makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(c) Termination benefits

When the Bank terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Bank cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;

- When the Bank has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(d) Other long-term employee benefits

The deferred remuneration for the employees of important management positions is recognised as a liability as the employee provides services, with a corresponding charge to profit or loss.

(11) Provisions

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

(12) Revenue recognition

Revenue is the gross inflow of economic benefits arising in the course of the Bank's ordinary activities when those inflows result in increase in equity, other than increases relating to contributions from owners. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the revenue and costs can be measured reliably and the following respective conditions are met.

(a) Interest income

Interest income arising from the use by others of the entity's assets is recognised in profit or loss based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument (for example, prepayment and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fees and commission income

Fees and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Bank making a loan, the fee is recognised as revenue on expiry.

(13) Government grants

Government grants are non-reciprocal transfers of monetary assets or non-monetary assets from the government to the bank except for capital contributions from the government in the capital as an investor in the Bank.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Bank will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Bank for expenses or losses to be incurred in the future is recognised as deferred income and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Otherwise, the grant is included in other income or non-operating income directly. As for the year 2017, the Bank recognised the government grants in other income.

(14) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Bank has a legally enforceable right to settle the tax assets and liabilities on a net amount basis, and also intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and liabilities are offset, if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax assets and liabilities; and

- they related to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(15) Hedge accounting

Hedge accounting is a method which recognises in profit or loss the offsetting effect of changes in the fair value of the hedging instrument and the hedged item in the same accounting period.

Hedged items are the items that expose the Bank to risks of changes in fair value or future cash flows and that are designated as being hedged. The Bank's hedged items include deposits from financial institutions that are settled with a fixed amount of foreign currency and exposed the Bank to foreign currency risk.

A hedging instrument is a designated derivative whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item. The Bank's hedging instruments are all foreign exchange swaps.

The hedge is assessed by the Bank for effectiveness on an ongoing basis and judged whether it was highly effective throughout the accounting periods for which the hedging relationship was designated monthly. A hedge is regarded as highly effective if both of the following conditions are satisfied:

- at the inception and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated;

- the actual results of offsetting are within a range of 80% to 125%.

The Bank's hedge accounting are all designated to cash flow hedges.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in owner's equity as a separate component. That effective portion is adjusted to the lesser of the following (in absolute amounts):

- the cumulative gain or loss on the hedging instrument from inception of the hedge;

- the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is recognised in profit or loss in the same periods during which the non-financial asset or non-financial liability affects profit or loss. However, if the Bank expects that all or a portion of a net loss recognised directly in owner's equity will not be recovered in future accounting periods, it reclassifies from equity to profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period during which the financial asset or financial liability affects profit or loss. However, if the Bank expects that all or a portion of a net loss recognised directly in owner's equity will not be recovered in future accounting periods, it reclassifies from equity to profit or loss the amount that is not expected to be recovered.

The Bank's cash flow hedges are not forecast transactions. For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from owner's equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the Bank will discontinue the hedge accounting treatments prospectively. In this case, the gain or loss on the hedging instrument that remains recognised directly in owner's equity from the period when the hedge was effective is not reclassified into profit or loss and is recognised in accordance with the above policy when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the gain or loss on the hedging instrument that remains recognised directly in owner's equity from the period when the hedge was effective is reclassified into profit or loss immediately.

(16) Profit distributions to owners

Distributions of profit proposed in the profit appropriation plan to be approved after the balance sheet date are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(17) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

(18) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system after taking materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and are same or similar in respect of the nature of products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting and segment accounting policies are consistent with those for the Bank's financial statements.

(19) Fiduciary activities

The Bank acts as administrator, trustee or agent of clients' assets in a fiduciary business. The risks and returns of the asset are borne by the clients. Currently, the Bank's fiduciary activities include entrusted loan business and wealth management business.

Entrusted lending is the business where the Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts.

Wealth management is the business where the Bank signs agreements with the clients to collect funds and invest in other third-parties' assets. The Bank only performs administrative duties and charges in accordance with the relevant agreements. As the Bank bears no financial commitment to the funds or the investment risks and rewards, the related transactions and investment are recorded as off-balance sheet.

(20) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In addition to the assumptions and risk factors related to the valuation of the fair value of financial instruments in Note 49, other uncertainty factors of the estimations are as follows:

(a) Impairment on loans and advances, account receivables, held-to-maturity investments and available-for-sale financial assets

The Bank reviews the portfolios of loans and advances, account receivables, held-to-maturity investments and available-for-sale financial assets periodically to assess whether impairment losses exist and if they exist, an impairment loss is recognised. Objective evidence of impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, account receivable, held-to-maturity investment and available-for-sale financial asset. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic environment that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that asset. The impairment loss for a held-to-maturity investment is determined based on the observable market price of this financial instrument on the balance sheet date. The impairment loss for an available-for-sale financial asset is the difference between its cost (less the principal and the amortisation) and the fair value, less the impairment loss already recognised in profit or loss.

When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between estimated and actual losses.

(b) Impairment of assets such as fixed assets and intangible assets

As described in Note 3(8)(b), assets such as fixed assets and intangible assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset (asset group) is the greater of its fair value less cost to sell and its present value of expected future cash flows. When a market price for the asset (or asset group) cannot be obtained reliably, and the fair value of the asset cannot be estimated reliably, the recoverable amount is calculated based on the present value of estimated future cash flows. In assessing its present value of expected future cash flows, significant judgements are exercised to estimate the asset's income, related operating expenses and discounting rate used. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of related income and operating expenses based on reasonable and supportable assumptions.

(c) Depreciation and amortisation of assets such as fixed assets and intangible assets

As described in Note 3(5) and Note 3(7), fixed assets and intangible assets are depreciated and amortised over their useful lives after taking into account residual value. The useful lives of the assets are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised prospectively.

(d) Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Bank recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Bank exercises judgements about the estimated timing and amount of taxable profits of the following periods, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

4 Changes in accounting policies

(1) Changes in accounting policies and their effects

(a) Description and reasons of changes in accounting policies

The MOF issued the revised *Accounting Standards for Business Enterprises No. 16 – Government Grants* ("CAS 16 (2017)") respectively in May 2017. The effective dates of CAS 16 (2017) are 12 June 2017.The significant accounting policies after adopting the above accounting standards are summarised in Note 3.

In addition, the MOF issued the *"Notice on Revision of the Illustrative Financial Statements"* (Caikuai [2017] No.30) in December 2017. The Bank has prepared financial statements for the year ended 31 December 2017 in accordance with this document.

Impact of the adoption of the above accounting standards and regulation is as follows:

(i) Government grants

Pursuant to CAS 16 (2017), the Bank has revisited the existing government grants as of 1 January 2017 and applied the related accounting policies prospectively. The Bank's accounting treatment and disclosures of the government grants in 2016 are based on the previously applicable CAS requirements before the issuance of CAS 16 (2017). The adoption of CAS 16 (2017) has no material effect on the financial position and financial performance of the Bank.

According to Caikuai [2017] No.30, the Bank has added a separate line item "Other income" in the income statement. Government grants are included in this item. The above gains were previously presented in "Non-operating income".

(ii) Gains from asset disposals

The Bank has prepared financial statements for the year ended 31 December 2017 in accordance with Caikuai [2017] No.30. Comparative figures have been adjusted retrospectively. The adoption of Caikuai [2017] No.30 has no material effect on the financial position and financial performance of the Bank.

According to this regulation, the Bank has added a separate line item "Gains from asset disposals" in the income statement. Gains or losses from disposals of non-current assets (excluding financial instruments, long-term equity investment and investment properties) or disposal asset groups classified as held for sale, and gains or losses from disposals of fixed assets, construction in progress, bearer biological assets and intangible assets not classified as held for sale are included in this item. The above gains or losses were previously presented in "Non-operating income" or "Non-operating expenses".

5 Taxation

(1) Value-added tax

In accordance with tax laws, output value-added tax is calculated at 6% of taxable revenue, and the difference of output value-added tax net of input value-added tax deductible for the current period is the value-added tax payable.

(2) Income tax

The statutory income tax rate of the Bank is 25% (2016: 25%).

6 Cash and deposits with central bank

	Note	*2017*	*2016*
Cash on hand		300,000.00	9,374,801.12
Statutory deposit reserves	*(1)*	2,119,233,825.69	2,224,288,884.70
Surplus deposit reserves	*(2)*	787,462,310.57	1,311,986,034.05
Foreign exchange risk reserves	*(3)*	1,104,584,550.20	4,168,926,249.49
Total		4,011,580,686.46	7,714,575,969.36

(1) Statutory deposit reserves represent reserve deposits placed with the PBOC in accordance with *the Regulation of the People's Republic of China on the Administration of Foreign Funded Banks* ("*the Administrative Regulation*") and *the Notice of the People's Bank of China on the implementation of normal deposit reserve ratio for the deposits of overseas RMB business participation banks in domestic agency banks*, which are not available for use in the Bank's daily business. As at the balance sheet date, the statutory deposit reserve ratios of the Bank were as follows:

	2017	*2016*
Deposit reserve ratio for RMB deposits	14.5%	15%
Deposit reserve ratio for foreign currency deposits	5%	5%

(2) The surplus deposit reserves placed with the PBOC are mainly for settlement purpose.

(3) Foreign exchange risk reserves represent reserve deposits placed with the PBOC in accordance with the PBOC's announcement of strengthen macro-prudential management of forward sales of foreign exchange (Ying Fa [2015] No.273). From 11 September 2017, foreign exchange risk reserve ratio decreased from 20% to zero according to the PBOC's announcement of the adjustment of the foreign exchange risk reserves. The Bank stopped placing the foreign exchange risk reserve deposits since October 2017.

7 Deposits with financial institutions

(1) Analysed by counterparty

	Note	*2017*	*2016*
Domestic banks		3,747,807,069.19	3,230,510,376.30
- Term deposits		3,425,045,000.00	3,148,400,000.00
- Nostro accounts		322,762,069.19	82,110,376.30
Domestic non-banking financial institutions		110,146,945.11	218,370,245.43
Overseas banks		144,446,869.70	246,482,418.24
Sub-total		4,002,400,884.00	3,695,363,039.97
Less: Allowance for impairment losses	*(2)*	(5,431,053.41)	(8,780,885.03)
Total		3,996,969,830.59	3,686,582,154.94

(2) Movement of allowance for impairment losses

	2017	*2016*
Balance at the beginning of the year	8,780,885.03	7,290,293.77
(Reversal) / addition during the year	(3,349,831.62)	1,490,591.26
Balance at the end of the year	5,431,053.41	8,780,885.03

8 Placements with financial institutions

(1) Analysed by counterparty

	Note	*2017*	*2016*
Domestic banks		588,078,012.08	500,000,000.00
Domestic non-bank financial institutions		7,935,936,757.53	5,246,323,894.30
Overseas banks		2,987,236,037.28	2,081,100,052.83
Sub-total		11,511,250,806.89	7,827,423,947.13
Less: Allowance for impairment losses	*(2)*	(13,858,848.92)	(6,620,065.01)
Total		11,497,391,957.97	7,820,803,882.12

(2) Movement of allowance for impairment losses

	2017	*2016*
Balance at the beginning of the year	6,620,065.01	20,164,865.26
Addition / (reversal) during the year	7,238,783.91	(13,544,800.25)
Balance at the end of the year	13,858,848.92	6,620,065.01

9 Financial assets at fair value through profit or loss

	2017	*2016*
Bonds	2,532,272,011.02	2,405,760,816.22

The bonds are issued by the following institutions and stated at fair value:

	2017	*2016*
Domestic policy banks	2,494,651,303.01	2,395,778,474.85
MOF	37,620,708.01	-
SGCC	-	9,982,341.37
Total	2,532,272,011.02	2,405,760,816.22

As at the balance sheet date, part of the bonds were pledged as security in respect of repurchase agreements (see Note 45), and the other part of the bonds have no major restriction for cashing.

