2018 Annual Report

Australia and New Zealand Bank (China) Company Limited

Table of Contents

I. Company Profile & Milestones in 2018

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"). ANZ has more than 30 years' presence in China and now is the only Australian bank locally incorporated in China. As one of the largest Australian investors, ANZ China is well-positioned to support customers' increasing financial needs and growing business opportunities across the region.

As of end of 2018, ANZ China has branches in Beijing, Shanghai, Guangzhou, Chongqing, Chengdu, Hangzhou and Qingdao.

Key Milestones of ANZ China in 2018:

- ANZ China ranked No. 1 for overall quality in relationships for the second consecutive year in 2018 in Greenwich Associates Asian Large Corporate Banking Study.
- ANZ China won the Leading Foreign Bank Award of the year in China in 2018 by Pengpai Top Financial Institutional Award for the second consecutive year.

ANZ is one of the largest companies in Australia and New Zealand. As of the end of 2018, ANZ's network covers 29 markets in Asia Pacific and 34 markets globally. For the seventh consecutive year in 2018, ANZ remains Top 5 Corporate Bank in Asia in Greenwich Associates Large Corporate Banking survey.

II. Basic Information of the Company (as of 31 December 2018)

1. **Legal Name:** Australia and New Zealand Bank (China) Company Limited
2. **Legal Representative:** Farhan Faruqui
3. **Registered Address:** Unit D,E,F 17th Floor, 15th Floor and Unit B 12th Floor Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai.

   Post Code：200120

   Telephone: +86 21 6169 6001

   Complaint Hotline：4008218030/ 4006519920

   Website：www.anz.com.cn

4. **Other Information**

   Date of Incorporation: 16 September 2010

   Registered with: 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 Statements

As at 31 December 2018, ANZ China's total assets is RMB35.74 billion which includes loans & advances (gross) amounting to RMB10.89 billion, the Bank's total liabilities is RMB28.00 billion which includes total deposit amounting to RMB 14.60 billion. In terms of financial results in 2018, the Bank achieved RMB 1.27 billion as operating income, with RMB0.47 billion NPAT (net profit after tax). In 2018, the bank still keeps all prudential ratios well within regulatory requirements, with its capital adequacy ratio at 20.33%, loan-to-deposit ratio (RMB business) at 77.88% and non-performing-loan ratio at 0.29%.

	Y2018	**Y2017**	
	RMB million	**RMB million**	**Change Rate**
Business Performance			
Total Operating Incomes	1,273.79	922.77	38.04%
Net Profit after Tax	468.82	126.39	270.93%
Balance Sheet			
Loans & Advances (Gross amount)	10,886.58	9,402.16	15.79%
Total Assets	35,743.16	42,899.26	-16.68%
Total Deposits	14,603.05	17,800.35	-17.96%
Equity	7,747.35	7,654.36	
Main Ratio			
Loan to Deposit Ratio (RMB Business)	77.88%	47.58%	
Cost Income Ratio	48.86%	87.39%	
Liquidity Ratio	118.85%	84.10%	
Capital Adequacy Ratio	20.33%	19.27%	
Leverage Ratio	16.31%	14.10%	

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

	Y2018	**Regulatory Requirement**
Provision Coverage Ratio	854.03%	150%
Loan/Provision Ratio	2.5%	2.5%

IV. Risk Management

A. 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, 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 CBIRC 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, CBIRC 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, Green Credit Guide, Large-amount Risk Exposure Guideline and Joint Credit Procedure, etc.

The regulatory ratios required by the CBIRC 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 2018 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 CPI annual percentage change, 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:

- 1.70% of the book is defaulted by year 2 in the Extreme scenario;
- 0.84% of the book is defaulted by year 2 in the Severe scenario;
- 0.22% 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 RMB 111 m, RMB 340 m, and RMB 642 m for the Mild, Severe and Extreme Scenarios respectively.
- Collective Provision Charges peak in year 2 at RMB 21 m, RMB 29 m, and RMB 127 m for the Mild, Severe and Extreme Scenarios respectively.

– Total Provision Charges peak in year 2 at RMB 132 m, RMB 369 m, RMB 769 m 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 Shanghai Branch have performed property loan stress test based on local CBIRC requirements in 2018. 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 2018. 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 CBIRC 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 authority to decide and approve 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 CBIRC on regular basis.

7. Large-amount Risk Exposure

In accordance with the requirements of the "Large-amount Risk Exposure Management Measures of Commercial Banks" announced by the CBIRC in April 2018, ANZ China has completed the "ANZ China Large-amount Risk Exposure Management Guideline", which has been approved and implemented by the Board in Sep 2018. Meanwhile, in terms of information system construction, the Phase I of the FMS system for customer credit limit approval and management was upgraded in Dec 2018, to benefit the business and risk department to manage the internal threshold of single and connected/group customers when they process the credit limit application and approval.

Our Bank will adopt the large-amount risk exposure monitoring metrics in the updated RAS (Risk Appetite Statement) Dashboard to be presented at BL-RMC and CMRC, continuously track the movement and management situation, and regularly report to the senior management.

Our large-amount risk exposure index as of 31 Dec 2018：

Metrics for Large-amount Risk Exposures	Regulatory Caps	ANZ Internal Threshold (RAS trigger)	Top 1 Customer/Customer Group %
Top onshore single corporate customer loan outstanding (% of China net Capital)	<10%	<9%	7.69%
Top onshore single corporate customer risk exposure (% of China Tier 1 net Capital)	<15%	<13.5%	8.83%
Top onshore corporate customer group risk exposure (% of China Tier 1 net Capital)	<20%	<18%	11.23%
Top onshore single unqualified Central Counter-Party clearing/non-clearing risk exposure (% of China Tier 1 net Capital)	<25%	<22.5%	8.96%

In addition, the indicators for the exposure of single-group or group customers in the same industry are as follows (this indicator will meet the three-year regulatory requirements from June 2019):

Metric for Large-amount Risk Exposures- Since Jun 2019	Regulatory Caps	ANZ Internal Threshold (RAS trigger)	Top 1 Customer/Customer Group %
Top single interbank customer/group customer risk exposure (% of China Tier 1 net Capital)	<100%	<90%	43.61%

The above indicators prove that the large-amount risk exposure indicators with the Bank at the end of 2018 can comply the regulatory requirements by CBIRC, and the concentration risk of customers is controllable.

8. Retail Credit Risk

After ANZ China sold the Retail Business in July 2017, the Bank still kept the retail non-performing mortgage loans for the convenience of subsequent lawsuits and settlement. As of the end of November 2018, there are still two non-performing loans in retail residential mortgage loans, both of which are subprime. One of the loans was sold by a court auction in December 2018 and is expected to be fully repaid in early 2019. The other loan will also go through a compulsory auction process. The Loan-to-Value Ratio of these two loans is lower than 70%, and the loan recovery risk is expected to be controllable. The Bank will not grant any new retail mortgage loan, and continue to strictly implement the CBIRC's post-loan verification requirements on existing retail mortgage loans, and prudently review the income and collateral of borrowers, so as to maintain the NPL rate of the Bank at a reasonable and controllable level.

B. 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, policy 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 and Treasurer. 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. ALCO holds monthly meetings to discuss major decisions on funding, and reviews the Bank’s asset & liability structure. 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 2018, the Bank’s HQLA Adequacy Ratio was at 295.4%, high quality liquid assets reached RMB5.773bn, and the net cash outflow for the future 30-day was expected at RMB1.954bn.

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 outlined as below:

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 Risk Metrics

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

3. Liquidity Crisis Contingency Plan

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

C. Market Risk

Currently the major products of China Markets are 1) FX and Rates, including Spot, Forward, FXS, RMB bond and Repo, IRS; 2) Shanghai Gold Exchange and Shanghai Futures Exchange trading; 3) FX Option Trading; 4) Credit Bond Trading; and 5) Bank's Asset and Liability Management. Based on different trading purpose, Market Risk is managed between trading book and banking book separately.

1. Market Risk Management Principles

- Based on Group policies, China Market Risk develops and maintains China Market Risk Guideline to ensure its adaptation to local relevant regulatory requirements and proposes to senior management and Board and/or its delegation for review, approval and implementation.
- Conduct risk exposure monitoring, analysis, control and provide timely risk reporting to the business and senior management.
- Carry out regular limit review, manage the market risk limit approval process and limit excess process and report them to China Risk Management Committee (RMC) and Asset and Liability Committee (ALCO).
- Collaborate with China New Product Forum to identify and assess market risk arising from new products.
- Provide regular market risk reporting to China RMC/ALCO.

2. Market Risk Quantification Methodologies

ANZ China adopts same market risk quantification methodologies as Group. Any major changes on the methodologies shall be subject to the approval from Board Level RMC with support from China Management Level RMC/ALCO. China Market Risk applies Value at Risk (VaR) and stress test on trading and banking book, and additionally Earning at Risk(EaR) on banking book. Detail market risk sensitivity limits are also imposed at each desk level including interest rate risk (DV01), FX (NPV) and credit spread (CR01).

- VaR(Value at Risk) is expressed to a 99.0% level of statistical confidence and using a 1 day holding period. A 500 day historical simulation methodology is used in which overnight changes in the yield curve and/or other market price of each currency are applied to calculate the change in market value that would be observed had the current profile been subject to these historical outcomes. VaR 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. Back testing is the process to identify the number of times that actual or hypothetical daily trading results (gains or losses) are greater than the calculated VaR exposure. ANZ China Market Risk conducts back testing for the major trading desks on daily basis.

- EaR(Earning at Risk) 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. This is earnings-based measures for IRRBB management. It is calculated by applying a statistically derived interest rate shock to static repricing gaps. The volatility measure is based on the antithetic 97.5% confidence of monthly changes in the 1 month interest rate over the past 6 years.

- Stress test

Trading Book: ANZ Stress testing results reflect the potential loss impact from applying the largest shocks occurring during recent history and incorporates both price movements and liquidity associated with these events. Data from 2008 is used (to encapsulate the GFC period) to capture severe historical price movements and liquidity shocks.

Banking Book: The 26 directions for the yield curve are applied as shocks at the 99.97% confidence level based on a 3-month (or 60 business day) holding period to be commensurate with the nature of non-traded risk at ANZ.

3. Limits Setting, Approval and Excess management

Market Risk limit setting and excess reporting are key components of market risk management framework. With consideration of bank's business strategy and business development requirements, China Market Risk performs markets risk limits review regularly. The China Board has ultimate responsibility for market risk management. The Board Level RMC with delegation from China Board is responsible for Market Risk Appetite approval i.e. VaR, EaR and Loss Limit. Limit excess will be reported to monthly Management Level RMC-CMRC/ALCO and tabled to quarterly board level RMC for noting.

4. Market Risk Quantification Analysis (in '000 RMB) as of 28 December 2018

VaR and EaR	as of Dec 28, 2018	Average	Max	Min
Overall Trading Book VaR*	**10,574**	**9,335**	**12,798**	**5,798**
- Local Market	**6,574**	**7,204**	**11,804**	**4,271**
- SGE	**5,272**	**4,729**	**9,119**	**2,197**
-FXO	**468**	**495**	**1,166**	**133**
- Credit	**0**	**42**	**119**	**0**
Banking Book VaR	**6,291**	**4,768**	**6,754**	**2,342**
Banking Book EaR	**3,323**	**7,870**	**34,673**	**911**

*Over 2018, there were three genuine backtesting excess for Local Market Trading and nil backtesting excess for SGE.

Stress Test (Overall Trading Book –IR, FX and Credit and Banking Book):

Stress Test	Stress Scenario	Outcome	Comments

Trading Book - IR	Yield Up - Vol Up	-29,674	Driven by LM desk overall net long position of +$127k DV01 across the curve, of which +$102k from govt bond curve. The stress test result is within the stress trigger
Trading Book - FX	SpotUp_VolUp	-15,291	Driven by Gold onshore (short) vs. offshore (long) spread position of $154m in China Gold Trading and net long $13m in USD NPV in China Local Market Trading. The stress test result is within the stress trigger.
Trading Book - Credit	-	-	No outstanding exposures
Banking Book	Shift - Twist	-75,806	The stress loss mainly came from RMB position, ie upward movements of the curve by 87-144bps with DV01 of A$68k/bp. These are within the stress trigger.

Sensitivity Analysis over NII:

	Y2018	Y2017
Impact of 1% rate shock on the next 12 months' net interest income margin	2.3%	3.4%

D. 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

The 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 CRO of the Bank, Operational Risk governance role under risk team

The 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

The main responsibilities (specific for Operational Risk) 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 CRO 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 8 times a year. The Committee is chaired by CRO 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. CRO 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 to estimate Operational RWAs, by multiplying the average eligible revenue over the previous 3 years with a regulatory determined ratio of 15%. The capital for Operational Risk is the product of the Operational RWAs and the 10.5% Minimum Regulatory Ratio.