10 Derivatives

	2017		
	Notional amount total	*Fair value assets*	*Fair value liabilities*
Interest rate derivatives:			
Interest rate swaps	188,220,597,016.30	381,127,229.64	(373,889,934.45)
Interest rate options	9,062,477,134.95	6,799,881.24	(6,799,881.24)
	197,283,074,151.25	387,927,110.88	(380,689,815.69)
Currency derivatives:			
Foreign exchange swaps	278,428,323,300.99	4,150,561,283.92	(4,767,816,906.78)
Forward foreign exchange	13,280,873,135.06	351,654,305.16	(51,278,237.16)
Foreign exchange options	20,293,057,068.72	336,684,292.22	(73,826,696.59)
	312,002,253,504.77	4,838,899,881.30	(4,892,921,840.53)
Commodity derivatives:			
Commodity swaps	119,432,227.67	932,531.77	(915,376.16)
Gold forward	568,480,747.06	2,956,005.26	(2,107,123.55)
Precious metal futures	1,604,049,150.38	10,822,435.00	(6,102,500.00)
Platinum forward	8,651,292.95	13,886.89	(17,935.04)
Gold options	243,340,785.81	974,011.80	(1,518,441.67)
Gold / Silver swaps	5,135,519,934.10	37,849,005.58	(16,987,980.62)
Gold Deferred	540,392,110.00	32,806.13	(51,862.27)
	8,219,866,247.97	53,580,682.43	(27,701,219.31)
Total	517,505,193,903.99	5,280,407,674.61	(5,301,312,875.53)

	2016		
	Notional amount total	*Fair value assets*	*Fair value liabilities*
Interest rate derivatives:			
Interest rate swaps	179,439,136,425.30	686,891,551.14	(675,513,829.02)
Interest rate options	12,358,298,191.96	13,089,333.76	(13,089,333.76)
	191,797,434,617.26	699,980,884.90	(688,603,162.78)
Currency derivatives:			
Foreign exchange swaps	266,253,878,497.83	4,186,135,573.94	(3,164,437,099.83)
Forward foreign exchange	52,163,440,516.78	52,370,995.00	(678,865,688.00)
Foreign exchange options	19,937,229,381.13	213,462,717.34	(279,848,690.51)
	338,354,548,395.74	4,451,969,286.28	(4,123,151,478.34)
Commodity derivatives:			
Commodity swaps	8,292,868,746.89	84,128,601.30	(82,573,701.43)
Gold forward	2,124,507,485.70	49,256,139.96	(523,149.80)
Gold futures	2,817,338,812.11	65,138,325.00	(17,302,975.00)
Silver forward	16,642,401.04	-	(272,538.65)
Gold options	14,940,912.90	399,683.24	(399,683.24)
Gold / Silver swaps	3,438,637,065.73	17,920,718.77	(62,469,791.82)
	16,704,935,424.37	216,843,468.27	(163,541,839.94)
Total	546,856,918,437.37	5,368,793,639.45	(4,975,296,481.06)

The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date. They do not represent the amounts at risk.

11 Interest receivable

Movement of interest receivable:

	2017			
	Balance at the beginning of the year	*Accrued during the year*	*Paid during the year*	*Balance at the end of the year*
Interest receivable	249,077,164.61	1,181,870,674.47	(1,187,361,283.40)	243,586,555.68

	2016			
	Balance at the beginning of the year	*Accrued during the year*	*Paid during the year*	*Balance at the end of the year*
Interest receivable	248,242,190.38	1,117,960,934.25	(1,117,125,960.02)	249,077,164.61

12 Loans and advances to customers

(1) Analysis by corporate and personal loans

	2017	*2016*
Corporate Loans		
- Loans	8,920,313,568.46	10,835,358,458.59
- Bills negotiation	196,622,786.18	589,858,553.74
- Bills discounted	212,609,671.54	260,388,355.67
Personal loans	72,617,855.22	2,840,249,661.00
Total	9,402,163,881.40	14,525,855,029.00
Less: Allowance for impairment losses	(235,256,866.53)	(363,445,665.45)
- Collective assessment	(211,903,032.28)	(264,054,895.41)
Including: Additional allowance	(187,750,690.90)	(226,150,987.33)
- Individual assessment	(23,353,834.25)	(99,390,770.04)
Total book value	9,166,907,014.87	14,162,409,363.55

(2) Analysis by industry sectors

	2017		*2016*	
	Book value	*Percentage (%)*	*Book value*	*Percentage (%)*
Manufacturing	3,965,033,571.59	42.17%	6,457,385,525.44	44.45%
Wholesale and retail trade	3,364,901,634.11	35.79%	2,116,327,157.73	14.57%
Transport, storage and postal industry	585,989,972.56	6.23%	886,642,894.82	6.10%
Agriculture, forestry, husbandry and fishery	422,269,628.72	4.49%	489,729,678.92	3.37%
Real estate industry	393,620,654.48	4.19%	386,498,827.90	2.66%
Information transmission, computer services and software industry	231,652,820.15	2.47%	115,428,745.13	0.79%
Production and supply of electricity, gas and water	194,077,186.60	2.07%	178,800,000.00	1.23%
Leasing and commercial services	121,752,997.97	1.29%	782,292,547.95	5.39%
Personal loans and advances	72,617,855.22	0.77%	2,840,249,661.00	19.56%
Mining industry	50,000,000.00	0.53%	-	0.00%
Construction industry	247,560.00	0.00%	150,706,640.00	1.04%
Accommodation and catering	-	0.00%	99,000,000.00	0.68%
Scientific research and technical services	-	0.00%	22,793,350.11	0.16%
Total	9,402,163,881.40	100.00%	14,525,855,029.00	100.00%
Less: Allowance for impairment losses	(235,256,866.53)		(363,445,665.45)	
- Collective assessment	(211,903,032.28)		(264,054,895.41)	
Including: Additional allowance	(187,750,690.90)		(226,150,987.33)	
- Individual assessment	(23,353,834.25)		(99,390,770.04)	
Total book value	9,166,907,014.87		14,162,409,363.55	

(3) Analysis by geographical sectors

	2017		2016	
	Book value	*Percentage (%)*	*Book value*	*Percentage (%)*
East China	6,264,876,659.51	66.64%	10,797,389,465.79	74.33%
North China	1,426,441,715.90	15.17%	1,774,240,145.05	12.22%
North-west China	506,026,965.30	5.38%	345,452,741.24	2.38%
South China	413,816,359.27	4.40%	334,599,511.15	2.30%
South-west China	387,249,770.37	4.12%	439,785,754.28	3.03%
Central China	213,223,461.36	2.27%	315,322,684.99	2.17%
North-east China	162,010,703.93	1.72%	292,542,746.68	2.01%
Overseas and Hong Kong Macau and Taiwan regions	28,518,245.76	0.30%	226,521,979.82	1.56%
Total	9,402,163,881.40	100.00%	14,525,855,029.00	100.00%
Less: Allowance for impairment losses	(235,256,866.53)		(363,445,665.45)	
- Collective assessment	(211,903,032.28)		(264,054,895.41)	
Including: Additional allowance	(187,750,690.90)		(226,150,987.33)	
- Individual assessment	(23,353,834.25)		(99,390,770.04)	
Total book value	9,166,907,014.87		14,162,409,363.55	

East China includes Shandong, Jiangsu, Zhejiang, Fujian, Shanghai, Anhui; North China includes Beijing, Tianjin, Hebei, Inner Mongolia; North-west China includes Shaanxi, Ningxia; South China includes Guangdong, Guangxi; South-west China includes Sichuan, Chongqing, Guizhou; Central China includes Hubei, Hunan, Henan, Jiangxi; North-east China includes Liaoning.

(4) Analysis by security type

	2017	*2016*
Guaranteed loans	4,756,947,341.92	5,116,328,499.61
Unsecured loans	3,848,278,065.67	5,631,316,255.03
Collateral loans	796,938,473.81	3,778,210,274.36
- Secured loans	498,203,789.59	3,342,119,363.46
- Pledged loans	298,734,684.22	436,090,910.90
Total	9,402,163,881.40	14,525,855,029.00
Less: Allowance for impairment losses	(235,256,866.53)	(363,445,665.45)
- Collective assessment	(211,903,032.28)	(264,054,895.41)
Including: Additional allowance	(187,750,690.90)	(226,150,987.33)
- Individual assessment	(23,353,834.25)	(99,390,770.04)
Total book value	9,166,907,014.87	14,162,409,363.55

(5) Overdue loans

	2017				
	Within three months (inclusive)	*Over three months but within one year (inclusive)*	*Over one year but within three years (inclusive)*	*Overdue over three years*	*Total*
Unsecured loans	-	-	-	17,341,037.02	17,341,037.02
Collateral loans	43,080.83	6,933,341.55	23,130,644.59	-	30,107,066.97
- Secured loans	43,080.83	6,933,341.55	23,130,644.59	-	30,107,066.97
- Pledged loans	-	-	-	-	-
Total	43,080.83	6,933,341.55	23,130,644.59	17,341,037.02	47,448,103.99

	2016				
	Within three months (inclusive)	*Over three months but within one year (inclusive)*	*Over one year but within three years (inclusive)*	*Overdue over three years*	*Total*
Unsecured loans	-	-	97,455,621.20	-	97,455,621.20
Collateral loans	491,190.22	18,194,387.58	20,508,589.23	-	39,194,167.03
- Secured loans	491,190.22	18,194,387.58	20,508,589.23	-	39,194,167.03
- Pledged loans	-	-	-	-	-
Total	491,190.22	18,194,387.58	117,964,210.43	-	136,649,788.23

Overdue loans refer to loans, of which the whole or part of the principals or interest were overdue for more than one day.

(6) Movement of allowance for impairment losses

	2017		
	Collective assessment	*Individual assessment*	*Total*
As at 1 January 2017	264,054,895.41	99,390,770.04	363,445,665.45
Reversal during the year	(52,151,863.13)	(15,096,793.58)	(67,248,656.71)
Write-off during the year	-	(56,133,993.44)	(56,133,993.44)
Exchange differences	-	(4,806,148.77)	(4,806,148.77)
As at 31 December 2017	211,903,032.28	23,353,834.25	235,256,866.53

	2016		
	Collective assessment	*Individual assessment*	*Total*
As at 1 January 2016	240,108,452.42	100,457,198.08	340,565,650.50
Addition / (reversal) during the year	23,926,603.16	(7,689,470.58)	16,237,132.58
Exchange differences	19,839.83	6,623,042.54	6,642,882.37
As at 31 December 2016	264,054,895.41	99,390,770.04	363,445,665.45

(7) Analysis by impairment losses

As at 31 December 2017, the amount of loans and advances for which impairment losses are individually assessed is RMB47,405,023.16 (At 31 December 2016: RMB136,158,598.01). The amount of the loans which collaterals could secure is RMB30,063,986.14, and the unsecured part is RMB17,341,037.02 (At 31 December 2016: Such loans which collaterals could secure is RMB38,702,976.81, and the unsecured part is RMB97,455,621.20). The fair value of the collaterals for the loans was RMB46,673,000.00 (At 31 December 2016: RMB55,237,000.00). For such loans, the impairment losses individually assessed are RMB23,353,834.25 (At 31 December 2016: RMB99,390,770.04).

(8) Structured loans and advances

	2017	*2016*
Structured loans and advances	17,341,037.02	97,455,621.20

13 Available-for-sale financial assets

	2017	*2016*
Bonds	3,035,265,674.73	3,094,558,815.30
Negotiable certificates of deposit	865,948,462.66	-
Total	3,901,214,137.39	3,094,558,815.30

The available-for-sale bond and negotiable certificates of deposit investments are issued by the following institutions and stated at fair value:

	2017	*2016*
Domestic policy banks	2,985,598,911.39	2,784,361,580.20
Domestic commercial banks	865,948,462.66	-
MOF	49,666,763.34	310,197,235.10
Total	3,901,214,137.39	3,094,558,815.30

As at the balance sheet date, part of the above bonds were pledged as security in respect of repurchase agreements (see Note 45), and the rest of the bonds have no major restriction for cashing.

14 Fixed assets

	Office furniture	*Office equipment*	*Computers*	*Total*
Cost				
As at 1 January 2016	9,545,889.75	10,221,198.78	63,694,770.41	83,461,858.94
Additions	904,185.77	2,149,395.72	2,827,303.06	5,880,884.55
Disposal	(668,952.23)	-	(6,026.00)	(674,978.23)
As at 31 December 2016	9,781,123.29	12,370,594.50	66,516,047.47	88,667,765.26
Additions	20,179.49	1,276,205.48	13,065,775.30	14,362,160.27
Disposal	(2,783,327.41)	(1,592,240.12)	(11,575,407.04)	(15,950,974.57)
As at 31 December 2017	7,017,975.37	12,054,559.86	68,006,415.73	87,078,950.96
Less: Accumulated depreciation				
As at 1 January 2016	(4,608,192.77)	(5,735,331.70)	(17,440,053.14)	(27,783,577.61)
Charge for the year	(1,002,956.72)	(1,133,897.73)	(12,564,771.83)	(14,701,626.28)
Written off on disposal	423,669.69	-	803.44	424,473.13
As at 31 December 2016	(5,187,479.80)	(6,869,229.43)	(30,004,021.53)	(42,060,730.76)
Charge for the year	(833,585.65)	(1,277,947.26)	(12,834,431.18)	(14,945,964.09)
Written off on disposal	1,845,300.64	973,379.02	10,887,456.01	13,706,135.67
As at 31 December 2017	(4,175,764.81)	(7,173,797.67)	(31,950,996.70)	(43,300,559.18)
Net book value				
As at 31 December 2017	2,842,210.56	4,880,762.19	36,055,419.03	43,778,391.78
As at 31 December 2016	4,593,643.49	5,501,365.07	36,512,025.94	46,607,034.50

As at 31 December 2017, the Bank considers that no impairment provision for fixed assets is required (31 December 2016: nil).

15 Intangible assets

	Software
Cost	
As at 1 January 2016	107,154,502.88
Additions	-
As at 31 December 2016	107,154,502.88
Additions	-
Disposal	(59,026,225.95)
As at 31 December 2017	48,128,276.93
Less: Accumulated amortisation	
As at 1 January 2016	(67,576,663.75)
Charge for the year	(12,894,416.08)
As at 31 December 2016	(80,471,079.83)
Charge for the year	(9,022,388.52)
Disposal	59,026,225.95
As at 31 December 2017	(30,467,242.40)
Net book value	
As at 31 December 2017	17,661,034.53
As at 31 December 2016	26,683,423.05

As at 31 December 2017, the Bank considers that no impairment provision for intangible assets is required (31 December 2016: nil).

16 Deferred tax assets / (liabilities)

	2017			
	As at 1 January 2017	*Charged to profit or loss*	*Recognised directly in equity*	*As at 31 December 2017*
Provisions and write-off of asset impairment	64,772,106.00	(19,584,547.91)	-	45,187,558.09
Change of fair value	(96,810,692.22)	108,698,085.18	-	11,887,392.96
Accrued expenses	4,003,445.53	5,373,722.19	-	9,377,167.72
Available-for-sale financial assets	2,023,642.25	-	6,316,742.02	8,340,384.27
Employee benefits payable	6,037,456.21	1,966,414.38	-	8,003,870.59
Amortisation of intangible assets	7,050,417.11	(423,265.44)	-	6,627,151.67
Effective portion of gains arising from cash flow hedging instruments	-	-	1,116,222.51	1,116,222.51
Others	3,776,804.10	(1,342,577.71)	-	2,434,226.39
合计	(9,146,821.02)	94,687,830.69	7,432,964.53	92,973,974.20

17 Other assets

	Note	*2017*	*2016*
Gold lease receivable		1,587,305,595.41	1,489,304,654.59
Refundable deposits		191,782,544.17	727,090,965.67
Service fee receivables due from related parties		63,544,858.45	64,952,827.59
Suspense accounts		42,770,986.25	1,716,927.19
Payment in advance		5,236,192.25	8,032,740.51
Leasehold improvements		4,018,882.94	7,172,458.90
Development costs		-	6,620,925.43
Others		31,611,897.23	23,821,221.29
Sub-total		1,926,270,956.70	2,328,712,721.17
Less: Allowance for impairment losses	(1)	(3,461,480.30)	(2,276,149.45)
Total		1,922,809,476.40	2,326,436,571.72

(1) Movement of allowance for impairment losses

	2017	*2016*
Balance at the beginning of the year	2,276,149.45	-
Addition during the year	1,185,330.85	2,276,149.45
Balance at the end of the year	3,461,480.30	2,276,149.45

As at 31 December 2017, the Bank considers that the impairment provision for gold lease receivable recognised is RMB3,461,480.30 (31 December 2016: RMB2,276,149.45).

18 Deposits from financial institutions

	2017	*2016*
Domestic banks	446,691,065.35	410,706,104.71
Domestic non-bank financial institutions	183,992,611.54	964,759,029.44
Overseas banks	352,847,730.37	296,884,827.93
Overseas non-bank financial institutions	419,626,332.62	-
Total	1,403,157,739.88	1,672,349,962.08

19 Borrowings from financial institutions

	2017	*2016*
Overseas banks	6,263,479,043.53	8,671,250,220.14
Domestic banks	261,368,005.37	239,186,202.70
Total	6,524,847,048.90	8,910,436,422.84

20 Financial assets sold under repurchase agreements

	2017	*2016*
Domestic commercial banks	1,725,800,000.00	1,669,800,000.00
Domestic policy banks	450,000,000.00	-
Total	2,175,800,000.00	1,669,800,000.00

As at 31 December 2017, the collateral of the Bank's financial assets sold under repurchase agreements is domestic policy banks, whose book value totals RMB2,328,905,819.48 (31 December 2016: the collateral of the Bank's financial assets sold under repurchase agreements is domestic policy banks, whose book value totals RMB1,789,814,023.04).

21 Customer deposits

	2017	*2016*
Current deposits		
- Corporate customers	3,092,155,792.83	3,889,014,376.33
- Individual customers	23,998,747.85	721,413,991.74
Sub-total	3,116,154,540.68	4,610,428,368.07
Term deposits (including call deposits)		
- Corporate customers	10,950,821,494.86	9,284,544,298.81
- Individual customers	1,878,337.35	963,648,076.41
Sub-total	10,952,699,832.21	10,248,192,375.22
Structure deposits		
- Corporate customers	3,731,500,000.00	5,264,627,827.39
- Individual customers	-	388,127,715.38
Sub-total	3,731,500,000.00	5,652,755,542.77
Total	17,800,354,372.89	20,511,376,286.06

22 Interest payable

Movement of interest receivable:

	2017			
	Balance at the beginning of the year	*Accrued during the year*	*Paid during the year*	*Balance at the end of the year*
Interest payable	70,640,520.49	610,832,191.16	(631,800,851.09)	49,671,860.56

	2016			
	Balance at the beginning of the year	*Accrued during the year*	*Paid during the year*	*Balance at the end of the year*
Interest payable	57,263,081.51	500,309,981.22	(486,932,542.24)	70,640,520.49

23 Employee benefits payable

	Note	*2017*	*2016*
Short-term employee benefits	*(1)*	30,598,875.17	22,440,138.72
Post-employment benefits - defined contribution plans	*(2)*	1,416,607.20	1,709,686.10
Termination benefits	*(3)*	-	-
Total		32,015,482.37	24,149,824.82

(1) Short-term employee benefits

	2017			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Salaries, bonuses and allowances	21,669,492.42	357,617,811.98	(349,315,169.35)	29,972,135.05
Staff welfare	-	25,047,032.82	(25,047,032.82)	-
Social insurance	770,646.30	8,159,634.34	(8,303,540.52)	626,740.12
- Medical insurance	702,698.33	7,331,338.03	(7,464,573.51)	569,462.85
- Work-related injury insurance	11,707.37	147,660.20	(149,540.16)	9,827.41
- Maternity insurance	56,240.60	680,636.11	(689,426.85)	47,449.86
Housing fund	-	10,089,697.00	(10,089,697.00)	-
Labour union fee, staff and workers' education fee	-	8,038,964.26	(8,038,964.26)	-
Other short-term employee benefits	-	3,065,980.99	(3,065,980.99)	-
Total	22,440,138.72	412,019,121.39	(403,860,384.94)	30,598,875.17

	2016			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Salaries, bonuses and allowances	17,939,941.22	371,121,701.30	(367,392,150.10)	21,669,492.42
Staff welfare	-	27,881,842.93	(27,881,842.93)	-
Social insurance	815,017.48	9,304,456.49	(9,348,827.67)	770,646.30
- Medical insurance	733,706.71	8,374,853.38	(8,405,861.76)	702,698.33
- Work-related injury insurance	26,441.25	200,767.41	(215,501.29)	11,707.37
- Maternity insurance	54,869.52	728,835.70	(727,464.62)	56,240.60
Housing fund	-	10,974,552.48	(10,974,552.48)	-
Labour union fee, staff and workers' education fee	-	8,274,283.59	(8,274,283.59)	-
Other short-term employee benefits	-	8,545,481.30	(8,545,481.30)	-
Total	18,754,958.70	436,102,318.09	(432,417,138.07)	22,440,138.72

(2) Post-employment benefits – defined contribution plans

	2017			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Basic pension insurance	1,627,633.57	14,770,017.80	(15,030,184.14)	1,367,467.23
Unemployment insurance	82,052.53	520,503.55	(553,416.11)	49,139.97
Total	1,709,686.10	15,290,521.35	(15,583,600.25)	1,416,607.20

	2016			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Basic pension insurance	1,657,435.25	16,744,640.88	(16,774,442.56)	1,627,633.57
Unemployment insurance	105,172.67	862,915.36	(886,035.50)	82,052.53
Total	1,762,607.92	17,607,556.24	(17,660,478.06)	1,709,686.10

(3) Termination benefits

	2017			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Termination benefits	-	41,019,440.64	(41,019,440.64)	-

	2016			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Termination benefits	200,000.00	-	(200,000.00)	-

24 Taxes payable

	2017	*2016*
Income tax	106,535,442.88	44,343,143.75
Withholding tax	27,023,539.86	25,030,406.13
Value-added tax	2,198,551.32	15,251,207.11
Taxes and surcharges	3,997,528.45	4,514,813.74
Total	139,755,062.51	89,139,570.73

25 Other liabilities

	2017	*2016*
Gold import payable	1,095,206,282.10	1,058,422,262.85
Suspense accounts	546,308,496.59	31,088,810.48
Service fee payable to related parties	117,345,093.42	153,178,126.51
Accrued expenses	37,508,670.89	16,013,782.12
Others	21,616,426.49	59,869,875.03
Total	1,817,984,969.49	1,318,572,856.99

26 Paid-in capital

Registered capital and paid-in capital

	2017		*2016*	
	Balance	*Percentage (%)*	*Balance*	*Percentage (%)*
ANZ	6,225,000,000.00	100%	6,225,000,000.00	100%

ANZ contributed the paid in capital to the Bank in accordance with *the Administrative Regulation* and relevant regulations. Capital contributions in foreign currency were translated into RMB at the exchange rates prevailing at the dates of each contribution received as quoted by the People's Bank of China.

The above paid in capital was verified by certified public accountants with the related capital verification reports issued.

27 Other comprehensive income

	Fair value change of available-for-sale financial assets	*Effective portion of gains arising from cash flow hedging instruments*	*Total*
As at 1 January 2016	28,035,366.55	-	28,035,366.55
Additions	(45,475,057.77)	-	(45,475,057.77)
Less: the effect of deferred tax	11,368,764.47	-	11,368,764.47
As at 31 December 2016	(6,070,926.75)	-	(6,070,926.75)
Additions	(25,266,968.10)	(4,464,890.03)	(29,731,858.13)
Less: the effect of deferred tax	6,316,742.02	1,116,222.51	7,432,964.53
As at 31 December 2017	(25,021,152.83)	(3,348,667.52)	(28,369,820.35)

28 Surplus reserve

Statutory surplus reserve:

	Note	*2017*	*2016*
Balance at the beginning of the year		139,530,045.32	106,775,738.70
Appropriation of profits	*30*	12,638,940.00	32,754,306.62
Balance at the end of the year		152,168,985.32	139,530,045.32

29 General reserve

	2017	*2016*
Balance at the beginning / end of the year	200,028,578.49	200,028,578.49

In accordance with *the Administrative Measures on Provisions for Financial Institutions* (Cai Jin[2012] No.20) issued by the MOF, financial institutions should appropriate provisions for risk-and-loss-taking assets ("the risk assets") from 1 July 2012. In principle, the general reserve shall not be below 1.5% of the outstanding risk assets as at the end of the accounting period. In those risk assets, credit assets shall be classified properly according to the corresponding rules and regulations stipulated by local regulatory authorities, and apply the standard risk coefficients, which are temporarily 1.5% for credit assets classified as Normal, 3% for Special mention, 30% for Substandard, 60% for Doubtful, and 100% for Loss. Non-credit risk assets can be classified by the same approach as that of credit risk assets, and the standard risk coefficients employed shall not be below the aforesaid ones applied to credit risk assets. In the event that the non-credit risk assets are not classified, financial institutions should appropriate the general reserve of those non-credit risk assets at the rate ranging from 1% to 1.5%.