In 2018, there were 41 operational risk events (including non-compliance incidents) in ANZ China, with total loss around RMB200.

V. Services for Small & Micro Entreprises

ANZ China continued to support small & micro enterprises ("SME") business in 2018. Loan disbursement for SME in 2018 is at RMB1.88 billion (including both local currency and foreign currency loans), increased by 78.5% compared with that of 2017. The number of loan for SME clients increased by 54.6% compared with that of 2017, reaching the number of 34 at the end of 2018. Loan interest for SME clients was kept at stable level with minor decrease: interest for RMB loan is at around 4.8%, decreased by 0.3%; interest for USD loan is at 6.17%.

VI. Corporate Governance

1. **Board Composition and Board Performance**

As of 31st December 2018, 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 2018. In 2018, 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 16 March, 7 June, 17 September and 17 December in 2018 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, appointed by the Shareholder.

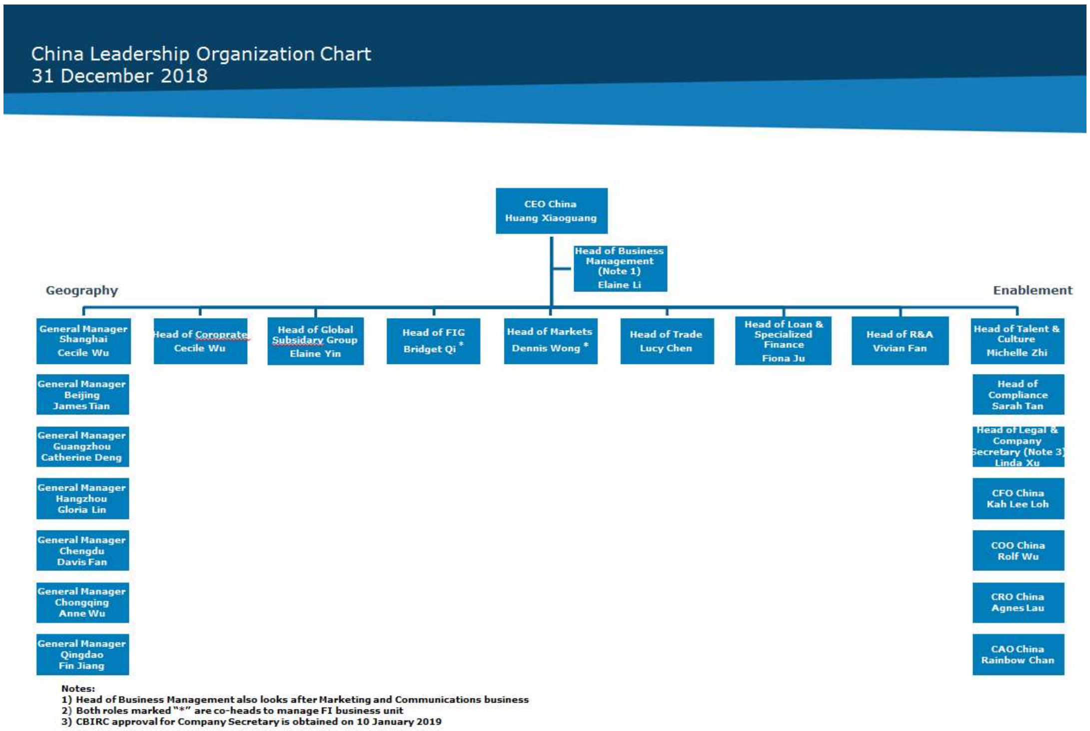
The Supervisor is responsible to Shareholder and reports to Shareholder. The Supervisor attends Board meetings and Risk Management Committee meetings, reviews Board pack, receives reports from senior management at board meeting, and participates in discussion from the perspective of Supervisor, examines 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 2018, 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 &

Connected Party Transaction Control 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. Organization Chart – as of 31 December 2018



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.

VII. Equity Information Disclosure

In accordance with Article 37 in <Provisional Measures on Administration of Equities of Commercial Banks> issued by China Banking & Insurance Regulatory Commission, ANZ China discloses its equity information as below:

1. Shareholder information as at the end of the reporting period

Australia and New Zealand Banking Group Limited ("ANZ Group") is the only shareholder of ANZ China.

2. Connected Party of Shareholder

As at 31 December 2018, the connected party of ANZ Group is listed as below:

Company Name	Jurisdiction	Registered Holder	Registered Holder % Parent Interest Held
8 and 9 Chester Limited	Papua New Guinea	Australia and New Zealand Banking Group (PNG) Limited	100.00000000
ACN 003 042 082 Limited	New South Wales	Australia and New Zealand Banking Group Limited	100.00000000
ACN 008 647 185 Pty Ltd	Australian Capital Territory	ANZ Wealth Australia Limited	100.00000000
ANZ Capel Court Limited	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Capital No. 1 Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Capital Private Limited	India	ANZ Funds Pty. Ltd.	100.00000000
ANZ Centre Pty Ltd	Australia	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Commodity Trading Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Custodial Services New Zealand Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
ANZ Equities (Nominees) Pty Ltd	New South Wales	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Fiduciary Services Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Finance American Samoa, Inc	American Samoa	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Finance Guam, Inc	Guam	Citizens Bancorp	100.00000000
ANZ Funds Pty. Ltd.	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Global Services And Operations (Chengdu) Company Limited	China	ANZ Global Services and Operations Pty Limited	100.00000000
ANZ Global Services And Operations (Manila) Inc	Philippines	ANZ Global Services and Operations Pty Limited	100.00000000
ANZ Global Services and Operations Pty Limited	Victoria	ANZ Funds Pty. Ltd.	100.00000000
ANZ Holdings (New Zealand) Limited	New Zealand	ANZ Funds Pty. Ltd.	100.00000000
ANZ ILP Pty Ltd	Australian Capital Territory	ANZ Wealth Australia Limited	100.00000000
ANZ International (Hong Kong) Limited	Hong Kong	ANZ Funds Pty. Ltd.	100.00000000
ANZ International Private Limited	Singapore	ANZ Funds Pty. Ltd.	100.00000000
ANZ Investment Services (New Zealand) Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000

ANZ Investments (PNG) Limited	Papua New Guinea	Australia and New Zealand Banking Group (PNG) Limited	100.00000000
ANZ IPB Nominees (Hong Kong) Limited	Hong Kong	ANZ Funds Pty. Ltd.	100.00000000
ANZ IPB Nominees Pte Ltd	Singapore	ANZ Singapore Limited	100.00000000
ANZ Leasing (BWC Financing) Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Leasing (NSW) Pty Ltd	New South Wales	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Leasing (Vic) Pty. Ltd.	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Lenders Mortgage Insurance Pty. Limited	Western Australia	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Life Assurance Company Pty Limited	Australian Capital Territory	ANZ Wealth Australia Limited	100.00000000
ANZ Margin Services Pty. Limited	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ National Staff Superannuation Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
ANZ New Zealand (Int'l) Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
ANZ New Zealand Investments Limited	New Zealand	ANZ Wealth New Zealand Limited	100.00000000
ANZ New Zealand Investments Nominees Limited	New Zealand	ANZ New Zealand Investments Limited	100.00000000
ANZ New Zealand Securities Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
ANZ New Zealand Securities Nominees Limited	New Zealand	ANZ New Zealand Securities Limited	100.00000000
ANZ Nominees Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Operations And Technology Private Limited	India	ANZ International Private Limited	100.00000000
ANZ Pacific Operations Ltd	Fiji	ANZ Funds Pty. Ltd.	50.00000000
ANZ Pacific Operations Ltd	Fiji	Australia and New Zealand Banking Group Limited	50.00000000
ANZ Pensions (UK) Limited	England & Wales	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Properties (Australia) Pty Ltd	Australian Capital Territory	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Rewards No. 2 Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Securities (Holdings) Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Securities (Japan), Ltd.	Japan	ANZ Funds Pty. Ltd.	100.00000000
ANZ Securities Limited	Victoria	ANZ Securities (Holdings) Pty Ltd	100.00000000
ANZ Securities, Inc.	New York	Minerva Holdings Limited	100.00000000
ANZ Self Managed Super Pty Limited	New South Wales	ANZ Wealth Australia Limited	100.00000000
ANZ Support Services India Private Limited	India	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Underwriting Limited	New South Wales	ANZ Securities (Holdings) Pty Ltd	100.00000000
ANZ Wealth Alternative Investments Management Pty Ltd	Western Australia	Mercantile Mutual Financial Services Pty Limited	100.00000000
ANZ Wealth Australia Limited	New South Wales	Australia and New Zealand Banking Group Limited	100.00000000
ANZ Wealth New Zealand Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
ANZcover Insurance Private Ltd	Singapore	ANZ Funds Pty. Ltd.	100.00000000
ANZEF Limited	England & Wales	Minerva Holdings Limited	100.00000000
ANZEST Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
ANZi Holdings Pty Ltd	Australia	Australia and New Zealand Banking Group Limited	100.00000000
Arawata Assets Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
Arawata Finance Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000

AUT Administration Pty Ltd	Victoria	ANZ Wealth Australia Limited	100.00000000
Citizens Bancorp	Guam	Australia and New Zealand Banking Group Limited	100.00000000
E S & A Holdings Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
Endeavour Finance Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
Esanda Finance Corporation Limited	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
Financial Planning Hotline Pty Limited	New South Wales	OnePath Funds Management Limited	100.00000000
Franchise Asset Holdings Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
Jikk Pty Ltd	New South Wales	Australia and New Zealand Banking Group Limited	100.00000000
Karapiro Investments Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
La Serigne Limited	Vanuatu	ANZ Bank (Vanuatu) Limited	100.00000000
Looking Together Pty Ltd	Victoria	Australia and New Zealand Banking Group Limited	100.00000000
Mercantile Mutual Financial Services Pty Limited	New South Wales	ANZ Wealth Australia Limited	100.00000000
Minerva Holdings Limited	England & Wales	ANZ Funds Pty. Ltd.	100.00000000
Oasis Asset Management Limited	New South Wales	OnePath Investment Holdings Pty Limited	100.00000000
Oasis Fund Management Limited	New South Wales	OnePath Investment Holdings Pty Limited	100.00000000
OneAnswer Nominees Limited	New Zealand	ANZ New Zealand Investments Limited	100.00000000
OnePath Administration Pty Limited	Western Australia	ANZ Wealth Australia Limited	100.00000000
OnePath Custodians Pty Limited	Australian Capital Territory	ANZ Wealth Australia Limited	100.00000000
OnePath Funds Management Limited	New South Wales	ANZ Wealth Australia Limited	100.00000000
OnePath General Insurance Pty Limited	New South Wales	ANZ Wealth Australia Limited	100.00000000
OnePath Investment Holdings Pty Limited	Victoria	ANZ Wealth Australia Limited	100.00000000
OnePath Life (NZ) Limited	New Zealand	ANZ Wealth New Zealand Limited	100.00000000
OnePath Life Australia Holdings Pty Limited	Victoria	ACN 008 647 185 Pty Ltd	16.98614106
OnePath Life Australia Holdings Pty Limited	Victoria	ANZ Wealth Australia Limited	83.01385894
OnePath Life Limited	Queensland	OnePath Life Australia Holdings Pty Limited	100.00000000
PT ANZ Securities Indonesia	Indonesia	Australia and New Zealand Banking Group Limited	100.00000000
Share Investing Limited	New South Wales	ACN 003 042 082 Limited	100.00000000
Share Investing Nominees Pty Limited	Victoria	Share Investing Limited	100.00000000
Shout for Good Pty. Ltd.	Victoria	ANZ Wealth Australia Limited	100.00000000
SIL Nominees Pty Limited	Victoria	Share Investing Limited	100.00000000
Tandem Financial Advice Pty Limited	Victoria	OnePath Life Limited	100.00000000
UDC Finance Limited	New Zealand	ANZ Bank New Zealand Limited	100.00000000
Union Investment Company Pty Limited	Victoria	OnePath Life Limited	100.00000000
Votraint No. 1103 Pty Limited	New South Wales	ANZ Funds Pty. Ltd.	100.00000000
Whitehall Investments Ltd	Vanuatu	ANZ Bank (Vanuatu) Limited	100.00000000

3. Connected party transaction with shareholder and its connected parties

As at 31 December 2018, the connected party transactions between ANZ China and ANZ Group/ connected party of ANZ Group is as listed below:

Name of the Connected Party	Relationship between ANZ China and the Connected Party	Transaction (contract) Type	Transaction (contract) Amount	Transaction (contract) Unsettled Amount	Transaction Pricing Method
ANZ Global Services and Operations (Manila), Inc.	Organization controlled directly or indirectly by the same entity	Service provider	USD 241,018.55	USD 57,298.45	Full Cost Mark-up
ANZ Global Services and Operations (Manila), Inc.	Organization controlled directly or indirectly by the same entity	Service provider	AUD 103,920.00 (预估)	AUD 94,026.28	Full Cost Mark-up
ANZ Support Services India Private Limited	Organization controlled directly or indirectly by the same entity	Service provider	-	-	-
ANZ Global Services & Operations (Chengdu) Company Limited	Organization controlled directly or indirectly by the same entity	Service provider	CNY 1,200,000.00	CNY 200,000.00	Full Cost Mark-up
ANZ Operations and Technology Private Limited	Organization controlled directly or indirectly by the same entity	Service provider	-	-	-
ANZ Operations and Technology Private Limited	Organization controlled directly or indirectly by the same entity	Service provider	-	-	-
ANZ Global Services and Operations (Manila), Inc	Organization controlled directly or indirectly by the same entity	Service provider	-	-	-
ANZ Global Services & Operations (Chengdu) Company Limited	Organization controlled directly or indirectly by the same entity	Service provider	CNY 16,618,715.54	CNY 6,519,188.39	Full Cost Mark-up
ANZ Support Services India Private Limited	Organization controlled directly or indirectly by the same entity	Service provider	USD 126,202.00	-	Full Cost Mark-up
ANZ Global Services and Operations (Manila), Inc.	Organization controlled directly or indirectly by the same entity	Service provider	USD 48,000.00	USD 48,000.00	Full Cost Mark-up
ANZ Global Services and Operations (Manila), Inc.	Organization controlled directly or indirectly by the same entity	Service provider	AUD 140,000.00	AUD 140,000.00	Full Cost Mark-up
ANZ Global Services & Operations (Chengdu) Co., Ltd	Organization controlled directly or indirectly by the same entity	Service provider	-	-	Full Cost Mark-up
ANZ Global Services & Operations (Chengdu) Company Limited	Organization controlled directly or indirectly by the same entity	Service provider	AUD 489,532.40 (Estimated)	AUD 41,230.90	Full Cost Mark-up

4. Director & Supervisor Nomination

There is no new nomination for director or supervisor in 2018.

VIII. 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 in 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.
    - Review and determine ANZ China Material Risk Takers (China MRTs) roles.
    - Review and update ANZ China Governance Framework for Management of Professionals' Conduct.

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

- The total 2018 annual remuneration amount is CNY326,820,000, 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. ANZ Value is an important assessment criteria, and 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. The performance compensation of ANZ reflects sufficient risks and the incentive and constraint requirements for sustainable development of the bank.

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 Board is required before the deferred amount is released. For China Material Risk Takers, the part of their variable compensation will be equally mandatory deferred for the period of three years (at least 40%/50%).

No malus or clawback of variable compensation occurred in the year 2018.

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 2018) - refer to Part VI 'Corporate Governance' Section 1 'Board Composition'.

As of 31 December 2018, 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	Chief Executive Officer (CEO) China
	Chief Risk Officer (CRO) China
	Chief Financial Officer (CFO) China
	Chief Operating Officer (COO) China
	Chief Audit Officer (CAO) China
	Head of Corporates China & GM Shanghai
	Head of Global Subsidiary Group China
	Head of Markets China
	Head of Transaction Banking China
	Head of FIG China
	Head of R&A China
	Head of Loan & Specialised Finance China
	Head of Compliance China
	Head of Legal & Company Secretary China
	Head of Talent & Culture China
	GM Beijing
	GM Guangzhou
	GM Hangzhou
	GM Chongqing
	GM Chengdu
	GM Qingdao

As of 31 December 2018, total income (exclude benefits) paid to senior managements and those employees in posts having material impact on risks of the bank is CNY 81,610,000 and paid part of incentive bonus is CNY 16,850,000 and the deferral part is CNY 12,440,000.

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 2018 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 2018 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.

IX. Significant Matters

In the year 2018, there is no significant matters taking place in accordance with the measurements of ‘significant matters’ as specified in Article 22 of <Measures on Information Disclosure by Commercial Banks> Decree of the China Banking Regulatory Commission No.7 (2007).

X. Financial Statements

Our financial statements have been audited by KPMG and the details are attached in this report.

XII. Network and Contact (as of 31 December 2018)

Network	Address	Telephone	Fax
ANZ China Headquarter	Unit D,E &F, 17F and Unit B, 12F and 15F, Mirae Asset Tower, No. 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 6000	+86 21 6169 6199
Shanghai Free Trade Zone Sub-branch	Unit 501-505,507, 3UDC Building, 2 Hua Jing Road, Shanghai	+86 21 6010 9800	+86 21 6010 9897
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	Unit 02, 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, Zhejiang	+86 571 2689 0888	+86 571 2689 0877
Chengdu Branch	Unit 3, 30F, 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 2018 to 31 December 2018
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 1901124 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 ("ANZ China") set out on pages 1 to 80 which comprise the balance sheet as at 31 December 2018, 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 ANZ China'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 ANZ China as at 31 December 2018, and the financial performance and the cash flows of ANZ China 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 ANZ China 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

ANZ China's management is responsible for the other information. The other information comprises all the information included in 2018 annual report of ANZ China, 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 and based on the Accounting Standards for Business Enterprises and the requirement 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 ANZ China'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 ANZ China or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ANZ China'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 1901124 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 ANZ China'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 ANZ China'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 ANZ China 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 according to the basis of preparation.

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

Chen Sijie
(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 2018
(Expressed in RMB)

	Note	*2018*	*2017*
Assets:			
Cash and deposits with central bank	*6*	2,736,770,172.96	4,011,580,686.46
Deposit with banks and other financial institutions	*7*	1,840,089,588.56	3,996,969,830.59
Precious metals		396,597,737.83	191,704,089.28
Placements with banks and other financial institutions	*8*	6,942,601,182.25	11,497,391,957.97
Financial assets at fair value through profit or loss	*9*	2,415,050,222.88	2,532,272,011.02
Derivative financial assets	*10*	3,870,397,482.86	5,280,407,674.61
Financial assets purchased under resale agreements	*11*	260,000,000.00	-
Interest receivable	*12*	302,353,687.43	243,586,555.68
Loans and advances to customers	*13*	10,614,251,233.63	9,166,907,014.87
Available-for-sale financial assets	*14*	4,412,089,430.69	3,901,214,137.39
Fixed assets	*15*	32,076,258.74	43,778,391.78
Intangible assets	*16*	12,777,473.96	17,661,034.53
Deferred tax assets	*17*	44,035,299.61	92,973,974.20
Other assets	*18*	1,864,065,265.52	1,922,809,476.40
Total assets		35,743,155,036.92	42,899,256,834.78

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Balance Sheet as at 31 December 2018 (continued)
(Expressed in RMB)

	Note	*2018*	*2017*
Liabilities:			
Deposits from banks and other financial institutions	*19*	997,157,225.35	1,403,157,739.88
Placements from banks and other financial institutions	*20*	3,316,837,104.58	6,524,847,048.90
Derivative financial liabilities	*10*	3,791,718,891.95	5,301,312,875.53
Financial assets sold under repurchase agreements	*21*	2,396,000,000.00	2,175,800,000.00
Deposits from customers	*22*	14,603,046,642.60	17,800,354,372.89
Interest payable	*23*	73,944,494.13	49,671,860.56
Employee benefits payable	*24*	26,852,415.40	32,015,482.37
Taxes payable	*25*	47,433,678.89	139,755,062.51
Debt securities issued	*26*	1,989,293,036.76	-
Other liabilities	*27*	753,522,775.40	1,817,984,969.49
Total liabilities		27,995,806,265.06	35,244,899,412.13

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Balance Sheet as at 31 December 2018 (continued)
(Expressed in RMB)

	Note	*2018*	*2017*
Owners' equity:			
Paid-in capital	*28*	6,225,000,000.00	6,225,000,000.00
Other comprehensive income	*29*	40,145,356.30	(28,369,820.35)
Surplus reserve	*30*	199,050,602.58	152,168,985.32
General reserve	*31*	200,028,578.49	200,028,578.49
Retained earnings		1,083,124,234.49	1,105,529,679.19
Total owners' equity		7,747,348,771.86	7,654,357,422.65
Total liabilities and owners' equity		35,743,155,036.92	42,899,256,834.78

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

Xiaoguang Huang Chief Executive Officer	Xi Xu Acting Chief Financial Officer	Australia and New Zealand Bank (China) Company Limited (Stamp)

Date:

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Income Statement for the year ended 31 December 2018
(Expressed in RMB)

	Note	2018	2017
Operating income		1,273,789,796.24	922,765,308.10
Net interest income	33	378,969,685.65	372,403,174.76
Interest income		988,714,374.88	983,235,365.92
Interest expenses		(609,744,689.23)	(610,832,191.16)
Net fees and commission income	34	133,469,345.55	171,069,233.01
Fee and commission income		170,130,751.12	211,981,481.51
Fee and commission expenses		(36,661,405.57)	(40,912,248.50)
Other income	35	4,446,940.38	5,067,383.02
Investment income	36	440,610,402.17	401,218,834.38
Gains/(losses) from changes in fair value	37	134,132,074.85	(434,793,137.44)
Foreign exchange gains		182,161,347.64	407,799,820.37
Operating expenses		(654,067,731.32)	(760,164,818.25)
Taxes and surcharges		(6,968,865.69)	(5,987,601.67)
General and administrative expenses	38	(622,320,641.76)	(806,436,244.32)
(Provision) / reversal of impairment losses	39	(24,778,223.87)	62,693,991.37
Losses from asset disposals	40	-	(2,624,162.15)
Other operating expenses		-	(7,810,801.48)

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2018
(Expressed in RMB)

	Note	*2018*	*2017*
Operating profit		619,722,064.92	162,600,489.85
Add: Non-operating income	*41*	200,265.76	14,649,986.82
Less: Non-operating expenses		(275.36)	(3,349.56)
Profit before tax		619,922,055.32	177,247,127.11
Less: Income tax expenses	*42*	(151,105,882.76)	(50,857,727.11)
Net profit		468,816,172.56	126,389,400.00
Other comprehensive income, net of tax:	*43*		
Items that may be reclassified to profit or loss			
- Gains or losses arising from changes in fair value of available-for-sale financial assets		65,098,135.66	(18,950,226.08)
- Effective portion of gains or losses arising from cash flow hedging instruments		3,417,040.99	(3,348,667.52)
Total comprehensive income		537,331,349.21	104,090,506.40

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2018 (continued)
(Expressed in RMB)

	Note	*2018*	*2017*
Cash flows from operating activities:			
Net decrease in deposits with the central bank, banks and other financial institutions		1,515,092,577.32	3,124,751,758.29
Net decrease in financial assets at fair value through profit or loss		156,135,078.27	-
Net decrease in placements with banks and other financial institutions and financial assets purchased under resale agreements		2,135,695,736.81	-
Net decrease in loans and advances to customers		-	5,058,801,012.76
Proceeds from interest, fee and commission		1,101,057,440.89	1,202,060,863.45
Proceeds relating to operating activities		414,773,730.73	1,750,692,521.11
Sub-total of cash inflows		5,322,754,564.02	11,136,306,155.61
Net increase in financial assets at fair value through profit or loss		-	(141,028,732.25)
Net increase in placements with banks and other financial institutions and financial assets purchased under resale agreements		-	(2,333,350,668.01)
Net increase in loans and advances to customers		(1,481,403,471.60)	-
Net increase in available-for-sale financial assets		(424,077,779.08)	(831,922,290.19)
Net decrease in deposits from customers and other banks		(3,603,308,244.82)	(2,980,214,135.37)
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchased agreements		(2,987,809,944.32)	(1,879,589,373.94)
Payment for interest, fee and commission payable		(612,238,159.34)	(671,904,618.35)
Payment to and for employees		(390,621,317.94)	(460,463,425.83)
Payment of various taxes		(232,039,715.59)	(110,169,173.78)
Payment for other operating activities		(1,283,959,267.07)	(317,012,869.12)
Sub-total of cash outflows		(11,015,457,899.76)	(9,725,655,286.84)
Net cash flow (used in) / generated from operating activities	44(1)	(5,692,703,335.74)	1,410,650,868.77

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2018 (continued)
(Expressed in RMB)