The Bank has appropriated amount of RMB200,028,578.49 to general reserve in compliance with the above regulation as at 31 December 2017 (31 December 2016: RMB200,028,578.49).

30 Appropriation of profits

(1) Appropriation to surplus reserve

In 2017, the Bank appropriated an amount of RMB12,638,940.00 (2016: RMB32,754,306.62), representing 10% of profit after tax for the year to surplus reserve in accordance with relevant regulations and its articles.

(2) Distributions of profit in cash to owner

Pursuant to the approval at the Board of Directors on 27 June 2017, a distribution of profit in cash totalling RMB196,500,000.00 (2016: Nil) was declared and paid to ANZ on 17 August 2017.

31 Net interest income

	2017	*2016*
Interest income:		
Loans and advances to customers	479,389,630.31	595,306,071.52
Deposits and placements with financial institutions	385,483,802.28	273,064,286.79
Deposits with central bank	34,724,807.94	33,180,192.35
Negotiable certificates of deposit	20,354,848.07	-
Financial assets purchased under resale agreements	3,777,617.22	2,065,939.73
Other interest income	59,504,660.10	58,899,004.63
Sub-total	983,235,365.92	962,515,495.02
Interest expenses:		
Customer deposits	(400,895,853.67)	(320,999,629.22)
Deposits and borrowings from financial institutions	(142,670,617.61)	(127,515,993.42)
Financial assets sold under repurchase agreements	(67,265,719.88)	(51,794,358.58)
Sub-total	(610,832,191.16)	(500,309,981.22)
Net interest income	372,403,174.76	462,205,513.80

32 Net fees and commission income

	2017	*2016*
Fees and commission income:		
Loan referral fees	83,769,250.90	121,780,112.77
Settlement and clearing fees	40,371,285.20	39,971,624.44
Gold leased-out commission	37,855,488.71	38,532,918.45
Guarantee fees	35,738,352.09	35,369,305.98
Personal banking service fees	201,535.92	923,128.53
Others	14,045,568.69	23,571,275.83
Sub-total	211,981,481.51	260,148,366.00
Fees and commission expenses:		
Broker's commission	(38,114,401.03)	(30,647,701.19)
Gold leased-in commission	-	(887,203.21)
Others	(2,797,847.47)	(5,236,555.08)
Sub-total	(40,912,248.50)	(36,771,459.48)
Net fees and commission income	171,069,233.01	223,376,906.52

33 Investment income

	2017	*2016*
Available-for-sale financial assets		
- The interest generated during the holding period	103,438,749.35	93,600,758.24
Financial assets at fair value through profit or loss		
- The interest generated during the holding period	95,196,559.20	61,844,680.99
- Net sale of assets	(4,369,981.88)	13,456,436.06
Derivatives	206,953,507.71	78,677,423.47
Total	401,218,834.38	247,579,298.76

34 (Losses) / gains from changes in fair value

	2017	*2016*
Trading bond investments	(14,517,538.38)	(17,142,478.52)
Derivative financial instruments	(409,937,468.27)	207,228,553.49
Gold business	(10,338,130.79)	(5,274,068.69)
Total	(434,793,137.44)	184,812,006.28

35 Other income

	2017
Government grants related to income	5,067,383.02

36 General and administrative expenses

	2017	*2016*
Staff cost		
- Salaries, bonuses and allowances	360,683,792.97	371,121,701.30
- Social insurance and housing funds	33,539,852.69	37,886,565.21
- Staff welfare and others	33,085,997.08	44,701,607.82
- Termination benefits	41,019,440.64	-
Sub-total	468,329,083.38	453,709,874.33
Parent bank's service fees	103,347,702.34	119,139,168.49
Rental and property management expenses	73,883,755.40	68,462,188.80
Telecommunication expenses	52,378,712.82	68,925,177.14
Depreciation and amortisation	27,198,949.01	34,465,920.44
Operation and Service Hubs' service fees	19,297,787.79	18,791,524.62
Advertising expenses	1,008,592.28	6,348,398.93
Travelling expenses	8,488,730.61	7,359,542.40
Others	52,502,930.69	61,676,626.66
Total	806,436,244.32	838,878,421.81

37 Reversal / (provision) of impairment losses

	2017	*2016*
Loans and advances to customers	67,248,656.71	(16,237,132.58)
Deposits with financial institutions	3,349,831.62	(1,490,591.26)
Placements with financial institutions	(7,238,783.91)	13,544,800.25
Other assets	(1,185,330.85)	(2,276,149.45)
Others	519,617.80	(44,724,093.97)
Total	62,693,991.37	(51,183,167.01)

38 Losses from asset disposals

	2017	*2016*
Losses from asset disposals	2,624,162.15	27,725.94

39 Non-operating income

	2017	*2016*
Technical service fee income	14,533,401.98	11,778,590.08
Government grants	-	5,225,191.27
Others	116,584.84	10,612,102.20
Total	14,649,986.82	27,615,883.55

40 Income tax expense

(1) Income tax expense

	2017	*2016*
Current year income tax	147,532,516.65	86,123,913.94
Changes of deferred taxation	(94,687,830.69)	18,864,780.56
Tax filing differences	(1,986,958.85)	1,274,531.25
Total	50,857,727.11	106,263,225.75

The analysis of deferred tax expense is set out below:

	2017	*2016*
Origination and reversal of temporary differences	(94,687,830.69)	18,864,780.56

(2) Reconciliation between income tax expense and accounting profit

	2017	*2016*
Profits before tax	177,247,127.11	433,806,292.11
Income tax at statutory tax rate 25%	44,311,781.78	108,451,573.03
Increase / (decrease) of tax effect:		
- Non-deductible expenses	2,232,967.39	1,742,028.43
- Non-taxable income	(2,115,424.75)	(4,395,374.64)
- Tax filing differences	(1,986,958.85)	1,274,531.25
- Adjustment of prior year deferred tax assets	8,415,361.54	(809,532.32)
Income tax expense	50,857,727.11	106,263,225.75

41 Other comprehensive income

	2017	*2016*
Items that may be reclassified to profit or loss		
(Losses) / gains arising from changes in fair value of available-for-sale financial assets	25,266,968.10	45,475,057.77
Less: Income tax	(6,316,742.02)	(11,368,764.47)
Sub-total	18,950,226.08	34,106,293.30
Effective portion of gains or losses arising from cash flow hedging instruments	4,464,890.03	-
Less: Income tax	(1,116,222.51)	-
Sub-total	3,348,667.52	-
Total	22,298,893.60	34,106,293.30

42 Supplement to cash flow statement

(1) Reconciliation of net profit to net cash flows from operating activities:

	2017	*2016*
Net profit	126,389,400.00	327,543,066.36
Add: (Reversal) / provision of impairment losses	(62,693,991.37)	51,183,167.01
Depreciation of fixed assets	14,945,964.09	14,701,626.28
Amortisation of intangible assets	9,022,388.52	12,894,416.08
Amortisation of leasehold improvements	3,230,596.40	6,869,878.08
Losses from asset disposals	2,624,162.15	27,725.94
Losses / (gains) from changes in fair value	434,793,137.44	(184,812,006.28)
Increase in deferred tax assets	(92,973,974.20)	-
Decrease / (increase) in deferred tax liabilities	(9,146,821.02)	18,864,780.56
Unrealised foreign exchange losses/ (gains)	354,820,015.13	(141,813,071.52)
Decrease / (increase) in operating receivables	4,989,155,863.50	(5,289,531,831.52)
Decrease in operating payables	(4,359,515,871.87)	(301,783,392.41)
Net cash inflow / (outflow) from operating activities	1,410,650,868.77	(5,485,855,641.42)

(2) Changes in cash and cash equivalents:

	2017	*2016*
Cash and cash equivalents at the end of the year	9,790,047,846.30	8,709,423,928.05
Less: Cash and cash equivalents at the beginning of the year	(8,709,423,928.05)	(14,059,866,118.53)
Net increase / (decrease) in cash and cash equivalents	1,080,623,918.25	(5,350,442,190.48)

(3) Cash and cash equivalents

	2017	*2016*
Cash on hand	300,000.00	9,374,801.12
Deposits with central bank available on demand	787,462,310.57	1,311,986,034.05
Deposits with financial institutions	3,669,355,883.97	3,406,963,039.95
Placements with financial institutions	5,332,929,651.76	3,981,100,052.93
Total	9,790,047,846.30	8,709,423,928.05

43 Related-party relationships and transactions

(1) Information on parent bank of the Bank is listed as follows:

Name	*Registered address*	*Principle activities*	*Ordinary share capital*	*Shareholding percentage*	*Portion of voting rights*
ANZ	Australia	Banking and financial services	AUD 29,088 million	100%	100%

(2) Transactions between the Bank and the key management personnel and their close family members

(a) Transactions between the Bank and the key management personnel and their close family members:

	2017	*2016*
Remuneration of key management personnel	74,573,719.86	70,731,113.67
Interest expense	202,719.19	48,919.66

(b) Balance of transactions with key management personnel and their close family members at 31 December:

	2017	*2016*
Customer deposits	-	21,006,912.15
Interest payable	-	109,983.36

(c) Transactions between the Bank and related insiders

According to clause 38 of *the Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders* (CBRC [2004] No.3), the Bank discloses credit transactions with related insiders.

Related insiders include the Bank's internal people, legal persons or the controlling natural person shareholders, directors, key management personnel of other related organisations. Insiders includes the Bank's directors, senior management of head office and branches and other personnel who have the right to decide or participate in commercial bank credit commitments and asset transfer transactions.

During 2017, the Bank did not have the above transactions with related insiders (2016: nil).

(3) Transactions between the Bank and other related-parties

For the current year, the Bank had no material related transaction with its related-parties under Section 22 of the *Administrative Measures for the Connected Transactions* (2016: nil).

(a) Major transactions with related parties during the year:

	2017	*2016*
Interest income	16,247,619.58	8,559,739.12
Interest expenses	111,811,389.53	100,171,768.62
Fees and commission income	52,683,251.10	62,574,942.62
Parent bank's service fees	103,347,702.34	119,139,168.49
Operation and Service Hubs' service fees	19,297,787.79	18,791,524.62
Gains from changes in fair value of derivative financial instruments	524,467.52	272,847,082.33

Of the above transactions, the transactions between the Bank and the related bodies of non-commercial bank and their corresponding percentage to general and administrative expenses are as follows:

	2017	*Percentage (%)*	*2016*	*Percentage (%)*
Operation and Service Hubs' service fees - Amount of accepted services	19,297,787.79	2.39%	18,791,524.62	2.24%

Under the relevant service agreements, cost-plus pricing method is adopted in the above transaction between the Bank and the related bodies of non-commercial bank.

(b) As at 31 December, the major balances with related parties are as follows:

	2017	*2016*
Assets		
Deposits with financial institutions	23,102,538.69	69,413,699.38
Placements with financial institutions	2,987,236,037.28	2,081,100,052.83
Derivative financial assets	185,821,160.90	251,151,117.47
Interest receivable	216,512.66	61,565.88
Other assets	63,544,858.45	64,952,827.59
Total	3,259,921,107.98	2,466,679,263.15
Liabilities		
Deposits from financial institutions	471,008,633.13	409,250,074.86
Borrowings from financial institutions	6,263,479,043.53	8,671,250,220.14
Derivative financial liabilities	27,642,108.19	93,496,532.29
Interest payable	8,282,250.42	13,897,427.73
Other liabilities	1,212,551,375.52	1,211,600,389.36
Total	7,982,963,410.79	10,399,494,644.38

The balance of the transactions between the Bank and the related bodies of non-commercial bank and their corresponding percentage at 31 December are as follows:

	2017	*Percentage (%)*	*2016*	*Percentage (%)*
Other liabilities - Service fee payable	11,100,081.85	0.61%	3,712,554.17	0.28%

(c) As at 31 December, notional amount of the off-balance sheet derivatives with related parties is as follows:

	2017	*2016*
Interest rate swaps	18,266,368,531.51	13,904,457,718.55
Interest rate options	4,531,238,567.47	6,179,149,095.98
Foreign exchange swaps	2,678,711,145.25	4,140,301,564.52
Forward foreign exchange	4,621,746.33	109,421,721.59
Foreign exchange options	142,420,250.63	2,071,629,931.57
Commodity swaps	59,699,837.14	4,136,759,976.60
Gold forward	136,406,786.27	1,615,081,771.10
Platinum forward	4,331,573.28	-
Silver forward	-	16,642,401.04
Gold options	122,637,204.95	7,273,623.52
Gold / Silver swaps	2,313,948,932.12	131,083,775.28
Total	28,260,384,574.95	32,311,801,579.75

(d) Relationship with the Bank of the related parties referred in Note 43(3)(a), (b) and (c):

Name	*Relationship with the Bank*	*Economic nature or type*	*Primary business*	*Legal representative*	*Registered location*	*Registered capital*
ANZ and its branches	Parent bank and its fellow branches	Listed Company	Banking and financial services	David Gonski	Australia	AUD 29,088 million
ANZ Operation and Service (Chengdu) Ltd.	Fellow subsidiary	Company Limited (Wholly owned by foreign legal person)	Engaged in development, sales and maintenance of systems, software and information technologies and supports of related technologies	Maria Mercuri	Chengdu city	AUD 23 million
Chongqing Liangping ANZ Rural Bank Co., Ltd.	Fellow subsidiary	Company Limited (Wholly owned by foreign legal person)	Absorbing public deposits and issuing loans	Alistair Bulloch	Chongqing city	RMB30 million
ANZ Support Services India Private Limited	Fellow subsidiary	Company Limited	Engaged in development, sales and maintenance of systems, software and information technologies and supports of related technologies	Pankajam Sridevi	India	USD 953 million
ANZ Global Services and Operations (Manila), Inc.	Fellow subsidiary	Company Limited	Engaged in maintenance of systems and supports of related technologies	Steve Harris	The Philippines	USD 1,421,447.8 thousand

44 Segment reporting

Business segments

The Bank has 2 reportable segments, which are Corporate banking and Personal banking, determined based on the structure of its internal organisation, management requirements and internal reporting system. Each reportable segment is a separate business unit, the financial information of the different segments is periodically reviewed by the Bank's management so as to determine the allocation of resources and to assess performance.

Corporate banking

This segment provides a range of financial products and services to corporations and financial institutions, including: corporate loans, trade finance, corporate deposits, payment and settlement services, security services, placements with financial institutions, customer-driven derivative financial instruments and customer-driven foreign exchange trading.

Personal banking

This segment provides a range of financial products and services to individual customers, including: personal mortgage loans, personal financing business, deposits and payment services. The bank transferred the personal banking business to DBS Bank (China) Limited on 15 July 2017.

Unallocated items

This segment mainly includes assets, liabilities, income and expenses which cannot be attributed directly to or divided reasonably to segments.

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Bank's management regularly reviews the assets, liabilities, revenue, expenses and results of operations, attributable to each reportable segment on the following bases:

Segment assets include all financial assets, tangible and intangible assets and other non-current assets. Segment liabilities include financial liabilities, deposits from customers and other liabilities.

Results of operations are operating income (including operating income from external customers and inter-segment operating income) after deducting expenses, depreciation, amortisation and impairment losses attributable to the individual segments and interest income and expenses from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders.

Information regarding the Bank's reportable segments set out below includes the information used for assessing segment performance and allocating segment assets and liabilities by the Bank's management or not used but regularly reviewed by the Bank's management:

	2017			
	Corporate banking	*Personal banking*	*Unallocated items*	*Total*
1. Operating income	864,949,829.37	57,815,478.73	-	922,765,308.10
Net interest income	320,240,146.21	52,163,028.55	-	372,403,174.76
Net fees and commission income	164,976,555.00	6,092,678.01	-	171,069,233.01
Investment income	401,218,834.38	-	-	401,218,834.38
Losses from changes in fair value	(434,793,137.44)	-	-	(434,793,137.44)
Foreign exchange gains / (losses)	408,240,048.20	(440,227.83)	-	407,799,820.37
Other income	5,067,383.02	-	-	5,067,383.02
2. Operating expenses	(730,216,684.54)	(29,948,133.71)	-	(760,164,818.25)
Taxes and surcharges	(5,871,387.51)	(116,214.16)	-	(5,987,601.67)
General and administrative expenses	(777,684,152.46)	(28,752,091.86)	-	(806,436,244.32)
Reversal / (provision) of impairment losses	63,773,819.06	(1,079,827.69)	-	62,693,991.37
Losses from asset disposals	(2,624,162.15)	-	-	(2,624,162.15)
Other operating expenses	(7,810,801.48)	-	-	(7,810,801.48)
3. Operating profit	134,733,144.83	27,867,345.02	-	162,600,489.85
Add: Non-operating income	14,642,439.65	7,547.17	-	14,649,986.82
Less: Non-operating expenses	(3,349.56)	-	-	(3,349.56)
4. Profit before tax	149,372,234.92	27,874,892.19	-	177,247,127.11
Less: Income tax	(42,859,551.44)	(7,998,175.67)	-	(50,857,727.11)
5. Net Profit	106,512,683.48	19,876,716.52	-	126,389,400.00
Other important items				
- Depreciation and amortisation	23,160,621.06	4,038,327.95	-	27,198,949.01
- Capital expenditure	8,249,623.12	-	-	8,249,623.12
Total assets	42,831,077,073.45	68,179,761.33	-	42,899,256,834.78
Total liabilities	35,214,442,458.96	30,456,953.17	-	35,244,899,412.13

	2016			
	Corporate banking	Personal banking	Unallocated items	Total
1. Operating income	1,306,668,236.88	15,623,847.08	-	1,322,292,083.96
Net interest income	448,675,585.35	13,529,928.45	-	462,205,513.80
Net fees and commission income	220,032,512.29	3,344,394.23	-	223,376,906.52
Investment income	247,579,298.76	-	-	247,579,298.76
Gains from changes in fair value	184,812,006.28	-	-	184,812,006.28
Foreign exchange gains / (losses)	205,568,834.20	(1,250,475.60)	-	204,318,358.60
2. Operating expenses	(860,269,531.76)	(54,802,123.90)	-	(915,071,655.66)
Taxes and surcharges	(2,246,966.01)	(22,763,100.83)	-	(25,010,066.84)
General and administrative expenses	(809,368,828.44)	(29,509,593.37)	-	(838,878,421.81)
Provision of impairment losses	(48,653,737.31)	(2,529,429.70)	-	(51,183,167.01)
3. Operating profit / (loss)	446,398,705.12	(39,178,276.82)	-	407,220,428.30
Add: Non-operating income	20,719,224.18	1,671,468.10	5,225,191.27	27,615,883.55
Less: Non-operating expenses	(985,015.54)	-	(45,004.20)	(1,030,019.74)
4. Profit / (loss) before tax	466,132,913.76	(37,506,808.72)	5,180,187.07	433,806,292.11
Less: Income tax	(116,533,228.44)	9,376,702.18	893,300.51	(106,263,225.75)
5. Net Profit / (loss)	349,599,685.32	(28,130,106.54)	6,073,487.58	327,543,066.36
Other important items				
- Depreciation and amortisation	26,389,264.63	8,076,655.81	-	34,465,920.44
- Capital expenditure	8,461,075.30	-	-	8,461,075.30
Total assets	45,187,309,758.11	1,810,365,904.23	-	46,997,675,662.34
Total liabilities	38,081,906,802.45	1,169,001,943.64	-	39,250,908,746.09

(2) Geographic information

The following table sets out information about the source of the Bank's gross revenue and non-current assets (excluding financial instruments, deferred tax assets, same as below) inside and outside of Mainland China. The geographical location of source of revenue is based on the counterparty's registered location. The geographical location of the specified non-current assets is based on the physical location of the asset.

Total of the gross revenue:

	2017	*2016*
In Mainland China	1,088,530,460.00	1,046,847,673.65
Outside Mainland China	106,686,387.43	175,816,187.37
Total	1,195,216,847.43	1,222,663,861.02

As at 31 December 2017, the Bank does not hold non-current assets that are located outside Mainland China (31 December 2016: nil).

(3) Major customers

Interest income from each individual customer of the Bank is below 10% of the Bank's total interest income in both 2017 and 2016.

45 Assets pledged as security

Following assets of the Bank are pledged as security in respect of repurchase agreements:

	2017	*2016*
Trading bonds	2,133,110,810.43	1,789,814,023.04
Available-for-sale bonds	195,795,009.05	-
Total	2,328,905,819.48	1,789,814,023.04

46 Commitments and contingent assets and liabilities

(1) Credit commitments

The Bank has credit commitments at any time. These commitments include approved loans. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances are the Bank's commitments to honor the customer bills issued. The Bank expects most acceptances to be settled simultaneously when the customer settles payment.

The amounts reflected in the table for credit commitments represent the total amount when the loan is expended. The amounts reflected in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at the balance sheet date if counterparties failed to fulfil their contractual obligations.

	2017	*2016*
Credit commitments		
- Original maturity within 1 year	207,272,866.40	851,572,921.75
- Original maturity over 1 year (inclusive)	152,529,069.26	585,039,425.78
	359,801,935.66	1,436,612,347.53
Letter of guarantees	5,755,653,365.13	7,450,565,170.46
Documentary letters of credit	881,667,777.03	986,519,670.16
Bank acceptance	103,171,203.96	292,085,951.30
Total	7,100,294,281.78	10,165,783,139.45

The above credit businesses are the credit risks the Bank may undertake. The Bank periodically assesses and makes allowances for any probable losses if necessary. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash outflows.

(2) Credit risk weighted amounts of off-balance sheet assets

	2017	*2016*
Credit risk weighted amounts of off-balance sheet assets	5,268,998,282.50	6,710,902,426.86

The credit risk weighted amounts of off-balance sheet assets refer to the amounts as computed in accordance with *the Administrative Measures on* Capitals of Commercial Bank (For Trial Implementation) as set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

(3) Operating lease commitments

As at 31 December, the future minimum lease payments under non-cancellable operating lease contracts of the leasing of properties are as follows:

	2017	*2016*
Within 1 year (inclusive)	39,033,535.09	64,089,034.07
Over 1 year but within 2 years (inclusive)	31,915,055.93	55,136,463.28
Over 2 years but within 3 years (inclusive)	12,358,483.50	42,251,901.58
Over 3 years	352,125.72	15,854,310.38
Total	83,659,200.24	177,331,709.31

(4) Capital commitments

As at the balance sheet date, the Bank has no significant capital commitment.

47 Fiduciary activities

(1) Entrusted loans and deposits

The Bank had the following entrusted loans and deposits as at 31 December:

	2017	*2016*
Entrusted loans	16,070,769,525.20	16,751,704,514.74
Entrusted deposits	16,070,769,525.20	16,751,704,514.74

(2) Wealth management

The Bank had the following wealth management transactions as at 31 December:

	2017	*2016*
Qualified Domestic Institutional Investor products	5,734,387.88	688,237,576.95

48 Risk management

Financial instruments are fundamental to the Bank's business, constituting one of the core elements of the operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the credit, market (including trading or fair value risks and non-trading or interest and foreign currency related risks) and liquidity risks of the Bank's balance sheet. These risks and the policies and objectives for managing such risks are outlined below. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management function for the Bank is centralised in the Head Office in Shanghai, covering credit risks, market risks, liquidity risks and operational risks and capital management.