	Note	*2018*	*2017*
Cash flows from investing activities:			
Payment for acquisition of fixed assets, intangible assets and other long-term assets		(5,685,927.53)	(8,249,623.12)
Sub-total of cash outflows		(5,685,927.53)	(8,249,623.12)
Net cash outflows from investing activities		(5,685,927.53)	(8,249,623.12)
Cash flows from financing activities:			
Proceeds from issuance of debt securities		3,289,293,036.76	-
Sub-total of cash inflows		3,289,293,036.76	-
Repayments of borrowings		(1,300,000,000.00)	-
Payment for profit distributions		(444,340,000.00)	(196,500,000.00)
Sub-total of cash outflows		(1,744,340,000.00)	(196,500,000.00)
Net cash flow generated from/ (used in) investing activities		1,544,953,036.76	(196,500,000.00)
Effect of foreign exchange rate changes on cash and cash equivalents		67,635,164.11	(125,277,327.40)
Net (decrease) / increase in cash and cash equivalents	44(2)	(4,085,801,062.40)	1,080,623,918.25
Add: Cash and cash equivalents at the beginning of the year		9,790,047,846.30	8,709,423,928.05
Cash and cash equivalents at the end of the year	44(3)	5,704,246,783.90	9,790,047,846.30

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Statement of Changes in Owners' equity for the year ended 31 December 2018
(Expressed in RMB)

	Note	*Paid-in capital*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Total*
Balance at 1 January 2018		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
Changes in equity during the year							
1. Total comprehensive income		-	68,515,176.65	-	-	468,816,172.56	537,331,349.21
2. Appropriation of profits							
- Appropriation for surplus reserve	*30, 32*	-	-	46,881,617.26	-	(46,881,617.26)	-
- Distributions to owners	*32*	-	-	-	-	(444,340,000.00)	(444,340,000.00)
Sub-total of 1 & 2		-	68,515,176.65	46,881,617.26	-	(22,405,444.70)	92,991,349.21
Balance at 31 December 2018		6,225,000,000.00	40,145,356.30	199,050,602.58	200,028,578.49	1,083,124,234.49	7,747,348,771.86

The notes on pages 10 to 86 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited
Statement of Changes in Owners' 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							
- Appropriation for surplus reserve	*30, 32*	-	-	12,638,940.00	-	(12,638,940.00)	-
- Distributions to owners	*32*	-	-	-	-	(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 10 to 86 form part of these 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.

As at 31 December 2018, the Bank has established 7 branches and 1 sub-branch in Shanghai, Beijing, Guangzhou, Chongqing, Hangzhou, Chengdu and Qingdao.

2 Basis of preparation

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

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) issued by the former China Banking Regulatory Commission ("CBRC") (i.e. the loan provision shall not be less than 2.5% of all loan balances or be less than 150% of non-performing loan balances) (see Note 3(8)(a)). 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 and that based on CAS is higher than zero, the difference will be recognised as an additional allowance for impairment losses of loans and allowances for customers and form part of total allowances for impairment losses of loans and allowances for customers. These accounting policies are 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 2018, and the financial performance and the cash flows of the Bank for the year then ended.

(1) Accounting year

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

(2) 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 banks and other financial institutions, placements with banks and other 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, receivables, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, derivative financial liabilities, deposits from customers, employee benefits payable, debt securities issued, payables 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 banks and other financial institutions, placements with banks and other 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 sheet 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. Underlying 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 banks and other 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%	10.0%
Office equipment	8 years	0%	12.5%
Computers	5 years	0%	20.0%

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(15), 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), the loan provision rate and the provision coverage shall not be, in principal, lower than 2.5% and 150% respectively. The higher of the above two rates shall be the regulatory standard for commercial banks. As at 31 December 2018, the total allowance for impairment losses of loans and advances to customers the Bank recognised was RMB 272,327,978.44, of which, the additional allowance made is RMB 225,008,537.00, with a loan loss provision rate of 2.5% (31 December 2017: amount of RMB 235,256,866.53, with an additional allowance of RMB 187,750,690.90, and a loan loss provision rate of 2.5%). As at 31 December 2018, 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.

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 and unemployment insurance plans in the social insurance system established and managed by government organisations. The Bank makes contributions to basic pension insurance and unemployment 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) Expense recognition

(a) Interest expense

Interest expense arising from financial liabilities is calculated based on the amortization cost of the financial liabilities and duration by using the effective interest rate and recognised in the corresponding period.

(b) Other expense

Other expense is recognised on an accrual basis.

(14) 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 2018, the Bank recognised the government grants in other income.

(15) 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.

(16) 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(s).

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 banks and other 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 owners' 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 owners' 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 owners' 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 owners' 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 owners' 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 owners' equity from the period when the hedge was effective is reclassified into profit or loss immediately.

(17) Profit distributions

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.

(18) 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 Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties.

(19) 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.

(20) 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.

(21) 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 51, other uncertainty factors of the estimations are as follows:

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

The Bank reviews the portfolios of loans and advances, 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, receivables, 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 loans and advances and receivables that are 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 and receivables 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

The MOF issued the following interpretations and amendments of the Accounting Standards for Business Enterprises during 2017 and 2018:

- *CAS Bulletin No.12 - Determination of Whether the Provider and Receiver of Key Management Personnel Services are Related Parties*
- *Notice on Revision of the 2018 Illustrative Financial Statements* (Caikuai [2018] No.15)) and relevant interpretations

The Bank has applied the above interpretations and revised regulations since 1 January 2018 and adjusted the related accounting policies.

Major impact of the adoption of the above interpretations and revised regulations is as follows:

(a) CAS Bulletins No.12

The adoption of CAS Bulletins No.12 does not have material impact on the financial position and financial performance of the Bank.

(b) Presentation of financial statements

The Bank has prepared the financial statements for the year ended 31 December 2018 in accordance with the presentation format of the financial statements specified in Caikuai [2018] No.15 and has applied the new presentation requirements retrospectively and restated the comparative figures, which do not have any material impacts on the presentation of financial statements.

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% (2017: 25%).

6 Cash and deposits with central bank

	Note	*2018*	*2017*
Cash on hand		449,108.51	300,000.00
Statutory deposit reserves	*(1)*	1,644,201,463.09	2,119,233,825.69
Surplus deposit reserves	*(2)*	794,550,266.03	787,462,310.57
Foreign exchange risk reserves	*(3)*	297,569,335.33	1,104,584,550.20
Total		2,736,770,172.96	4,011,580,686.46

(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:

	2018	*2017*
Deposit reserve ratio for RMB deposits	12.5%	14.5%
Deposit reserve ratio for foreign currency deposits	5.0%	5.0%

(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* (Yin Fa [2015] No.273). foreign exchange risk reserve ratio decreased from 20% to zero from 11 September 2017 according to *the PBOC's Announcement of the Adjustment of the Foreign Exchange Risk Reserves* (Yin Fa [2017] No.207) and increased from zero to 20% from 6 August 2018 in accordance with *the PBOC's Announcement of the Policies on Adjustment of the Foreign Exchange Risk Reserves* (Yin Fa [2018] No.190). The Bank started placing the foreign exchange risk reserve deposits since September 2018.

7 Deposits with banks and other financial institutions

(1) Analysed by counterparty

	Note	*2018*	*2017*
Domestic banks		1,568,577,103.62	3,747,807,069.19
- *Current deposits*		*118,577,103.62*	*322,762,069.19*
- *Term deposits*		*1,450,000,000.00*	*3,425,045,000.00*
Domestic non-banking financial institutions		104,705,301.93	110,146,945.11
Overseas banks		166,964,625.38	144,446,869.70
Sub-total		1,840,247,030.93	4,002,400,884.00
Less: Allowance for impairment losses	*(2)*	(157,442.37)	(5,431,053.41)
Total		1,840,089,588.56	3,996,969,830.59

(2) Movement of allowance for impairment losses

	2018	*2017*
Balance at the beginning of the year	5,431,053.41	8,780,885.03
Reversal during the year	(5,273,611.04)	(3,349,831.62)
Balance at the end of the year	157,442.37	5,431,053.41

8 Placements with banks and other financial institutions

(1) Analysed by counterparty

	Note	*2018*	*2017*
Domestic banks		-	588,078,012.08
Domestic non-bank financial institutions		5,712,906,350.65	7,935,936,757.53
Overseas banks		1,237,739,999.64	2,987,236,037.28
Sub-total		6,950,646,350.29	11,511,250,806.89
Less: Allowance for impairment losses	*(2)*	(8,045,168.04)	(13,858,848.92)
Total		6,942,601,182.25	11,497,391,957.97

(2) Movement of allowance for impairment losses

	2018	*2017*
Balance at the beginning of the year	13,858,848.92	6,620,065.01
(Reversal) / addition during the year	(5,813,680.88)	7,238,783.91
Balance at the end of the year	8,045,168.04	13,858,848.92

9 Financial assets at fair value through profit or loss

	2018	*2017*
Debt securities investments held for trading	2,415,050,222.88	2,532,272,011.02

Debt securities investments held for trading are issued by the following institutions and stated at fair value:

	2018	*2017*
Domestic policy banks	2,323,382,371.46	2,494,651,303.01
MOF	91,667,851.42	37,620,708.01
Total	2,415,050,222.88	2,532,272,011.02

As at the balance sheet date, most amount of the debt securities investments were pledged as security in respect of repurchase agreements (see Note 47), and the rest has no major restriction for cashing.

10 Derivatives

	2018		
	Notional amount total	*Fair value assets*	*Fair value liabilities*
Interest rate derivatives:			
Interest rate swaps	228,155,549,608.92	827,271,727.23	(798,136,280.58)
Interest rate options	8,719,508,559.75	11,804,694.28	(9,990,933.38)
	236,875,058,168.67	839,076,421.51	(808,127,213.96)
Currency derivatives:			
Foreign exchange swaps	222,905,386,160.59	2,740,467,739.37	(2,514,726,011.30)
Forward foreign exchange	15,737,787,604.42	86,239,086.66	(333,687,114.84)
Foreign exchange options	3,195,465,743.86	99,289,745.01	(20,544,474.67)
	241,838,639,508.87	2,925,996,571.04	(2,868,957,600.81)
Commodity / precious metal derivatives:			
Gold/silver swaps	4,594,368,339.32	48,508,331.26	(79,170,572.46)
Precious metal futures	1,635,395,813.66	5,850,555.07	(14,078,405.10)
Gold forward	1,257,874,055.15	15,799,401.19	(4,707,472.44)
Gold deferred	666,026,277.85	466,212.31	-
Platinum forward	626,243,365.24	13,993,714.26	(9,550,890.15)
Gold options	2,823,545.40	1,411,031.98	-
	8,782,731,396.62	86,029,246.07	(107,507,340.15)
Offset complicated derivatives, net:	5,264,882,463.89	19,295,244.24	(7,126,737.03)
Total	492,761,311,538.05	3,870,397,482.86	(3,791,718,891.95)

	2017		
	Notional amount total	*Fair value assets*	*Fair value liabilities*
Interest rate derivatives:			
Interest rate swaps	184,894,988,724.04	372,895,017.56	(365,657,722.37)
Interest rate options	9,062,477,134.95	6,799,881.24	(6,799,881.24)
	193,957,465,858.99	379,694,898.80	(372,457,603.61)
Currency derivatives:			
Foreign exchange swaps	278,428,323,300.99	4,150,561,283.92	(4,767,816,906.78)
Forward foreign exchange	20,293,057,068.72	336,684,292.22	(73,826,696.59)
Foreign exchange options	13,280,873,135.06	351,654,305.16	(51,278,237.16)
	312,002,253,504.77	4,838,899,881.30	(4,892,921,840.53)
Commodity/precious metal derivatives:			
Gold/silver swaps	5,135,519,934.10	37,849,005.58	(16,987,980.62)
Precious metal futures	1,604,049,150.38	10,822,435.00	(6,102,500.00)
Gold forward	568,480,747.06	2,956,005.26	(2,107,123.55)
Gold deferred	540,392,110.00	32,806.13	(51,862.27)
Gold options	243,340,785.81	974,011.80	(1,518,441.67)
Commodity swaps	119,432,227.67	932,531.77	(915,376.16)
Platinum forward	8,651,292.95	13,886.89	(17,935.04)
	8,219,866,247.97	53,580,682.43	(27,701,219.31)
Offset complicated derivatives, net:	3,325,608,292.26	8,232,212.08	(8,232,212.08)
Total	517,505,193,903.99	5,280,407,674.61	(5,301,312,875.53)

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

For the convenience of comparison, the Bank has reclassified the above disclosure of 2017.