(1) Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury and international trade activities.

The credit risk objectives are set by the Bank's Board of Directors and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple aspects of credit risk, including asset writing strategies, credit policies and controls, single customer exposures, portfolio monitoring and risk concentrations.

Most of the Bank's credit customers are multinational enterprises and their subsidiaries, large state-owned enterprises and private enterprises. All credit limits applications should be approved by authorized person of the business department, and then delivered to and approved by the Head Office's Credit Risk Management Department located in Shanghai. For trade related credits, the Bank only accepts bills negotiation under letter of credit and with no discrepancies. As such, the risks are more bank risks.

The Bank's daily credit risk functions are segregated into credit risk management, client relationship management and loan administration.

The Credit Risk Management Department in Head Office is responsible for the credit risk management and credit limits applications approval of the Bank.

Client relationship management is carried out by front desk departments. Their responsibilities include planning and executing business development and marketing activities, maintaining relationship with both existing and new clients; and recommending or approving credit applications under the delegated authority based on client needs and the market environment.

The Loan Administration Department in Head Office located in Shanghai is responsible for loan disbursement provided all approval conditions have been satisfied. It also assumes responsibilities for taking physical control of security documents, monitoring collateral value and loan repayment records and maintaining all transaction records. The Credit Risk Management Department is independent from the front desk departments, reporting directly to Chief Operation Officer of the Bank.

Every month, the head of Institution Business ("IB") Department and the head of GSG send a consolidated Early Alert Review ("EAR") list to the Credit Risk Management Department for the accounts identified by the relationship managers in the month. Once the EAR list is agreed with the Credit Risk Management Department, the list is to be sent to the regional centralised co-ordinating department of ANZ. The centralised co-ordinating department will send the consolidated Asia pacific EAR report to General Manager Institutional Credit - APEA. Each month in the Bank's Management Risk Committee meeting, the EAR list and the mitigation measures taken or to be taken are reported to the committee. The outcomes of the meeting would be minuted and the action items around the same would be followed up and presented in the meeting.

In addition, a monthly Control and Watch List Return is prepared by IB and GSG and forwarded to the Credit Risk Management Department and to General Manager Institutional Credit - APEA. The report provides the current status of the borrowers with potential downgrade possibilities, the non-performing borrowers, change of guarantees status and comments made by the Bank. The Credit Risk Management Department and credit officers closely monitor and follow up the credits in accordance with the comments and the status of the borrowers noted in the Control and Watch List Return. The Bank's Credit Risk Management Department will discuss and analyse the status of credits which have high risk or require attentions, follow up and determine the appropriate course of action.

Risk reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies. All businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to risk and business executives through a series of reporting processes.

Collateral management

The credit principles specify to only lend what the counterparty has the capacity and ability to repay and the Bank sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e. interest and capital repayments). Obtaining collateral is only used to mitigate credit risk.

Concentration management of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The strategy is to maintain well-diversified low risk credit portfolios focused on achieving the best risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. Risk management also applies single customer counterparty limits ("SCCLs") to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including nature of counter party, probability of default and collateral provided.

The risk grade profile changes dynamically through new counterparty lending acquisitions and / or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review at least annually.

The Bank uses a two-dimensional risk grading system, which measures both the customer's ability to repay (probability of default ("PD")) and the loss in the event of default ("LGD"). The Bank also uses financial and statistical tools to assist in the risk grading of customers. Customer risk grades are actively reviewed and monitored to ensure the risk grade accurately reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed periodically by the Bank to ensure the tools remain statistically valid.

According to the Bank's credit policy, the risk grading criteria consist of the following two components:

1) Customer Credit Rating ("CCR"); and

2) Security Indicator ("SI") that measures the nature of security and level of security coverage held against individual credit or group credit facilities.

CCR ranges from 0+ to 10, and each of grades from 1-8 consists of 3 sub-grades, such as 2+, 2= and 2-. 0+ represents the loans of the best organisations. 9 and 10 represent non-performing loans and loans with principal or interest overdue more than 90 days. 8- represents that the borrower has repayment capacity problem, but the collateral is sufficient. 9 represents that the borrower has repayment capacity problem and the collateral is not sufficient, but full recovery of the loan principal is possible. 10 represents that the borrower has repayment capacity problem and the collateral is not sufficient, meanwhile full recovery of the loan principal is impossible.

SI includes A to G, I, K and S, with A representing more than 130% tangible security coverage, B representing 100% to 130% tangible security coverage, and G representing zero tangible security coverage but that may have a parent company guarantee. I, K, and S represent intra-group guarantees, cash collateral and sovereign borrowings respectively.

According to the circular regarding *the Notice of China Banking Regulatory Commission on Printing and Distributing the Measures for the Classification of Loan Risks* (Yin Jian Fa [2007] No. 54) (the "Notice"), the Bank maps its internal credit grading to the five-tier credit grading monthly.

(a) Maximum exposure to credit risk

Without considering the collaterals or other credit enhancements corresponding assets, the maximum exposure to credit risk is represented by the carrying amount of financial assets minus provisions. Except for the financial guarantees given by the Bank as set out in Note 46(1), the Bank does not provide any other guarantees which would expose the Bank to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 46(1).

(b) Loans and advances to customers analysed by credit quality

	Note	*2017*	*2016*
Impaired loans individually assessed	*(i)*		
- Within 1 year (inclusive)		6,933,341.55	18,194,387.58
- 1 to 3 years (inclusive)		23,130,644.59	117,964,210.43
- Over 3 years		17,341,037.02	-
Gross amount		47,405,023.16	136,158,598.01
Allowance for impairment losses	*(iii)*	(23,353,834.25)	(99,390,770.04)
Sub-total		24,051,188.91	36,767,827.97
Overdue but not impaired	*(ii)*	43,080.83	491,190.22
- Within 3 months impairment losses	*(iii)*	(975.86)	(9,013.48)
Sub-total		42,104.97	482,176.74
Neither overdue nor impaired			
Gross amount		9,354,715,777.41	14,389,205,240.77
Allowance for impairment losses	*(iii)*	(211,902,056.42)	(264,045,881.93)
Sub-total		9,142,813,720.99	14,125,159,358.84
Total		9,166,907,014.87	14,162,409,363.55

(i) Collaterals of impaired loans and other credit enhancement, see Note 12(7).

Movement in the impaired loans and advances is as follows:

	Impaired loans
Balance at the beginning of the year	136,158,598.01
Additions during the year	6,933,341.55
Reversal during the year	(33,389,600.60)
Write-off during the year	(56,133,993.44)
Exchange difference	(6,163,322.36)
Balance at the end of the year	47,405,023.16

(ii) Collaterals of overdue but not impaired loans and other credit enhancement

As at 31 December 2017, the amount of loans and advances that are overdue but not impaired is RMB43,080.83 (2016: RMB491,190.22). The fair value of these collaterals could secure is RMB43,080.83 (2016: RMB491,190.22) and the unsecured part is RMB0 (2016: RMB0). The fair value of the collaterals for the loans is RMB11,290,000.00 (2016: RMB254,305,000.00).

The fair value of the above collaterals, according to the Bank's experience of collateral disposal and market conditions, is determined on the basis of the latest available external valuations adjustment.

(iii) The amount represents the allowance for impairment losses of loan and advances to customers calculated in accordance with Note 2.

(c) Receivables from inter-banks analysed by credit rating

Receivables from inter-banks include deposits with financial institutions, placements with financial institutions and financial assets purchased under resale that counterparties are banks and other institutions. Credit quality of receivables from inter-banks mainly based on external ratings agencies - Standard & Poor's analysed as follows:

	2017	*2016*
A to AAA	7,423,858,469.29	3,534,587,404.40
B to BBB	752,724,322.99	1,683,714,834.79
Non-graded	7,337,068,898.61	6,304,484,747.91
Total	15,513,651,690.89	11,522,786,987.10

The above amounts are presented without deducting the allowance for impairment losses.

(d) Debt instruments analysed by credit rating

As at the balance sheet date, according to the external rating agency-Standard & Poor's, the credit quality of debt instruments has been assessed as follows:

	2017	*2016*
A to AAA	4,502,971,026.60	5,500,319,631.53
B to BBB	219,337,688.97	-
Non-graded	1,711,177,432.84	-
Total book value	6,433,486,148.41	5,500,319,631.53

Debt instruments held by the Bank are classified as financial assets at fair value through profit or loss and available-for-sale financial assets (See Notes 9 and 13).

(2) Market risk

Market risk is the risk of decline in earnings due to adverse changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Market risk arises when changes and volatilities in market rates and prices lead to a decline in the value of assets and liabilities, including financial derivatives. The main source of the Bank's market risk is the transactions driven by customers and self-operated business. The objective of the Bank's market risk policy and procedure is to control the potential loss within an acceptable range via independent identification, assessment and monitoring of the Bank's inherent market risk, thus the stability of earnings can be maintained.

The Bank has a detailed risk management and control framework to support the business development. The Board of Directors of the Bank has the ultimate responsibility for risk management. The Risk Management Committee, which is under the Board, is responsible for the governance of overall risk management and control, including supervision of risk management strategies, policies and procedures. These strategies, policies and processes have a significant impact on the Bank's performance, reputation and capital protection. The Bank's market risk management department should monitor market risk on a daily basis and report to the Chief Risk Officer. The report should be submitted to the management of the Risk Management Sub-Committee for review at least on a monthly basis. The Asset and Liability Committee ("ALCO") and the Risk Management Sub-Committee are responsible for the monthly market risk management oversight.

To facilitate the management, measurement and reporting of market risk, the Bank has grouped market risk into two broad categories.

(a) Trading market risk

Trading activities are the activities mainly driven by trading (such as to meet the needs of customers) or by hedging transactions, usually for short-term but not long-term holding. The principal asset classes include foreign exchange, interest rate, and commodity markets. The trading market risk is the risk of loss from changes in the value of financial instruments due to movements in interest rates, foreign exchange rates and commodity prices.

(b) Non-trading market risk (bank account risk)

All activities which are not included in the trading activities are non-trading activities. Non-traded interest rate risk is the risk that market interest rates are likely to move against the direction of the future net interest margin changes. Non-traded market risk management methods, including value-at-risk ("VaR"), the earnings at risk and sensitivity measurement. The confidence level of the VaR model is 99% with a one-day holding period.

Market risk measurement methods are mainly VaR. VaR is the value of financial assets within a specific period of time in the future the maximum possible loss at a certain confidence level. VaR is measured within the 99% confidence interval. The Bank's VaR model is based on the historical simulation method, with market interest and the price rates by 500 historical trading days. The trading market risk and non-trading market risk are calculated with a one-day holding period. Meanwhile, the Bank estimates the maximum loss of extreme market events through stress testing to complement the VaR model.