11 Financial assets purchased under resale agreements

	2018	2017
Securities purchased under resale agreements		
- Domestic banks	260,000,000.00	-

12 Interest receivable

Movement of interest receivable:

	2018			
	Balance at the beginning of the year	Accrued during the year	Received during the year	Balance at the end of the year
Interest receivable	243,586,555.68	1,233,164,591.31	(1,174,397,459.56)	302,353,687.43

	2017			
	Balance at the beginning of the year	Accrued during the year	Received 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

13 Loans and advances to customers

(1) Analysis by corporate and personal loans

	2018	2017
Corporate loans		
- Loans	10,421,017,946.23	8,920,313,568.46
- Bills negotiation	284,315,022.87	196,622,786.18
- Bills discounted	131,070,688.92	212,609,671.54
Personal loans	50,175,554.05	72,617,855.22
Total	10,886,579,212.07	9,402,163,881.40
Less: Allowance for impairment losses	(272,327,978.44)	(235,256,866.53)
- Collective assessment	(251,261,217.56)	(211,903,032.28)
Including: Additional allowance	(225,008,537.00)	(187,750,690.90)
- Individual assessment	(21,066,760.88)	(23,353,834.25)
Total book value	10,614,251,233.63	9,166,907,014.87

(2) Analysis by industry sectors

	2018		2017	
	Book value	*Percentage (%)*	*Book value*	*Percentage (%)*
Manufacturing	4,720,273,611.13	43.35%	3,965,033,571.59	42.17%
Wholesale and retail trade	4,027,085,386.58	36.99%	3,364,901,634.11	35.79%
Leasing and commercial services	673,672,941.97	6.19%	121,752,997.97	1.29%
Agriculture, forestry, husbandry and fishery	333,956,102.67	3.07%	422,269,628.72	4.49%
Information transmission, computer services and software industry	296,289,160.35	2.72%	231,652,820.15	2.47%
Transport, storage and postal industry	296,013,270.32	2.72%	585,989,972.56	6.23%
Real estate industry	202,000,000.00	1.86%	393,620,654.48	4.19%
Production and supply of electricity, gas and water	169,000,000.00	1.55%	194,077,186.60	2.07%
Mining industry	100,000,000.00	0.92%	50,000,000.00	0.53%
Personal loans and advances	50,175,554.05	0.46%	72,017,855.22	0.77%
Construction industry	18,113,185.00	0.17%	247,560.00	0.00%
Total	10,886,579,212.07	100.00%	9,402,163,881.40	100.00%
Less: Allowance for impairment losses	(272,327,978.44)		(235,256,866.53)	
- Collective assessment	(251,261,217.56)		(211,903,032.28)	
Including: Additional allowance	(225,008,537.00)		(187,750,690.90)	
- Individual assessment	(21,066,760.88)		(23,353,834.25)	
Total book value	10,614,251,233.63		9,166,907,014.87	

(3) Analysis by geographical sectors

	2018		2017	
	Book value	*Percentage (%)*	*Book value*	*Percentage (%)*
East China	7,253,095,975.86	66.62%	6,264,876,659.51	66.64%
North China	933,941,132.67	8.58%	1,426,441,715.90	15.17%
North-west China	725,606,758.86	6.67%	506,026,965.30	5.38%
South China	710,775,625.93	6.53%	413,816,359.27	4.40%
South-west China	580,594,904.17	5.33%	387,249,770.37	4.12%
North-east China	384,573,730.04	3.53%	162,010,703.93	1.72%
Central China	297,991,084.54	2.74%	213,223,461.36	2.27%
Overseas and Hong Kong Macau and Taiwan regions	-	-	28,518,245.76	0.30%
Total	10,886,579,212.07	100.00%	9,402,163,881.40	100.00%
Less: Allowance for impairment losses	(272,327,978.44)		(235,256,866.53)	
- Collective assessment	(251,261,217.56)		(211,903,032.28)	
Including: Additional allowance	(225,008,537.00)		(187,750,690.90)	
- Individual assessment	(21,066,760.88)		(23,353,834.25)	
Total book value	10,614,251,233.63		9,166,907,014.87	

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

	2018	*2017*
Guaranteed loans	5,071,764,065.77	4,756,947,341.92
Unsecured loans	5,013,925,691.61	3,848,278,065.67
Collateral loans	800,889,454.69	796,938,473.81
- Secured loans	*463,730,689.82*	*498,203,789.59*
- Pledged loans	*337,158,764.87*	*298,734,684.22*
Total	10,886,579,212.07	9,402,163,881.40
Less: Allowance for impairment losses	(272,327,978.44)	(235,256,866.53)
- Collective assessment	(251,261,217.56)	(211,903,032.28)
Including: Additional allowance	(225,008,537.00)	(187,750,690.90)
- Individual assessment	(21,066,760.88)	(23,353,834.25)
Total book value	10,614,251,233.63	9,166,907,014.87

(5) Overdue loans

	2018				
	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	-	-	-	18,214,165.60	18,214,165.60
Collateral loans	-	4,992,584.93	8,681,007.19	-	13,673,592.12
- Secured loans	-	*4,992,584.93*	*8,681,007.19*	-	*13,673,592.12*
- Pledged loans	-	-	-	-	-
Total	-	4,992,584.93	8,681,007.19	18,214,165.60	31,887,757.72

	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

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

	2018		
	Collective assessment	*Individual assessment*	*Total*
As at 1 January 2018	211,903,032.28	23,353,834.25	235,256,866.53
Provision / (reversal) during the year	39,358,185.28	(3,728,078.00)	35,630,107.28
Write-off during the year	-	-	-
Exchange differences	-	1,441,004.63	1,441,004.63
As at 31 December 2018	251,261,217.56	21,066,760.88	272,327,978.44

	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

(7) Analysis by impairment losses

As at 31 December 2018, the amount of loans and advances for which impairment losses are individually assessed is RMB 31,887,757.72 (At 31 December 2017: RMB 47,405,023.16). The amount of the loans which collaterals could secure is RMB 13,673,592.12, and the unsecured part is RMB 18,214,165.60 (At 31 December 2017: Such loans which collaterals could secure is RMB 30,063,986.14, and the unsecured part is RMB 17,341,037.02). The fair value of the collaterals for the loans was RMB 23,300,000.00 (At 31 December 2017: RMB 46,673,000.00). For such loans, the impairment losses individually assessed are RMB 21,066,760.88 (At 31 December 2017: RMB 23,353,834.25).

The fair value of the collateral above-mentioned is determined based on the collateral disposal experience and market conditions and is adjusted to the latest available external evaluation value.

(8) Structured loans and advances

	2018	*2017*
Structured loans and advances	18,214,165.60	17,341,037.02

14 Available-for-sale financial assets

	2018	*2017*
Bonds	4,412,089,430.69	3,035,265,674.73
Negotiable certificates of deposit	-	865,948,462.66
Total	4,412,089,430.69	3,901,214,137.39

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

	2018	*2017*
Domestic policy banks	4,412,089,430.69	2,985,598,911.39
Domestic commercial banks	-	865,948,462.66
MOF	-	49,666,763.34
Total	4,412,089,430.69	3,901,214,137.39

As at the balance sheet date, part of the above bonds were pledged as security in respect of repurchase agreements (see Note 47), and the rest has no major restriction for cashing.

15 Fixed assets

	Office furniture	*Office equipment*	*Computers*	*Total*
Cost				
As at 1 January 2017	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
Additions	42,217.93	504,227.01	2,403,940.41	2,950,385.35
Disposal	-	(50,970.45)	-	(50,970.45)
As at 31 December 2018	7,060,193.30	12,507,816.42	70,410,356.14	89,978,365.86
Less: Accumulated depreciation				
As at 1 January 2017	(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-offs	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)
Charge for the year	(739,500.29)	(1,130,109.80)	(12,782,908.30)	(14,652,518.39)
Written-offs	-	50,970.45	-	50,970.45
As at 31 December 2018	(4,915,265.10)	(8,252,937.02)	(44,733,905.00)	(57,902,107.12)
Net book value				
As at 31 December 2018	2,144,928.20	4,254,879.40	25,676,451.14	32,076,258.74
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 2018, the Bank considers that no impairment provision for fixed assets is required (31 December 2017: nil).

16 Intangible assets

	Software
Cost	
As at 1 January 2017	107,154,502.88
Additions	-
Disposal	(59,026,225.95)
As at 31 December 2017	48,128,276.93
Additions	-
Disposal	(603,000.00)
As at 31 December 2018	47,525,276.93
Less: Accumulated amortisation	
As at 1 January 2017	(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)
Charge for the year	(4,883,560.57)
Disposal	603,000.00
As at 31 December 2018	(34,747,802.97)
Net book value	
As at 31 December 2018	12,777,473.96
As at 31 December 2017	17,661,034.53

As at 31 December 2018, the Bank considers that no impairment provision for intangible assets is required (31 December 2017: nil).

17 Deferred tax assets

	2018			
	As at 1 January 2018	Charged to profit or loss	Recognised directly in equity	As at 31 December 2018
Provisions and write-off of asset impairment	45,187,558.09	10,134,028.70	-	55,321,586.79
Change of fair value	11,887,392.96	(33,532,819.80)	-	(21,645,426.84)
Available-for-sale financial assets	8,340,384.27	-	(21,699,378.55)	(13,358,994.28)
Accrued expenses	9,377,167.72	267,331.81	-	9,644,499.53
Employee benefits payable	8,003,870.59	(1,290,766.74)	-	6,713,103.85
Amortisation of intangible assets	6,627,151.67	(1,457,972.43)	-	5,169,179.24
Effective portion of gains arising from cash flow hedging instruments	1,116,222.51	-	(1,139,013.66)	(22,791.15)
Others	2,434,226.39	(220,083.92)	-	2,214,142.47
Total	92,973,974.20	(26,100,282.38)	(22,838,392.21)	44,035,299.61

	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
Total	(9,146,821.02)	94,687,830.69	7,432,964.53	92,973,974.20

18 Other assets

	Note	2018	2017
Gold lease receivable		1,281,767,777.07	1,587,305,595.41
Refundable deposits		493,951,543.18	191,782,544.17
Service fee receivables due from related parties		42,682,373.78	63,544,858.45
Payment in advance		10,102,993.92	5,236,192.25
Leasehold improvements		4,674,292.96	4,018,882.94
Suspense accounts		-	1,513,339.70
Others		34,054,845.92	72,869,543.78
Sub-total		1,867,233,826.83	1,926,270,956.70
Less: Allowance for impairment losses	(1)	(3,168,561.31)	(3,461,480.30)
Total		1,864,065,265.52	1,922,809,476.40

(1) Movement of allowance for impairment losses

	2018	2017
Balance at the beginning of the year	3,461,480.30	2,276,149.45
(Reversal) / provision during the year	(292,918.99)	1,185,330.85
Balance at the end of the year	3,168,561.31	3,461,480.30

As at 31 December 2018, the Bank considers that the impairment provision for gold lease receivable recognised is RMB 3,055,549.31 (31 December 2017: RMB 3,461,480.30).

19 Deposits from banks and other financial institutions

	2018	*2017*
Domestic banks	201,285,490.47	446,691,065.35
Domestic non-bank financial institutions	645,313,557.24	183,992,611.54
Overseas banks	150,558,177.64	352,847,730.37
Overseas non-bank financial institutions	-	419,626,332.62
Total	997,157,225.35	1,403,157,739.88

20 Placements from banks and other financial institutions

	2018	*2017*
Overseas banks	3,216,837,104.58	6,263,479,043.53
Domestic banks	100,000,000.00	261,368,005.37
Total	3,316,837,104.58	6,524,847,048.90

21 Financial assets sold under repurchase agreements

	2018	*2017*
Securities sold under repurchase agreements		
- Domestic commercial banks	1,605,000,000.00	1,725,800,000.00
- Domestic policy banks	791,000,000.00	450,000,000.00
Total	2,396,000,000.00	2,175,800,000.00

As at 31 December 2018, the collateral of the Bank's financial assets sold under repurchase agreements are bonds issued by domestic policy banks and the MOF, whose book value totals RMB 2,605,525,249.25 (31 December 2017: the collateral of the Bank's financial assets sold under repurchase agreements are bonds issued by domestic policy banks, whose book value totals RMB 2,328,905,819.48).

22 Deposits from customers

	2018	2017
Current deposits		
- Corporate customers	2,783,815,486.83	3,092,155,792.83
- Individual customers	11,142,382.06	23,998,747.85
Sub-total	2,794,957,868.89	3,116,154,540.68
Term deposits (including call deposits)		
- Corporate customers	8,151,861,390.54	10,950,821,494.86
- Individual customers	-	1,878,337.35
Sub-total	8,151,861,390.54	10,952,699,832.21
Structure deposits		
- Corporate customers	3,655,000,000.00	3,731,500,000.00
- Individual customers	-	-
Sub-total	3,655,000,000.00	3,731,500,000.00
Guarantee deposits received	1,227,383.17	-
Total	14,603,046,642.60	17,800,354,372.89

23 Interest payable

Movement of interest receivable:

	2018			
	Balance at the beginning of the year	*Accrued during the year*	*Paid during the year*	*Balance at the end of the year*
Interest payable	49,671,860.56	609,744,689.23	(585,472,055.66)	73,944,494.13

	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

24 Employee benefits payable

	Note	*2018*	*2017*
Short-term employee benefits	*(1)*	25,215,511.96	30,598,875.17
Post-employment benefits			
- defined contribution plans	*(2)*	1,436,903.44	1,416,607.20
Termination benefits	*(3)*	200,000.00	-
Total		26,852,415.40	32,015,482.37

(1) Short-term employee benefits

	2018			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Salaries, bonuses and allowances	29,972,135.05	323,209,349.00	(328,778,824.25)	24,402,659.80
Staff welfare	-	22,415,984.84	(22,415,984.84)	-
Social insurance	626,740.12	7,265,497.78	(7,260,859.74)	631,378.16
- Medical insurance	569,462.85	6,537,593.63	(6,529,665.25)	577,391.23
- Work-related injury insurance	9,827.41	102,195.73	(106,206.65)	5,816.49
- Maternity insurance	47,449.86	625,708.42	(624,987.84)	48,170.44
Housing fund	-	9,172,812.00	(8,991,338.00)	181,474.00
Labour union fee, staff and workers' education fee	-	5,978,772.86	(5,978,772.86)	-
Other short-term employee benefits	-	3,410,080.03	(3,410,080.03)	-
Total	30,598,875.17	371,452,496.51	(376,835,859.72)	25,215,511.96

	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

(2) Post-employment benefits - defined contribution plans

	2018			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Basic pension insurance	1,367,467.23	13,421,417.60	(13,401,821.45)	1,387,063.38
Unemployment insurance	49,139.97	384,336.86	(383,636.77)	49,840.06
Total	1,416,607.20	13,805,754.46	(13,785,458.22)	1,436,903.44

	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

(3) Termination benefits

	2018			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Termination benefits	-	200,000.00	-	200,000.00

	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)	-

25 Taxes payable

	2018	*2017*
Withholding tax	19,643,772.49	27,023,539.86
Income tax	18,030,229.88	106,535,442.88
Value-added tax	5,134,220.73	2,198,551.32
Taxes and surcharges	4,625,455.79	3,997,528.45
Total	47,433,678.89	139,755,062.51

26 Debt securities issued

	2018			
	Balance at 1 January	*Accrued during the year*	*Paid during the year*	*Balance at 31 December*
Interbank negotiable certificates of deposit issued	-	3,289,293,036.76	(1,300,000,000.00)	1,989,293,036.76

27 Other liabilities

	2018	*2017*
Gold lease payable	567,594,873.48	1,095,206,282.10
Service fee payable to related parties	93,508,238.67	117,345,093.42
Accrued expenses	38,577,998.11	37,508,670.89
Provisions	19,678,780.73	19,150,453.23
Suspense accounts	299,770.44	528,388,713.96
Others	33,863,113.97	20,385,755.89
Total	753,522,775.40	1,817,984,969.49

28 Paid-in capital

Registered capital and paid-in capital

	2018 Balance	2018 Percentage (%)	2017 Balance	2017 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.

29 Other comprehensive income

	Movements in fair value of available-for-sale financial assets	*Effective portion of gains arising from cash flow hedging instruments*	*Total*
As at 1 January 2017	(6,070,926.75)	-	(6,070,926.75)
Additions	(25,266,968.10)	(4,464,890.03)	(29,731,858.13)
Less: Effects 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)
Additions	86,797,514.21	4,556,054.65	91,353,568.86
Less: Effects of deferred tax	(21,699,378.55)	(1,139,013.66)	(22,838,392.21)
As at 31 December 2018	40,076,982.83	68,373.47	40,145,356.30

30 Surplus reserve

Statutory surplus reserve

	Note	*2018*	*2017*
Balance at the beginning of the year		152,168,985.32	139,530,045.32
Appropriation of profits	*32*	46,881,617.26	12,638,940.00
Balance at the end of the year		199,050,602.58	152,168,985.32

31 General reserve

	2018	*2017*
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 enterprises shall select the internal model approach or standard approach to carry out a quantitative analysis for risk status faced by risk assets in accordance with their own situation to determine the estimate for potential risks from 1 July 2012. General provision shall be accrued for the difference amount where the estimate for potential risks is higher than the provision for asset impairment. General provision may not be accrued where the estimate for potential risks is less than the provision for asset impairment. Among them, credit assets shall be subject to risk categorisation pursuant to the relevant provisions of the financial regulatory authorities, standard risk coefficients shall be tentatively: 1.5% for normal loan category, 3% for special loan category, 30% for subordinated loan category, 60% for doubtful loan category, 100% for loan loss category; other risk assets may be subject to risk categorisation with reference to credit assets, the standard risk coefficients adopted shall not be lower than the standard risk coefficients of the aforesaid credit assets. Where a financial enterprise has not implemented risk categorisation for non-credit assets, it may accrue general provision based on 1% - 1.5% of the balance of the non-credit assets.

As at 31 December 2018, the Bank calculated the value of potential risks in accordance with the above requirements and made no provision for general reserve since the value is lower than the provision for asset impairment. And the accumulative amount of general reserve as at 31 December 2018 totals RMB 200,028,578.49 (31 December 2017: RMB 200,028,578.49).

32 Appropriation of profits

(1) Appropriation for surplus reserve

In 2018, the Bank appropriated an amount of RMB 46,881,617.26 (2017: RMB 12,638,940.00), representing 10% of profit after tax for the year to surplus reserve in accordance with relevant regulations and its articles.

(2) Distributions to owner

Pursuant to the approval at the Board of Directors on 7 June 2018, a distribution of profit in cash totaling RMB 444,340,000.00 (2017: RMB 196,500,000.00) was declared and paid to ANZ on 6 September 2018.

33 Net interest income

	2018	*2017*
Interest income:		
Deposits and placements with banks and other financial institutions	476,671,851.13	385,483,802.28
Loans and advances to customers	450,751,383.77	479,389,630.31
Deposits with central bank	33,323,845.20	34,724,807.94
Investment in negotiable certificates of deposit	16,819,508.91	20,354,848.07
Financial assets purchased under resale agreements	356,164.38	3,777,617.22
Other interest income	10,791,621.49	59,504,660.10
Sub-total	988,714,374.88	983,235,365.92
Interest expenses:		
Deposits from customers	(378,172,101.61)	(400,895,853.67)
Deposits and placements from banks and other financial institutions	(131,047,724.52)	(142,670,617.61)
Financial assets sold under repurchase agreements	(82,922,526.34)	(67,265,719.88)
Issuance of negotiable certificates of deposit	(17,602,336.76)	-
Sub-total	(609,744,689.23)	(610,832,191.16)
Net interest income	378,969,685.65	372,403,174.76

34 Net fees and commission income

	2018	2017
Fees and commission income:		
Loan referral fees	67,179,813.48	83,769,250.90
Guarantee fees	35,015,350.18	35,738,352.09
Settlement and clearing fees	33,969,074.65	40,371,285.20
Gold leased-out commission	30,500,012.55	37,855,488.71
Personal banking service fees	-	201,535.92
Others	3,466,500.26	14,045,568.69
Sub-total	170,130,751.12	211,981,481.51
Fees and commission expenses:		
Broker's commission	(35,180,533.14)	(38,114,401.03)
Gold leased-in commission	(111,136.00)	-
Others	(1,369,736.43)	(2,797,847.47)
Sub-total	(36,661,405.57)	(40,912,248.50)
Net fees and commission income	133,469,345.55	171,069,233.01

35 Other income

	2018	2017
Government grants related to income	4,446,940.38	5,067,383.02

(1) In 2018, the Bank received personal income tax refund of RMB 1,901,778.53 (2017: RMB 2,034,364.15); Shanghai Financial Talent Award of RMB 1,545,000.00 (2017: RMB 1,033,018.87) and Government Support Fund RMB 1,000,161.85 (2017: RMB 2,000,000.00).

36 Investment income

	2018	*2017*
Available-for-sale financial assets		
- The interest generated during the holding period	127,527,202.22	103,438,749.35
- Net gains on disposal of assets	104,963.22	-
Financial assets at fair value through profit or loss		
- The interest generated during the holding period	116,923,014.21	95,196,559.20
- Net gains / (losses) on disposal of assets	61,958,151.51	(4,369,981.88)
Derivatives	134,097,071.01	206,953,507.71
Total	440,610,402.17	401,218,834.38

37 Gains / (losses) from changes in fair value

	2018	*2017*
Derivative financial instruments	95,027,738.22	(409,937,468.27)
Trading bond investments	38,913,289.20	(14,517,538.38)
Gold business	191,047.43	(10,338,130.79)
Total	134,132,074.85	(434,793,137.44)

38 General and administrative expenses

	2018	*2017*
Staff cost		
- Salaries, bonuses and allowances	326,619,429.03	360,683,792.97
- Social insurance and housing funds	30,244,064.24	33,539,852.69
- Staff welfare and others	28,394,757.70	33,085,997.08
- Termination benefits	200,000.00	41,019,440.64
Sub-total	385,458,250.97	468,329,083.38
Parent bank's service fees	82,528,810.36	103,347,702.34
Rental and property management expenses	44,452,349.31	73,883,755.40
Telecommunication expenses	35,309,852.66	52,378,712.82
Depreciation and amortisation	21,891,150.84	27,198,949.01
Operation and Service Hubs' service fees	15,767,492.40	19,297,787.79
Advertising expenses	6,051,659.35	1,008,592.28
Travelling expenses	1,737,023.46	8,488,730.61
Others	29,124,052.41	52,502,930.69
Total	622,320,641.76	806,436,244.32

39 (Provision) / reversal of impairment losses

	2018	*2017*
Loans and advances to customers	(35,630,107.28)	67,248,656.71
Deposits with banks and other financial institutions	5,273,611.04	3,349,831.62
Placements with banks and other financial institutions	5,813,680.88	(7,238,783.91)
Other assets	292,918.99	(1,185,330.85)
Others	(528,327.50)	519,617.80
Total	(24,778,223.87)	62,693,991.37

40 Losses from asset disposals

	2018	*2017*
Losses from asset disposals	-	2,624,162.15

41 Non-operating income

	2018	*2017*
Technical service fee income	150,824.18	14,533,401.98
Others	49,441.58	116,584.84
Total	200,265.76	14,649,986.82

42 Income tax expenses

(1) Income tax expenses

	2018	*2017*
Current year income tax	129,211,449.18	147,532,516.65
Changes of deferred taxation	26,100,282.38	(94,687,830.69)
Tax filing differences	(4,205,848.80)	(1,986,958.85)
Total	151,105,882.76	50,857,727.11

The analysis of deferred tax expense is set out below:

	2018	*2017*
Origination and reversal of temporary differences	26,100,282.38	(94,687,830.69)

(2) Reconciliation between income tax expense and accounting profit

	2018	*2017*
Profits before tax	619,922,055.32	177,247,127.11
Income tax at statutory tax rate 25%	154,980,513.83	44,311,781.78
Increase / (decrease) of tax effect:		
- Non-deductible expenses	1,489,068.89	2,232,967.39
- Non-taxable income	(5,268,903.50)	(2,115,424.75)
- Tax filing differences	(4,205,848.80)	(1,986,958.85)
- Adjustment to deferred tax assets in previous year	4,111,052.34	8,415,361.54
Income tax expenses	151,105,882.76	50,857,727.11

43 Other comprehensive income

	2018	*2017*
Items that may be reclassified to profit or loss		
Gains or losses arising from changes in fair value of available-for-sale financial assets	(86,797,514.21)	25,266,968.10
Less: Income tax	21,699,378.55	(6,316,742.02)
Sub-total	(65,098,135.66)	18,950,226.08
Effective portion of gains or losses arising from cash flow hedging instruments	(4,556,054.65)	4,464,890.03
Less: Income tax	1,139,013.66	(1,116,222.51)
Sub-total	(3,417,040.99)	3,348,667.52
Total	(68,515,176.65)	22,298,893.60

44 Supplement to cash flow statement

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

	2018	*2017*
Net profit	468,816,172.56	126,389,400.00
Add: Provision / (reversal) of impairment losses	24,778,223.87	(62,693,991.37)
Depreciation of fixed assets	14,652,518.39	14,945,964.09
Amortisation of intangible assets	4,883,560.57	9,022,388.52
Amortisation of leasehold improvements	2,355,071.88	3,230,596.40
Losses from asset disposals	-	2,624,162.15
(Gains) / losses from changes in fair value	(134,132,074.85)	434,793,137.44
Decrease / (increase) in deferred tax assets	48,938,674.59	(92,973,974.20)
Decrease in deferred tax liabilities	-	(9,146,821.02)
Unrealised foreign exchange (gains) / losses	(246,343,014.97)	354,820,015.13
Decrease in operating receivables	2,398,755,595.29	4,989,155,863.50
Decrease in operating payables	(8,275,408,063.07)	(4,359,515,871.87)
Net cash (outflow) / inflow from operating activities	(5,692,703,335.74)	1,410,650,868.77

(2) Changes in cash and cash equivalents:

	2018	*2017*
Cash and cash equivalents at the end of the year	5,704,246,783.90	9,790,047,846.30
Less: Cash and cash equivalents at the beginning of the year	(9,790,047,846.30)	(8,709,423,928.05)
Net (decrease) / increase in cash and cash equivalents	(4,085,801,062.40)	1,080,623,918.25

(3) Cash and cash equivalents

	2018	*2017*
Cash on hand	449,108.51	300,000.00
Deposits with central bank available on demand	794,550,266.03	787,462,310.57
Deposits with banks and other financial institutions	1,740,247,030.76	3,669,355,883.97
Placements with banks and other financial institutions	2,909,000,378.60	5,332,929,651.76
Financial assets purchased under resale agreements	260,000,000.00	-
Total	5,704,246,783.90	9,790,047,846.30

45 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 27,205 million	100%	100%

(2) Transactions with key management personnel

(a) Balance of the transactions with key management personnel:

	2018	*2017*
Remuneration of key management personnel	70,621,976.00	74,573,719.86
Interest expense	-	202,719.19

(b) Transactions with 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 2018, the Bank did not have the above transactions with related insiders (2017: nil).