VaR analysis of trading and non-trading market risk of the Bank as at the balance sheet date is as follows: (expressed in RMB'000)

	2017			
	31 December	*Average value*	*Maximum value*	*Minimum value*
Trading market risk Level of confidence: 99%				
Foreign currency risk and interest rate risk	12,801	8,532	16,953	3,927
RMB foreign exchange options trading	807	1,288	3,581	512
Precious metals trading	3,386	5,709	14,424	1,689
Non-trading market risk Level of confidence: 99%				
Interest rate risk	4,702	4,539	6,309	2,636

	2016			
	31 December	*Average value*	*Maximum value*	*Minimum value*
Trading market risk Level of confidence: 99%				
Foreign currency risk and interest rate risk	14,956	7,294	15,811	2,998
RMB foreign exchange options trading	1,755	2,095	2,932	983
Precious metals trading	14,195	4,815	14,195	1,403
Non-trading market risk Level of confidence: 99%				
Interest rate risk	6,120	6,061	8,550	4,377

The following table presents the exposure to foreign exchange risk of on-balance sheet as at balance sheet date:

	2017			
	RMB	*USD equivalent RMB*	*Other currency equivalent RMB*	*Total equivalent RMB*
Assets				
Cash and deposits with central bank	2,810,366,068.52	1,201,181,181.54	33,436.40	4,011,580,686.46
Deposits with financial institutions	3,545,891,136.16	344,579,476.73	106,499,217.70	3,996,969,830.59
Precious metals	-	-	191,704,089.28	191,704,089.28
Placements with financial institutions	5,228,607,058.18	6,268,784,899.79	-	11,497,391,957.97
Financial assets at fair value through profit or loss	2,532,272,011.02	-	-	2,532,272,011.02
Derivative financial assets	251,359,287.81	4,996,906,782.83	32,141,603.97	5,280,407,674.61
Interest receivable	188,135,979.73	55,366,964.20	83,611.75	243,586,555.68
Loans and advances to customers	7,339,118,476.53	1,802,237,036.74	25,551,501.60	9,166,907,014.87
Available-for-sale financial assets	3,901,214,137.39	-	-	3,901,214,137.39
Fixed assets	43,778,391.78	-	-	43,778,391.78
Intangible assets	17,661,034.53	-	-	17,661,034.53
Deferred tax assets	92,973,974.20	-	-	92,973,974.20
Other assets	1,684,155,162.18	72,988,719.03	165,665,595.19	1,922,809,476.40
Total assets	27,635,532,718.03	14,742,045,060.86	521,679,055.89	42,899,256,834.78
Liabilities				
Deposits from financial institutions	(589,955,178.63)	(535,312,449.70)	(277,890,111.55)	(1,403,157,739.88)
Borrowings from financial institutions	-	(5,367,187,049.19)	(1,157,659,999.71)	(6,524,847,048.90)
Financial assets sold under repurchase agreements	(2,175,800,000.00)	-	-	(2,175,800,000.00)
Derivative financial liabilities	(252,135,850.28)	(5,034,515,257.26)	(14,661,767.99)	(5,301,312,875.53)
Customer deposits	(15,887,556,114.61)	(1,868,211,659.13)	(44,586,599.15)	(17,800,354,372.89)
Interest payable	(5,800,447.75)	(43,065,498.56)	(805,914.25)	(49,671,860.56)
Employee benefits payable	(32,015,482.37)	-	-	(32,015,482.37)
Taxes payable	(138,727,536.65)	(280,738.31)	(746,787.55)	(139,755,062.51)
Other liabilities	(1,381,729,752.95)	(315,914,595.59)	(120,340,620.95)	(1,817,984,969.49)
Total liabilities	(20,463,720,363.24)	(13,164,487,247.74)	(1,616,691,801.15)	(35,244,899,412.13)
Net position	7,171,812,354.79	1,577,557,813.12	(1,095,012,745.26)	7,654,357,422.65
Credit commitments and contingent liabilities	1,732,061,988.62	4,664,035,378.76	704,196,914.40	7,100,294,281.78
Notional amount of derivative financial instruments	165,248,037,030.40	347,350,758,541.68	4,906,398,331.91	517,505,193,903.99

	2016			
	RMB	*USD equivalent RMB*	*Other currency equivalent RMB*	*Total equivalent RMB*
Assets				
Cash and deposits with central bank	3,149,635,801.86	4,559,595,218.83	5,344,948.67	7,714,575,969.36
Deposits with financial institutions	3,397,790,080.52	80,618,662.98	208,173,411.44	3,686,582,154.94
Precious metals	-	-	95,386,827.52	95,386,827.52
Placements with financial institutions	4,406,212,110.85	3,414,591,771.27	-	7,820,803,882.12
Financial assets at fair value through profit or loss	2,405,760,816.22	-	-	2,405,760,816.22
Derivative financial assets	573,891,819.99	4,728,902,952.20	65,998,867.26	5,368,793,639.45
Interest receivable	221,328,602.58	25,753,089.07	1,995,472.96	249,077,164.61
Loans and advances to customers	10,405,550,049.79	2,848,764,662.36	908,094,651.40	14,162,409,363.55
Available-for-sale financial assets	3,094,558,815.30	-	-	3,094,558,815.30
Fixed assets	46,607,034.50	-	-	46,607,034.50
Intangible assets	26,683,423.05	-	-	26,683,423.05
Other assets	1,824,129,993.23	433,439,138.63	68,867,439.86	2,326,436,571.72
Total assets	29,552,148,547.89	16,091,665,495.34	1,353,861,619.11	46,997,675,662.34
Liabilities				
Deposits from financial institutions	(919,919,702.48)	(749,605,609.34)	(2,824,650.26)	(1,672,349,962.08)
Borrowings from financial institutions	-	(8,844,675,224.57)	(65,761,198.27)	(8,910,436,422.84)
Financial assets sold under repurchase agreements	(1,669,800,000.00)	-	-	(1,669,800,000.00)
Derivative financial liabilities	(564,082,545.29)	(4,357,502,655.55)	(53,711,280.22)	(4,975,296,481.06)
Customer deposits	(14,377,091,138.38)	(5,242,657,546.58)	(891,627,601.10)	(20,511,376,286.06)
Interest payable	(36,167,484.96)	(31,158,979.67)	(3,314,055.86)	(70,640,520.49)
Employee benefits payable	(24,149,824.82)	-	-	(24,149,824.82)
Taxes payable	(83,862,989.33)	(186,139.07)	(5,090,442.33)	(89,139,570.73)
Deferred tax liabilities	(9,146,821.02)	-	-	(9,146,821.02)
Other liabilities	(1,158,960,332.85)	(10,669,402.64)	(148,943,121.50)	(1,318,572,856.99)
Total liabilities	(18,843,180,839.13)	(19,236,455,557.42)	(1,171,272,349.54)	(39,250,908,746.09)
Net position	10,708,967,708.76	(3,144,790,062.08)	182,589,269.57	7,746,766,916.25
Credit commitments and contingent liabilities	2,431,341,175.18	7,028,299,475.10	706,142,489.17	10,165,783,139.45
Notional amount of derivative financial instruments	162,356,051,098.00	380,578,984,724.34	3,921,882,615.03	546,856,918,437.37

(3) Liquidity risk

Liquidity risk is the risk that the Bank has insufficient capacity to fund increases in assets, or are unable to meet their payment obligations as they fall due, including repaying depositors or maturing wholesale debt. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations, and may be affected by both internal and external events, including: credit or operational risks, bank-specific rumours, market disruptions and systemic shocks.

The liquidity risk and funding gap are overseen by the Parent Bank's Financial Market Department, the Bank's Risk Management Department, and ALCO.

The following principles outline the Bank's approach to liquidity risk management, including:

- Ensuring that the liquidity management framework is compatible with local regulatory requirements;
- Calculation of liquidity ratio and market liquidity scenario analysis is performed by the Head Office's Finance Department and the Market Risk Department to quantify the liquidity risk;
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency;
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- Establishing detailed contingency plans to cover different liquidity crisis events.

A key component of the Bank's liquidity management framework is scenario modelling. All assumptions for scenarios modelling are made based a combination of external data and professional judgement, according to ANZ Banking Group standards and actual market liquidity conditions in China, and adjusted according to the actual parameters of the Chinese market. The Bank perform "Bank LCR" test on a daily basis to ensure that the Bank held enough liquid assets to meet cash flow needs in the next 30 days in severe market liquidity stress situations. The reports are generated by the Head Office's Market Risk Reporting Department and results are reported to relevant senior management. Any breaches are escalated to the appropriate senior management, the Chief Risk Officer and the Risk Management Committee for review and resolution.

The Bank maintains the liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event. The framework includes:

- Establishment of crisis severity / stress levels;
- Clearly assigned crisis roles and responsibilities;
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- Outlined action plans, and courses of action for altering asset and liability behaviour;
- Procedures for crisis management reporting, and making up cash flow shortfalls;
- Guidelines determining the priority of customer relationships in the event of liquidity problems; and
- Assigned responsibilities for internal and external communications.

The following tables analyse the estimated undiscounted cash flows for the Bank's financial assets and liabilities by the remaining contractual maturity at the balance sheet date.

		2017							
	Note	*Overdue / no contractual maturity*	*On demand*	*Due within 3 months*	*Due between 3 months to 1 year*	*Due between 1 year to 5 years*	*Due after 5 years*	*Total undiscounted cash flows*	*Book value*
Assets									
Cash and deposits with central bank		3,223,818,375.89	789,515,520.64	-	-	-	-	4,013,333,896.53	4,011,580,686.46
Deposits with financial institutions	*(a)*	-	577,355,883.99	3,121,187,811.69	347,721,132.22	-	-	4,046,264,827.90	4,002,400,884.00
Placements with financial institutions	*(a)*	-	-	7,620,865,129.71	3,745,831,502.55	343,575,547.68	-	11,710,272,179.94	11,511,250,806.89
Financial assets at fair value through profit or loss	*(b)*	-	2,579,416,432.74	-	-	-	-	2,579,416,432.74	2,532,272,011.02
Derivative financial assets	*(b)*	-	5,280,407,674.61	-	-	-	-	5,280,407,674.61	5,280,407,674.61
Loans and advances to customers	*(c)*	47,448,103.99	-	7,580,947,547.92	1,197,307,402.80	729,714,060.48	42,557,902.79	9,597,975,017.98	9,402,163,861.40
Available-for-sale financial assets		-	-	1,540,231,353.71	1,349,303,330.26	1,213,292,399.50	-	4,102,827,083.47	3,901,214,137.39
Other assets	*(a)*	197,018,736.41	42,770,986.25	1,366,156,436.23	316,305,914.87	-	-	1,922,252,073.76	1,922,252,073.76
Total assets		3,468,285,216.29	9,269,466,498.23	21,229,388,279.26	6,956,469,282.70	2,286,582,007.66	42,557,902.79	43,252,749,186.93	42,563,542,155.53
Liabilities									
Deposits from financial institutions		-	(873,667,389.48)	(203,886,667.99)	(331,259,602.87)	-	-	(1,408,813,660.34)	(1,403,157,739.88)
Borrowings from financial institutions		-	-	(2,478,288,407.55)	(704,465,313.71)	(3,521,037,131.11)	-	(6,703,790,852.37)	(6,524,847,048.90)
Financial assets sold under repurchase agreements		-	-	(2,176,667,742.12)	-	-	-	(2,176,667,742.12)	(2,175,800,000.00)
Derivative financial liabilities	*(b)*	-	(5,301,312,875.53)	-	-	-	-	(5,301,312,875.53)	(5,301,312,875.53)
Customer deposits		-	(12,111,403,654.79)	(5,031,553,966.12)	(728,675,578.95)	-	-	(17,871,633,199.86)	(17,800,354,372.89)
Employee benefits payable		-	-	(2,043,347.32)	(29,972,135.05)	-	-	(32,015,482.37)	(32,015,482.37)
Other liabilities		-	(547,251,157.40)	(1,143,815,034.84)	(106,427,763.68)	-	-	(1,797,493,955.92)	(1,797,493,955.92)
Total liabilities		-	(18,833,635,077.20)	(11,036,255,165.94)	(1,900,800,394.26)	(3,521,037,131.11)	-	(35,291,727,768.51)	(35,034,981,475.49)
Net position		3,468,285,216.29	(9,564,168,578.97)	10,193,133,113.32	5,055,668,888.44	(1,234,455,123.45)	42,557,902.79	7,961,021,418.42	7,528,560,680.04