(3) Transactions with 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 (2017: nil).

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

	2018	*2017*
Interest income	7,069,985.09	16,247,619.58
Interest expenses	(71,446,784.70)	(111,811,389.53)
Fees and commission income	37,806,992.13	52,683,251.10
Parent bank's service fees	(82,528,810.36)	(103,347,702.34)
Operation and Service Hubs' service fees	(15,767,492.40)	(19,297,787.79)
(Losses) / gains from changes in fair value of derivative financial instruments	(33,105,956.25)	524,467.52

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

	2018	*Percentage (%)*	*2017*	*Percentage (%)*
Operation and Service Hubs' service fees - Amount of accepted services	15,767,492.40	2.53%	19,297,787.79	2.39%

Under the relevant service agreements, cost-plus pricing method is adopted in the above transactions with the related bodies of non-commercial bank.

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

	2018	*2017*
Assets		
	55,996,906.50	23,102,538.69
Deposits with banks and other financial institutions	1,237,739,999.64	2,987,236,037.28
Placements with banks and other financial institutions	222,499,227.73	185,821,160.90
Derivative financial assets	13.74	216,512.66
Interest receivable	42,682,373.78	63,544,858.45
Other assets		
	1,558,918,521.39	3,259,921,107.98
Total		

	2018	*2017*
Liabilities		
Deposits from banks and other financial institutions	250,954,629.79	471,008,633.13
Placements from banks and other financial institutions	3,216,837;104.59	6,263,479,043.53
Derivative financial liabilities	97,426,131.27	27,642,108.19
Interest payable	3,824,400.21	8,282,250.42
Other liabilities	673,117,033.74	1,212,551,375.52
Total	4,242,159,299.60	7,982,963,410.79

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

	2018	*Percentage (%)*	*2017*	*Percentage (%)*
Other liabilities				
- Service fee payable	6,092,030.92	0.81%	11,100,081.85	0.61%

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

	2018	*2017*
Interest rate swaps	12,780,789,586.54	16,603,564,385.38
Interest rate options	4,592,207,673.66	4,531,238,567.47
Foreign exchange swaps	2,053,159,826.21	2,678,711,145.25
Forward foreign exchange	113,186,152.84	4,621,746.33
Foreign exchange options	27,153,774.46	142,420,250.63
Commodity swaps	-	59,699,837.14
Gold / silver swaps	867,566,270.03	2,313,948,932.12
Gold forward	594,801,942.01	136,406,786.27
Platinum forward	534,856,695.66	4,331,573.28
Gold options	1,372,103.88	122,637,204.95
Complicated derivatives	2,008,047,169.05	1,662,804,146.13
Total	23,573,141,194.34	28,260,384,574.95

(d) Relationship with the related parties referred in Note 45(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 27,205 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	RMB 30 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	INR 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	PHP 1,421 million

46 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 banks and other 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:

	2018			
	Corporate banking	*Personal banking*	*Unallocated items*	*Total*
1. Operating income	1,271,690,153.63	2,099,642.61	-	1,273,789,796.24
Net interest income	376,741,968.78	2,227,716.87	-	378,969,685.65
Net fees and commission income	133,468,257.55	1,088.00	-	133,469,345.55
Other income	4,446,940.38	-	-	4,446,940.38
Investment income	440,610,402.17	-	-	440,610,402.17
Gains from changes in fair value	134,132,074.85	-	-	134,132,074.85
Foreign exchange gains / (losses)	182,290,509.90	(129,162.26)	-	182,161,347.64
2. Operating expenses	(653,633,715.46)	(434,015.86)	-	(654,067,731.32)
Taxes and surcharges	(6,907,801.32)	(1,064.37)	-	(6,968,865.69)
General and administrative expenses	(618,414,849.70)	(3,905,792.06)	-	(622,320,641.76)
Provision / (reversal) of impairment losses	(28,251,064.44)	3,472,840.57	-	(24,778,223.87)
3. Operating profit	618,056,438.17	1,665,626.75	-	619,722,064.92
Add: Non-operating income	200,265.76	-	-	200,265.76
Less: Non-operating expenses	(275.36)	-	-	(275.36)
4. Profit before tax	618,256,428.57	1,665,626.75	-	619,922,055.32
Less: Income tax	(150,627,962.51)	(477,920.25)	-	(151,105,882.76)
5. Net Profit	467,628,466.06	1,187,706.50	-	468,816,172.56
Other important items				
- Depreciation and amortisation	21,891,150.84	-	-	21,891,150.84
- Capital expenditure	5,685,927.53	-	-	5,685,927.53
Total assets	35,695,811,600.83	47,343,436.09	-	35,743,155,036.92
Total liabilities	27,978,629,685.69	17,176,579.37	-	27,995,806,265.06

	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

(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:

	2018	*2017*
In Mainland China	1,124,960,671.20	1,088,530,460.00
Outside Mainland China	33,884,454.80	106,686,387.43
Total	1,158,845,126.00	1,195,216,847.43

As at 31 December 2018, the Bank does not hold non-current assets that are located outside Mainland China (31 December 2017: 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 2018 and 2017.

47 Assets pledged as security

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

	2018	*2017*
Trading bonds	2,299,715,101.31	2,133,110,810.43
Available-for-sale bonds	305,810,147.94	195,795,009.05
Total	2,605,525,249.25	2,328,905,819.48

48 Commitments and contingencies

(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.

	2018	*2017*
Irrevocable loan commitments		
- Original maturity within 1 year	81,351,168.67	207,272,866.40
- Original maturity over 1 year (inclusive)	300,432,288.82	152,529,069.26
	381,783,457.49	359,801,935.66
Letter of guarantees		
- Financing guarantees	4,005,658,455.35	4,097,889,548.84
- Non-financing guarantees	2,066,274,942.10	1,657,763,816.29
	6,071,933,397.45	5,755,653,365.13
Documentary letters of credit	688,638,508.35	881,667,777.03
Bank acceptance	89,464,403.78	103,171,203.96
Total	7,231,819,767.07	7,100,294,281.78

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

	2018	*2017*
Credit risk weighted amounts of off-balance sheet assets	4,974,358,955.61	5,268,998,282.50

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 former 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:

	2018	*2017*
Within 1 year (inclusive)	32,359,033.63	39,033,535.09
Over 1 year but within 2 years (inclusive)	18,842,047.40	31,915,055.93
Over 2 years but within 3 years (inclusive)	6,589,345.79	12,358,483.50
Over 3 years	15,738,195.94	352,125.72
Total	73,528,622.76	83,659,200.24

(4) Capital commitments

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

49 Fiduciary activities

(1) Entrusted loans and deposits

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

	2018	*2017*
Entrusted loans	19,683,093,602.84	16,070,769,525.20
Entrusted deposits	19,683,093,602.84	16,070,769,525.20

(2) Wealth management

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

	2018	*2017*
Qualified Domestic Institutional Investor products	-	5,734,387.88

50 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 principal 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 48(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	*2018*	*2017*
Overdue and impaired	*(i)*		
- Within 1 year (inclusive)		4,992,584.93	6,933,341.55
- 1 to 3 years (inclusive)		8,681,007.19	23,130,644.59
- Over 3 years		18,214,165.60	17,341,037.02
Gross amount		31,887,757.72	47,405,023.16
Allowance for impairment losses	*(iii)*	(21,066,760.88)	(23,353,834.25)
Sub-total		10,820,996.84	24,051,188.91
Overdue but not impaired	*(ii)*		
- Within 3 months impairment losses		-	43,080.83
Allowance for impairment losses	*(iii)*	-	(975.86)
Sub-total		-	42,104.97
Neither overdue nor impaired			
Gross amount		10,854,691,454.35	9,354,715,777.41
Allowance for impairment losses	*(iii)*	(251,261,217.56)	(211,902,056.42)
Sub-total		10,603,430,236.79	9,142,813,720.99
Total		10,614,251,233.63	9,166,907,014.87

(i) Collaterals of impaired loans and other credit enhancement, see Note 13(7).

Movement in the impaired loans and advances is as follows:

	Impaired loans
Balance at the beginning of the year	47,405,023.16
Additions during the year	-
Reversal during the year	(17,045,862.09)
Write-off during the year	-
Exchange difference	1,528,596.65
Balance at the end of the year	31,887,757.72

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

As at 31 December 2018, the Bank has no loans and advances that are overdue but not impaired (2017: RMB 43,080.83).

(iii) The amount represents the allowance for impairment losses of loan and advances to customers calculated in accordance with Note 3 (8).

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

Receivables from inter-banks include deposits with banks and other financial institutions, placements with banks and other 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:

	2018	*2017*
A to AAA	2,876,131,983.38	7,423,858,469.29
B to BBB	294,859,331.36	752,724,322.99
Non-graded	5,879,902,066.48	7,337,068,898.61
Total	9,050,893,381.22	15,513,651,690.89

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:

	2018	*2017*
A to AAA	3,472,485,751.40	4,502,971,026.60
B to BBB	-	219,337,688.97
Non-graded	3,354,653,902.17	1,711,177,432.84
Total book value	6,827,139,653.57	6,433,486,148.41

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 14).

(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 / Asset and Liability Committee ("ALCO"), 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 / ALCO for review at least on a monthly basis. 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)

	2018			
	31 December	*Average value*	*Maximum value*	*Minimum value*
Trading market risk Level of confidence: 99%				
Foreign currency risk and interest rate risk	6,574	7,204	11,804	4,271
Precious metals trading	5,272	4,729	9,119	2,197
Foreign exchange options trading	468	495	1,166	133
Credit bonds trading	-	42	119	-
Non-trading market risk Level of confidence: 99%				
Value of risk in banking book	6,291	4,768	6,754	2,342
Income from risk in banking book	3,323	7,870	34,673	911

	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
Precious metals trading	3,386	5,709	14,424	1,689
Foreign exchange options trading	807	1,288	3,581	512
Credit bonds trading	122	117	277	-
Non-trading market risk Level of confidence: 99%				
Value of risk in banking book	4,702	4,539	6,309	2,636
Income from risk in banking book	32,975	17,470	45,486	1,341

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

	2018			
	RMB	*USD equivalent RMB*	*Other currency equivalent RMB*	*Total equivalent RMB*
Assets				
Cash and deposits with central bank	2,348,831,250.02	387,833,778.94	105,144.00	2,736,770,172.96
Deposits with banks and other financial institutions	1,471,087,205.73	144,915,312.71	224,087,070.12	1,840,089,588.56
Precious metals	-	-	396,597,737.83	396,597,737.83
Placements with banks and other financial institutions	3,409,120,820.75	2,295,740,361.85	1,237,739,999.65	6,942,601,182.25
Financial assets at fair value through profit or loss	2,415,050,222.88	-	-	2,415,050,222.88
Derivative financial assets	648,594,952.27	3,186,103,031.99	35,699,498.60	3,870,397,482.86
Financial assets purchased under resale agreements	260,000,000.00	-	-	260,000,000.00
Interest receivable	282,202,291.90	19,943,561.02	207,834.51	302,353,687.43
Loans and advances to customers	9,537,598,318.83	985,438,807.61	91,214,107.19	10,614,251,233.63
Available-for-sale financial assets	4,412,089,430.69	-	-	4,412,089,430.69
Fixed assets	32,076,258.74	-	-	32,076,258.74
Intangible assets	12,777,473.96	-	-	12,777,473.96
Deferred tax assets	44,035,299.61	-	-	44,035,299.61
Other assets	1,507,125,803.00	320,343,146.39	36,596,316.13	1,864,065,265.52
Total assets	26,380,589,328.38	7,340,318,000.51	2,022,247,708.03	35,743,155,036.92
Liabilities				
Deposits from banks and other financial institutions	(772,358,815.31)	(224,798,410.04)	-	(997,157,225.35)
Placements from banks and other financial institutions	(100,000,000.00)	(1,979,097,104.94)	(1,237,739,999.64)	(3,316,837,104.58)
Derivative financial liabilities	(626,639,385.60)	(3,116,184,981.81)	(48,894,524.54)	(3,791,718,891.95)
Financial assets sold under repurchase agreements	(2,396,000,000.00)	-	-	(2,396,000,000.00)
Deposits from customers	(12,577,830,086.54)	(1,970,932,215.41)	(54,284,340.65)	(14,603,046,642.60)
Interest payable	(55,295,142.33)	(18,512,890.10)	(136,461.70)	(73,944,494.13)
Employee benefits payable	(26,852,415.40)	-	-	(26,852,415.40)
Taxes payable	(43,990,712.06)	(592,528.05)	(2,850,438.78)	(47,433,678.89)
Debt securities issued	(1,989,293,036.76)	-	-	(1,989,293,036.76)
Other liabilities	(247,127,764.48)	(203,457,945.73)	(302,937,065.19)	(753,522,775.40)
Total liabilities	(18,835,387,358.48)	(7,513,576,076.08)	(1,646,842,830.50)	(27,995,806,265.06)
Net position	7,545,201,969.90	(173,258,075.57)	375,404,877.53	7,747,348,771.86
Credit commitments and contingent liabilities	1,629,453,589.35	4,090,709,870.85	1,511,656,306.87	7,231,819,767.07
Notional amount of derivative financial instruments	215,642,554,420.85	269,595,916,379.46	7,522,840,737.74	492,761,311,538.05

	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 banks and other 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 banks and other 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 banks and other financial institutions	(589,955,178.63)	(535,312,449.70)	(277,890,111.55)	(1,403,157,739.88)
Placements from banks and other financial institutions	-	(5,367,187,049.19)	(1,157,659,999.71)	(6,524,847,048.90)
Derivative financial liabilities	(252,135,850.28)	(5,034,515,257.26)	(14,661,767.99)	(5,301,312,875.53)
Financial assets sold under repurchase agreements	(2,175,800,000.00)	-	-	(2,175,800,000.00)
Deposits from customers	(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

(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 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.

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:

		2018							
	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		1,941,770,798.42	796,221,509.14	-	-	-	-	2,737,992,307.56	2,736,770,172.96
Deposits with banks and other financial institutions	(a)	-	390,247,030.93	1,456,004,833.33	-	-	-	1,846,251,864.26	1,840,247,030.93
Placements with banks and other financial institutions	(a)	-	-	5,299,266,374.18	1,280,814,458.33	538,279,227.41	-	7,118,360,059.92	6,950,646,350.29
Financial assets at fair value through profit or loss	(b)	-	2,490,476,348.91	-	-	-	-	2,490,476,348.91	2,415,050,222.88
Derivative financial assets	(b)	-	3,870,397,482.86	-	-	-	-	3,870,397,482.86	3,870,397,482.86
Financial assets purchased under resale agreements		-	-	260,834,428.26	-	-	-	260,834,428.26	260,000,000.00
Loans and advances to customers	(c)	31,887,757.72	74,279.75	9,493,750,875.68	922,913,264.23	622,302,929.55	35,055,667.11	11,105,984,774.04	10,886,579,212.07
Available-for-sale financial assets		-	-	20,516,832.91	403,127,249.69	4,420,826,285.07	-	4,844,470,367.67	4,412,089,430.69
Other assets	(a)	493,951,543.18	18,123,916.89	1,340,381,079.88	-	-	-	1,852,456,539.95	1,852,456,539.95
Total assets		2,467,610,099.32	7,565,540,568.48	17,870,754,424.24	2,606,854,972.25	5,581,408,442.03	35,055,667.11	36,127,224,173.43	35,224,236,442.63
Liabilities									
Deposits from banks and other financial institutions		-	(232,636,188.17)	(686,971,862.18)	(81,362,333.33)	-	-	(1,000,970,383.68)	(997,157,225.35)
Placements from banks and other financial institutions		-	-	(3,019,665,407.30)	(313,202,079.96)	-	-	(3,332,867,487.26)	(3,316,837,104.58)
Derivative financial liabilities	(b)	-	(3,791,718,891.95)	-	-	-	-	(3,791,718,891.95)	(3,791,718,891.95)
Financial assets sold under repurchase agreements		-	-	(2,455,586,701.17)	-	-	-	(2,455,586,701.17)	(2,396,000,000.00)
Deposits from customers		-	(8,298,431,730.10)	(4,796,416,136.80)	(1,613,444,227.84)	-	-	(14,708,292,094.74)	(14,603,046,642.60)
Employee benefits payable		-	-	(2,249,755.60)	(24,602,659.80)	-	-	(26,852,415.40)	(26,852,415.40)
Debt securities issued		-	(1,692,163,773.02)	(297,129,263.74)	-	-	-	(1,989,293,036.76)	(1,989,293,036.76)
Other liabilities		-	(28,936,555.32)	(612,264,902.51)	(87,579,686.09)	-	-	(728,781,143.92)	(728,781,143.92)
Total liabilities		-	(14,043,887,138.56)	(11,870,284,029.30)	(2,120,190,987.02)	-	-	(28,034,362,154.88)	(27,849,686,460.56)
Net position		2,467,610,099.32	(6,478,346,570.08)	6,000,470,394.94	486,663,985.23	5,581,408,442.03	35,055,667.11	8,092,862,018.55	7,374,549,982.07

	Note	2017 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 banks and other 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 banks and other 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	9,402,163,881.40
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	2,286,582,007.65	42,557,902.79	43,252,749,186.93	42,563,542,155.53
Liabilities									
Deposits from banks and other financial institutions		-	(873,667,389.48)	(203,886,667.99)	(331,259,602.87)	-	-	(1,408,813,660.34)	(1,403,157,739.88)
Placements from banks and other 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)
Derivative financial liabilities	(b)	-	(5,301,312,875.53)	-	-	-	-	(5,301,312,875.53)	(5,301,312,875.53)
Financial assets sold under repurchase agreements		-	-	(2,176,667,742.12)	-	-	-	(2,176,667,742.12)	(2,175,800,000.00)
Deposits from customers		-	(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

(a) Deposits with banks and other financial institutions, placements with banks and other 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 or reputational 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
- Business interruption 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" 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 and leverage ratio management. The capital adequacy reflects the Bank's abilities of prudently operating and withstanding risks. The Bank's objective of capital adequacy management is to meet legal and regulatory requirements and to prudently determine the capital adequacy target according to the actual risks faced, with referencing the parent bank and the international advanced level peers' adequacy 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 former 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 former 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 consistent with the provisions of the former CBRC, and they are also responsible for determining the objectives of the management of capital adequacy, 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.

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

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

The former 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 8.50%, 9.50% and 11.50% 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 7.50%, 8.50% and 10.50% respectively before 31 December 2018. Leverage ratio held by a commercial bank which complies with the relevant provisions to the adjusted balance of balance sheet assets and off-balance-sheet assets shall not be less than 4%.

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 2018, 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 former CBRC and other relevant regulations are as follows (expressed in RMB 0'000):

	2018	*2017*
Common equity tier 1 capital		
Paid-in capital	622,500	622,500
Other comprehensive income	4,015	(2,837)
Surplus reserve	19,905	15,217
General reserve	20,003	20,003
Retained earnings	108,312	110,553
Common equity tier 1 capital	774,735	765,436
Common equity tier 1 capital deductions		
Intangible assets net of the relevant deferred tax liability	(1,278)	(1,766)
Net common equity tier 1 capital	773,457	763,670
Net tier 1 capital	773,457	763,670
Tier 2 capital		
Surplus allowance for impairment losses	24,044	18,785
Net total capital	797,501	782,455
Credit risk-weighted assets	2,779,505	3,090,980
Market risk-weighted assets	923,282	738,491
Operational risk-weighted assets	219,327	231,011
Total risk assets	3,922,114	4,060,482
Common equity tier 1 capital adequacy ratio	19.72%	18.81%
Tier 1 capital adequacy ratio	19.72%	18.81%
Capital adequacy ratio	20.33%	19.27%

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:

	2018			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets at fair value through profit or loss	-	2,415,050,222.88	-	2,415,050,222.88
Derivative financial assets	-	3,870,397,482.86	-	3,870,397,482.86
Available-for-sale financial assets	-	4,412,089,430.69	-	4,412,089,430.69
Total	-	10,697,537,136.43	-	10,697,537,136.43
Liabilities				
Derivative financial liabilities	-	(3,791,718,891.95)	-	(3,791,718,891.95)

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	-	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)

During 2018, 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 (2017: 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 2018, the Bank did not change the valuation techniques used in Level 2 fair value measurement.

(c) Level 3 fair value

During 2018, there are no instruments measured at Level 3 of the fair value hierarchy (2017: 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 banks and other financial institutions, placements with banks and other financial institutions, loans and advances to customers, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, and deposits from customers. There is no significant difference between the book value and the fair value of the financial assets and financial liabilities.

52 Non-adjusting post balance sheet date events

As at the reporting approval date, the MOF issued the following revised accounting standards: -*CAS No.22 - Financial Instruments: Recognition and Measurement (Revised)*, *CAS No.23 - Transfer of Financial Assets (Revised)*, *CAS No.24 - Hedge Accounting (Revised)* and *CAS No.37 - Presentation and Disclosures of Financial Instruments (Revised)* (collectively "new financial instruments standards"). The new financial instrument standards have introduced mew requirements for the classification and measurement of financial assets, measurement of impairment for financial assets and hedging accounting. Compared to the CAS No.22 - Financial instruments: Recognition and measurement, *CAS No.23 - Transfer of Financial assets* and *CAS No.24 - Hedging* issued by the MOF in 2006 and *CAS No.37 - Presentation and Disclosures of Financial Instruments* (collecting "previous financial instruments standards"), the new financial instrument standards made no substantial modifications to the recognition and derecognition of financial instruments and classification of financial liabilities.

The Bank plans for an early adoption of the new financial instrument standards from 1 January 2019 and it is in the process of making an assessment of what the impact of the new financial instrument standards is expected to be in the period of initial application. So far the Bank has identified some aspects of the new financial instrument standards which may have an impact on the financial statements. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Bank, and further impacts may be identified before the standards are initially applied in the Bank's financial statements for the year ended 31 December 2019. the Bank may also change its accounting policy elections. Further details of the expected impacts are discussed below.

The new financial instrument standards requires for entity to make retrospective adjustment on the initial adoption date and recognise the adjustment as the opening retained earnings or other comprehensive income in the initial adoption period.

Expected effects of the new standards to the financial statements are as follows:

(1) Classification and measurement

The new financial instrument standards classify financial assets into three basic categories: (a) financial assets measured at amortised cost; (b) financial assets measured at FVOCI; (c) financial assets measured at FVTPL.

The classification of debt instrument investments is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. For a debt instrument investment classified as financial assets measures at FVOCI, interest income, gains or losses arising from impairment and disposals is recognised in profit or loss during the current period.

Equity instrument investments are generally classified as financial assets measured at FVTPL (regardless of the business model adopted by an entity) with only one exception where the security is not held for trading and the entity irrevocably chose to designate it as a financial asset measured at FVOCI. If an equity instrument investment is classified as at FVOCI, only dividend income of the security shall be included in the current profit or loss. Gains or losses on disposal of the security shall be recognised in other comprehensive income and shall not be carried forward to the current period.

Based on its assessment, the Bank believes that financial assets measured at amortisation cost and classified as at FVTPL remain in their original classification and measurement categories after the adoption of the new financial instrument standards.

(2) Impairment

The new financial instruments standards replace the "incurred loss" model in previous financial instruments standards with the ECL model, under which, impairment losses can be recognised before the occurrence of loss events. Based on facts and conditions relevant to various assets, an entity shall recognise expected credit losses at an amount equal to a 12-month ECL or a lifetime ECL. The Bank expects for an earlier recognition of ECL after the adoption of the ECL model.

(3) Hedge accounting

The new financial instrument standards did not fundamentally change the requirements for measurement and recognition of the ineffective portion of hedging under the previous standards. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. According to the Bank's assessment, the current hedging relationship will continue to meet the hedging relationship conditions after adopting the new financial instrument standards, therefore the Bank expects for no material effects on the hedge accounting treatment.