	Note	2016 Overdue / no contractual maturity	On demand	Due within 3 months	Due between 3 months to 1 year	Due between 1 year to 5 years	Due after 5 years	Total undiscounted cash flows	Book value
Assets									
Cash and deposits with central bank		6,623,574,169.25	1,135,916,302.62	-	-	-	-	7,759,490,471.87	7,714,575,969.36
Deposits with financial institutions	*(a)*	-	546,953,040.00	2,879,427,766.68	298,145,930.67	-	-	3,724,536,737.35	3,695,363,039.97
Placements with financial institutions	*(a)*	-	-	4,668,909,706.41	2,806,559,067.92	441,036,985.26	-	7,916,505,759.59	7,827,423,947.13
Financial assets at fair value through profit or loss	*(b)*	-	2,470,261,912.58	-	-	-	-	2,470,261,912.58	2,405,760,816.22
Derivative financial assets	*(b)*	-	5,368,793,639.45	-	-	-	-	5,368,793,639.45	5,368,793,639.45
Loans and advances to customers	*(c)*	136,649,788.23	-	7,836,523,443.29	2,718,672,257.91	2,424,509,590.05	3,328,374,072.38	16,444,729,151.86	14,525,855,029.00
Available-for-sale financial assets		-	-	387,232,767.23	688,793,264.86	2,232,010,038.66	-	3,308,036,070.75	3,094,558,815.30
Other assets	*(a)*	710,723,142.67	570,455.65	1,526,522,206.20	77,103,532.32	-	-	2,314,919,336.84	2,314,919,336.84
Total assets		7,470,947,100.15	9,522,505,350.30	17,298,615,889.81	6,589,274,053.68	5,097,556,613.97	3,328,374,072.38	49,307,273,080.29	46,947,250,592.27
Liabilities									
Deposits from financial institutions		-	(775,833,754.60)	(605,535,045.52)	(300,517,048.84)	-	-	(1,681,885,848.96)	(1,672,349,962.08)
Borrowings from financial institutions		-	-	(2,059,442,872.66)	(1,932,001,791.98)	(5,157,046,565.10)	-	(9,148,491,229.74)	(8,910,436,422.84)
Financial assets sold under repurchase agreements		-	-	(1,670,135,845.48)	-	-	-	(1,670,135,845.48)	(1,669,800,000.00)
Derivative financial liabilities	*(b)*	-	(4,975,296,481.06)	-	-	-	-	(4,975,296,481.06)	(4,975,296,481.06)
Customer deposits		-	(4,610,428,368.00)	(13,580,821,437.80)	(2,433,892,298.51)	(1,735,879.10)	(3,677,681.08)	(20,630,555,664.49)	(20,511,376,286.06)
Employee benefits payable		-	-	(2,480,332.40)	(21,669,492.42)	-	-	(24,149,824.82)	(24,149,824.82)
Other liabilities		(50,646,870.29)	(48,738,879.90)	(1,078,148,599.15)	(141,038,507.65)	-	-	(1,318,572,856.99)	(1,318,572,856.99)
Total liabilities		(50,646,870.29)	(10,410,297,483.56)	(18,996,564,133.01)	(4,829,119,139.40)	(5,158,782,444.20)	(3,677,681.08)	(39,449,087,751.54)	(39,081,981,833.84)
Net position		7,420,300,229.86	(887,792,133.26)	(1,697,948,243.20)	1,760,154,914.28	(61,225,830.23)	3,324,696,391.30	9,858,185,328.75	7,865,268,758.43

(a) Deposits with financial institutions, placements with financial institutions and other assets are presented without deducting the allowance for impairment losses.

(b) Balances of derivative financial assets / liabilities are listed as "on demand" at fair value which management believes most accurately reflects the short-term nature of trading activities.

(c) The overdue loans in the category of "overdue" of loans and advances to the customers are those of which all or part of principal or interest is overdue for more than a day. Loans and advances to customers are presented without deducting the allowance for impairment losses.

(4) Operational risk

Operational risk is the risk arising from improper or failed internal processes, people, systems or external events. This definition includes legal risk, the risk of loss, or damage to reputation due to improper or failed internal processes, people, systems, but does not include strategic risks.

The Bank classifies operation risk based on the following seven categories of loss in accordance with local regulatory requirements and internal procedures:

- Internal fraud events
- External fraud events
- Employment policies and workplace safety events
- Customer, product and business events
- Damage to physical assets events
- Information technology system events
- Execution, delivery and process management events

Management Operational Risk Committee assists the Board to supervise, establish, implement and review the management system and policy of the operational risk. This is supported by an independent operational risk function which provides oversight, direction, the operational framework, policies and processes.

The Operational Risk Framework outlines the approach to managing operational risk and specifically covers the core minimum requirements which must be undertaken in the management of operational risk. It sets three lines of defence to manage operational and other risks.

The first line of defence is all business departments and enablement teams with the main responsibilities of the implementation of operational risk control and monitoring during daily operations. As the second line of defence, the Risk team of the Bank is responsible for developing and updating the Operational Risk Policy of the Bank, and providing oversight and subject matter expertise to enable consistent implementation of the operational risk management. Internal Audit team is the third line of defence, for which the responsibility is to independently assess and evaluate the execution of operational risk management of the Bank by business teams and enablement team.

The Operational Risk Framework is supported by a number of operational risk policies and procedures with the effectiveness of the framework assessed through a series of assurance reviews and processes. This is supported by an independent review program by Internal Audit.

The Bank employs the "Basic Management Approach", underpinned by a statistical quantification model to measure the level of operational risk and to determine and allocate operational risk capital.

Business continuity is viewed as a critical management responsibility within the overall Operational Risk Framework, which seeks to minimise the likelihood of a disruption to normal operations, constrain the impact were an event to occur and achieve efficient and effective recovery.

Crisis management planning supplements business continuity plans in the event of a broader country crisis. Crisis management plans include risk team structures, roles, responsibilities and contact lists, and are subject to periodic testing.

(5) Capital Management

The Bank's capital management includes capital adequacy ratio management, capital financing management and economic capital management. The capital adequacy ratio management is the core of Bank's capital management. The capital adequacy ratio reflects the Bank's abilities of prudently operating and withstanding risks. The Bank's objective of capital adequacy ratio management is to meet legal and regulatory requirements and to prudently determine the capital adequacy ratio target according to the actual risks faced, with referencing the parent bank and the international advanced level peers' adequacy ratio and own operating conditions. The objective of the Bank's capital management is to:

- Protect business continuity and the interests of the Bank's creditors and shareholder;
- Maintain adequate capital to avoid breaching the CBRC's Capital Rules, including in a stressed environment;
- Align capital levels to the Board's risk appetite; and
- Establish a capital structure that provides an efficient and effective use of funds within the Bank while at all times meeting the CBRC's regulatory requirements

The Bank manages its capital structure and restructuring in accordance with the economic environment and the risk characteristics of business activities. In order to maintain or adjust the capital structure, the Bank may adjust the profit distribution policy, issue Tier 1 capital instruments, qualified Tier 2 capital instruments, and etc.

The Board and ALCO take full responsibility for the management of capital to ensure the Bank's capital adequacy ratio consistent with the provisions of the CBRC, and they are also responsible for determining the objectives of the management of capital adequacy ratio, to review the risk tolerance, to make and monitor the implementation of capital planning, and to disclose the information of the Bank's capital adequacy ratio.

Management of the Bank monitors the capital adequacy ratio and the use of the regulatory capital in accordance with the method prescribed by the CBRC. The Bank submits the required information to the China Banking and Insurance Regulatory Commission in half-yearly and quarterly.

The capital adequacy ratio of the Bank has been calculated in accordance with *Administrative Measures on Capitals of Commercial Bank (For Trial Implementation)* issued by the CBRC and other related laws and regulations.

The CBRC requires commercial banks to comply with the regulatory requirements on the capital adequacy ratio. For systematically important banks, common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach or exceed 8.5%, 9.5% and 11.5% respectively before 31 December 2018. For non-systematically important banks, common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach or exceed 7.5%, 8.5% and 10.5% respectively before 31 December 2018.

The on-balance-sheet risk weighted asset is calculated using different risk weights, which are determined by the risk of specific assets and trading counterparties, as well as market risks and other relevant risks, taking into consideration the impact of eligible collaterals and guarantees. The off-balance-sheet exposures are calculated in similar ways, and adjusted according to the nature of the contingent losses. The counterparty credit risk ("CCR") risk-weighted assets for OTC derivatives transactions include the risk-weighted assets for counterparty default risks and the risk-weighted assets for the credit value adjustment ("CVA"). The risk-weighted assets for market risks are calculated using a standardised approach, while the risk-weighted assets for operational risks are calculated as per the basic indicator approach.

The Bank is in compliance with the regulatory capital requirements during the year.

As at 31 December 2017, common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated as per *the Administrative Measures on Capitals of Commercial Banks (For Trial Implementation)* issued by the CBRC and other relevant regulations are as follows (expressed in RMB 0'000):

	2017	*2016*
Common equity tier 1 capital		
Paid-in capital	622,500	622,500
Other comprehensive income	(2,837)	(607)
Surplus reserve	15,217	13,953
General reserve	20,003	20,003
Retained earnings	110,553	118,828
Common equity tier 1 capital	765,436	774,677
Common equity tier 1 capital deductions		
Intangible assets net of the relevant deferred tax liability	(1,766)	(2,668)
Net common equity tier 1 capital	763,670	772,009
Net tier 1 capital	763,670	772,009
Tier 2 capital		
Surplus allowance for impairment losses	18,785	22,729
Tier 2 capital deductions	-	-
Net total capital	782,455	794,738
Credit risk-weighted assets	3,090,980	3,317,353
Market risk-weighted assets	738,491	956,674
Operational risk-weighted assets	231,011	257,407
Total risk assets	4,060,482	4,531,434
Common equity tier 1 capital adequacy ratio	18.81%	17.04%
Tier 1 capital adequacy ratio	18.81%	17.04%
Capital adequacy ratio	19.27%	17.54%

49 Fair value

(1) Fair value measurement

(a) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Bank's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. In the reporting period, the Bank does not hold assets and liabilities which are measured at fair value on non-recurring basis.

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels of inputs are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market data.

The following table presents the three levels of fair value for financial instruments:

	2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets held for trading	-	2,532,272,011.02	-	2,532,272,011.02
Derivative financial assets	-	5,280,407,674.61	-	5,280,407,674.61
Available-for-sale financial assets	-	3,901,214,137.39	-	3,901,214,137.39
Total	-	11,713,893,823.02	-	11,713,893,823.02
Liabilities				
Derivative financial liabilities	-	(5,301,312,875.53)	-	(5,301,312,875.53)

	2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets held for trading	-	2,405,760,816.22	-	2,405,760,816.22
Derivative financial assets	-	5,368,793,639.45	-	5,368,793,639.45
Available-for-sale financial assets	-	3,094,558,815.30	-	3,094,558,815.30
Total	-	10,869,113,270.97	-	10,869,113,270.97
Liabilities				
Derivative financial liabilities	-	4,975,296,481.06	-	4,975,296,481.06

During 2017, there were no transfers, between Level 1 and Level 2, of the bank's above assets and liabilities which are measured at fair value on a recurring basis. The bank recognizes transfers between different levels at the end of the current reporting period during which such transfers are made (2016: nil).

For financial assets and liabilities that are traded in an active market, the Bank determines the fair value based on quoted market prices or counterparty's price. For all other financial instruments, the Bank determines the fair value by valuation mode.

Valuation models include the net present value model, discounted cash flow model, referring to the market price quotations of similar tools, options valuation models and etc. Assumptions and input parameters used in the valuation model include risk-free rate, the benchmark interest rate, credit spread, the estimated discount rate, bond and stock prices, exchange rates, price index, expected volatility, correlations and etc. The purpose of using a valuation model is to get the fair price that can be received to sell an asset or need to pay to transfer a liability in an orderly transaction occurred in the measurement date.

The Bank uses valuation models widely used in the industry to determine the fair value of the general and relatively simple financial instruments, such as referencing only observable market prices or interest rate and currency swaps requiring less management judgments and estimations. Its valuation model parameters required can be generally obtained from debt or equity market, derivatives market, or simple OTC derivatives market such as interest rate swaps.

(b) Level 2 fair value

The valuation tools of Level 2 fair value include the following ways: reference quoted market price of similar instruments in active markets; reference quoted market price of similar instruments in inactive markets made; or using a valuation model, which input parameters are directly or indirectly observable market data.

During 2017, the Bank did not change the valuation techniques used in Level 2 fair value measurement.

(c) Level 3 fair value

During 2017, there are no instruments measured at Level 3 of the fair value hierarchy (2016: nil).

(2) Fair value of other financial instruments (items not measured by fair value at year end)

The other financial instruments of the Bank include deposits with central bank, deposits with financial institutions, placements with financial institutions, loans and advances to customers, deposits from financial institutions, borrowings from financial institutions, financial assets sold under repurchase agreements, and customer deposits. There is no significant difference between the book value and the fair value of the financial assets and financial liabilities.

50 Comparative figures

The bank has reclassified some items of the financial statement of 2016.

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